THE ROLES OF DYNAMIC CAPABILITIES
IN THE ACQUISITION PROCESS

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ABSTRACT

The aim of this research is to understand the roles of dynamic capabilities in the acquisition process. While a growing stream of literature has shown that dynamic capabilities lead to superior acquisition outcomes, greater attention is needed to understand how these benefits arise. This research begins to address this gap by exploring the roles of three generic types of dynamic capabilities in the acquisition process – sensing, seizing and reconfiguring capabilities.

To do so, this research conducts an in-depth case study of an active acquirer that has demonstrated the ability to sustain long-term acquisitive growth. Interviews were conducted with 14 participants involved in the case firm’s acquisition process. These interviews were supplemented with direct observations from a five-week placement within the case firm, internal company documents and publically available information. Incorporating these various data sources allowed for deep insight into the capabilities underpinning the case firm’s acquisition process. Data was analysed using a multi-stage coding process encompassing both chronological logic models and pattern-matching techniques.

The findings show that sensing, seizing and reconfiguring capabilities play six important roles throughout the acquisition process and, collectively, help the case firm to successfully manage long-term acquisitive growth. Importantly, the findings imply that while there is value in deploying these capabilities in tandem, their inherent differences and contradictions are likely to cause challenges for acquirers attempting to pursue all three dynamic capabilities simultaneously. Thus, these findings indicate that the use of dynamic capabilities in acquisitions requires careful attention, with acquirers likely to face trade-offs in the capabilities they pursue. The findings also shed light on the importance of firm structure and culture in providing an environment favourable to the deployment of dynamic capabilities. This suggests that while dynamic capabilities may enable more successful management of the acquisition process, their effectiveness may depend on the acquirer’s ability to create an environment that is conducive to their use. Overall, this research contributes to existing literature by explicating the roles of dynamic capabilities and positioning these throughout the acquisition process. Several theoretical and managerial implications are discussed.
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CHAPTER 1 – INTRODUCTION

1.1 - Background

Acquisitions are popular mechanisms through which firms pursue external growth and corporate renewal (Cartwright & Schoenberg, 2006; Jemison & Sitkin, 1986). In 2014 alone, almost 30,000 acquisitions were completed worldwide, valued at approximately NZ$3.7 trillion. Various motives drive this acquisition activity. Some acquisitions are motivated by the desire to appropriate more value from existing target markets by increasing market share and eliminating overcapacity within an industry (Bower, 2001; Haleblian, Devers, McNamara, Carpenter, & Davison, 2009). Firms may also engage in acquisitions to achieve greater efficiency in their operations by achieving economies of scale and scope (Haleblian et al., 2009) or to deploy surplus resources in order to fully leverage existing assets (Haspeslagh & Jemison, 1991; Hoskisson & Hitt, 1990). Other acquisitions are pursued to access resources and capabilities that are difficult to develop internally (Haspeslagh & Jemison, 1991). Further still, acquisitions may be driven by a desire to access new target markets by obtaining another firm’s product lines (Mitchell & Shaver, 2003), gaining access to new geographic locations (Bower, 2001; Shimizu, Hitt, Vaidyanath, & Pisano, 2004) or radically changing the composition of the firm (Bower, 2001).

Despite their popularity, research suggests that many acquisitions fail to achieve their objectives. Early work reports that an average of 40 to 60 percent of acquisitions fail to create value for acquiring firms (Bagchi & Rao, 1992; Datta & Grant, 1990; Schoenberg, 2006). More recently, Christensen, Alton, Rising, and Waldeck (2011) place the rate of failure at between 70 to 90 percent. One potential explanation for this high rate of failure is that acquisitions are complex processes, “fraught with instabilities, ambiguities, politicization, and fragmentation” (Meglio & Risberg, 2010, p. 90). Moreover, the acquisition process is seen to consist of multiple interdependent subactivities – such as target selection, due diligence, negotiation and integration – that are themselves complex (Barkema & Schijven, 2008a; Heimeriks, Schijven, & Gates, 2012).

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Given the complexity associated with acquisitions, a growing stream of literature has adopted a process perspective, contending that the outcome of acquisitions depends on the acquirer’s ability to manage the acquisition process (Haspeslagh & Jemison, 1991; Jemison & Sitkin, 1986). Prior research in this area indicates that with experience, acquirers are capable of developing the specific capabilities that enable them to manage acquisitions more effectively (Barkema & Schijven, 2008b; Hayward, 2002; Zollo & Singh, 2004). These acquisition capabilities encompass the knowledge, systems and processes firms draw upon when performing acquisitions (Laamanen & Keil, 2008). In line with this view, studies have shown that organisational capabilities play important roles in several acquisition activities including selecting targets (Capron & Shen, 2007; Chatterjee, 2009), negotiating deals (Hitt, Harrison, Ireland, & Best, 1998; Weber, Belkin, & Tarba, 2011) and managing integration (Graebner, 2004; Karim, 2006; Mitchell & Shaver, 2003).

While these studies show that acquisition capabilities are important for successful acquisition outcomes, current understanding about how these capabilities create value for acquirers is incomplete. As Barkema and Schijven (2008a, p. 595) contend, “despite all these insights into what needs to be done… many firms do not quite seem to know how to do it, as research suggests that the majority of acquisitions continue to fail” (emphasis in original). Given there is still much to learn about the mechanisms through which acquisition capabilities allow acquirers to capture value from acquisitions, Halebian et al. (2009) call for greater research to explore these capabilities.

In light of these calls, academic attention has focused on applying the dynamic capabilities perspective (Teece & Pisano, 1994; Teece, Pisano, & Shuen, 1997) to acquisitions to better understand the organisational processes underpinning acquisition performance. The dynamic capabilities perspective argues that firms need to renew their resource bases over time to create and respond to change and maintain competitive advantage (Eisenhardt & Martin, 2000; Teece et al., 1997). It is through ‘dynamic capabilities’ that this renewal occurs, as they enable firms to extend and modify their resource bases by gaining, integrating, reconfiguring and releasing resources and capabilities (Eisenhardt & Martin, 2000; Helfat et al., 2007; Teece et al., 1997). The dynamic capabilities perspective is well suited for research on acquisitions for two reasons. Firstly, the actions of gaining new resources and capabilities,
integrating them into the organisation, and then reconfiguring them over time are inherently linked to the acquisition process (Barkema & Schijven, 2008b; Karim, 2006). As such, the processes and capabilities that underpin acquisitions have been recognised as dynamic capabilities by numerous scholars (e.g. Eisenhardt & Martin, 2000; Heimeriks et al., 2012; Helfat et al., 2007; Junni, Sarala, Tarba, & Weber, 2015; Mitchell & Shaver, 2003). Secondly, the organisational and managerial processes within firms are a central focus of the dynamic capabilities perspective (Junni et al., 2015). Accordingly, it serves as a valuable perspective to address calls for greater focus on internal acquisition capabilities (e.g. Barkema & Schijven, 2008a; Haleblian et al., 2009).

Existing literature has demonstrated the importance of dynamic capabilities to acquisition outcomes. For example, Heimeriks et al. (2012) suggest that dynamic capabilities help to identify the unique features of deals, reduce the ambiguity associated with acquisitions and, ultimately, enhance acquisition integration. They provide support for this from a survey of 85 executives from acquiring firms. In a study of 104 acquisitions, Junni et al. (2015) find that dynamic capabilities are positively associated with post-acquisition knowledge transfer. Furthermore, Trichterborn, Knyphausen-Aufseß, and Schweizer (2015) draw on a study of 205 acquirers to illustrate that a higher-order M&A capability is positively associated with M&A performance.

Despite this evidence, the understanding of dynamic capabilities in the context of acquisitions is itself incomplete, with several key issues remaining unclear. For instance, most of this work has focused on providing quantitative evidence for a relationship between dynamic capabilities and acquisition performance. However, there has been insufficient research examining how these dynamic capabilities manifest in practice and these mechanisms through which these acquisition benefits arise (Karim, 2006; Trichterborn et al., 2015; Wang, Senaratne, & Rafiq, 2015). Additionally, most research on dynamic capabilities in acquisitions has focused on a single acquisition phase – primarily the post-acquisition integration phase (Amiryany, Huysman, de Man, & Cloodt, 2012; Junni et al., 2015; Karim, 2006; Karim & Mitchell, 2004). However, this isolated focus overlooks research indicating that there are important interdependencies between different acquisition phases (Bauer & Matzler, 2014;
Caiazza & Volpe, 2015; Larsson & Finkelstein, 1999). Collectively, this suggests that greater attention is needed to understand how dynamic capabilities influence the acquisition process, and the potential interdependencies of these capabilities between acquisition phases. This research begins to address this gap by explicating the roles of dynamic capabilities throughout the acquisition process. The follow section outlines the research questions for this study.

1.2 – Research Questions

The purpose of this research is to explore the dynamic capabilities that underpin the acquisition process. As such, it poses the following research question:

**What are the roles of dynamic capabilities in the acquisition process?**

For analytical purposes, this research adopts Teece’s (2007) categorisation that separates dynamic capabilities into three groups – sensing, seizing and reconfiguring – and applies it to the context of acquisitions. Sensing capabilities reflect the ability of a firm to identify opportunities and threats by constantly scanning and searching its environment (Teece, 2007). Seizing capabilities reflect the capacity to address new technological or market opportunities and are underpinned by the business structures, procedures, and decision-making protocols that enable firms to make investment decisions and mobilise resources (Katkalo, Pitelis, & Teece, 2010; Teece, 2007). Finally, reconfiguring capabilities enable the periodic, if not continuous, renewal and realignment of resources, infrastructure and strategies to reduce internal conflicts and maximize complementarities within the organisation (Teece, 2007). Subsequently, the primary research question is divided into three sub-questions:

a. **What roles do sensing capabilities play in the acquisition process?**

b. **What roles do seizing capabilities play in the acquisition process?**

c. **What roles do reconfiguring capabilities play in the acquisition process?**
These questions are addressed using the case study of an active acquirer in the New Zealand dental industry that has demonstrated the ability to sustain long-term acquisitive growth. Given the importance of acquisition experience to dynamic capability development (Barkema & Schijven, 2008b; Hayward, 2002; Trichterborn et al., 2015; Zollo & Singh, 2004), the case firm lends itself well to this research, as its vast acquisition experience provides a valuable context with which to examine how it has modified its resource base over time (c.f. Bingham, Heimeriks, Schijven, & Gates, 2015). Interviews were carried out with the managers and employees most involved in the firm’s acquisition process. This data was supplemented with direct observations from a five-week placement at the case firm, internal company documents and publically available information. Building on this data set, this research provides a detailed description of the roles of sensing, seizing and reconfiguring capabilities in the case firm’s acquisition process. In doing so, it is anticipated that this research will shed light on how dynamic capabilities may contribute to the effective management of the acquisition process.

1.3 – Structure of the Thesis
This thesis is organised into six chapters. This chapter – Chapter One – gives an introduction into the research and provides the background for this study.

Chapter Two reviews the literature underpinning this research and is broken into three sections. The first two sections discuss literature around mergers and acquisitions (M&A) and dynamic capabilities, respectively. The third section combines these two streams of literature to address the conceptual links between dynamic capabilities and the acquisition process. In doing so, it outlines the framework underpinning this research.

Chapter Three covers the research design and methodology. It provides the rationale for a qualitative approach and case study methodology. This chapter also introduces the case firm, the context within which it operates, and its acquisition process. Following this, the data collection processes are explained, and issues around validity and reliability and ethical considerations are addressed. This chapter ends with a description of the data analysis process.
Chapter Four presents the findings of this research. It is divided into three sections, as guided by the research questions. The first section provides evidence of the roles of sensing capabilities in the case firm’s acquisition process, the section second provides evidence on the roles of seizing capabilities, and the third section provides evidence on the roles of reconfiguring capabilities in the case firm’s acquisition process.

Chapter Five discusses the findings of this research, linking these to the literature reviewed. It begins by discussing the main roles of sensing, seizing and reconfiguring capabilities observed in the case firm’s acquisition process. Following this, theoretical implications are drawn, specifically around the interrelated nature of these capabilities, and the impact the case firm’s structure and culture have on their deployment.

Chapter Six concludes the thesis. It summarises key findings of the research and how these relate to the research questions. This is followed by a discussion on the theoretical contributions of the research, managerial implications, limitations and potential avenues for future research.
CHAPTER 2 – LITERATURE REVIEW

This research explores the role of dynamic capabilities in the context of acquisitions. In doing so, it draws on two distinct literature streams: mergers and acquisitions (M&A) and dynamic capabilities. This chapter reviews the literature in both fields to provide a conceptual grounding for a dynamic capabilities approach to acquisitions. Section 2.1 examines acquisition literature. Specifically, it builds on the process perspective of acquisitions to review literature around three phases of the acquisition process (pre-acquisition, transaction and post-acquisition integration). Section 2.2 discusses dynamic capabilities literature. It addresses the nature of dynamic capabilities and their importance to firms engaging in acquisitions. This section concludes by presenting three generic dynamic capabilities to be explored in this research (sensing, seizing and reconfiguring). Finally, Section 2.3 integrates these two literature streams, exploring the conceptual links between sensing, seizing and reconfiguring capabilities and the acquisition process. The structure of this chapter is depicted in Figure 1.

Figure 1 – Literature review outline

2.1 – Acquisitions
2.2 – Dynamic Capabilities

Acquisition Process Phases
Pre-acquisition
Transaction
Post-acquisition

Generic Dynamic Capabilities
Sensing
Seizing
Reconfiguring

2.3 – Dynamic Capabilities in the Context of Acquisitions

2.1 – Acquisitions
This section reviews the literature surrounding acquisitions. It begins by looking at the theoretical perspectives most prominent in acquisition literature. Following this, it examines the nature of the acquisition process. Finally, it discusses the need to adopt a capabilities-based approach to explore acquisitions.

2.1.1 – Perspectives on Acquisition
Academic interest into acquisitions is fragmented, with four distinct schools of thought prominent in the literature, each of which have different scopes of analysis and research
focus. The financial-economic school approaches acquisitions from an agency perspective, viewing them as transactions that reflect a corporate market in which management teams compete for governance of target resources (Haleblian et al., 2009). This field typically focuses on the wealth effects created by acquisitions, relying on accounting-based measures or stock market-based measures to do so (Bauer & Matzler, 2014; Larsson & Finkelstein, 1999). Research from the financial-economic school has found that most of the gains from acquisitions accrue to the shareholders of target firms (Asquith & Kim, 1982; Datta, Pinches, & Narayanan, 1992), while the returns to the acquiring firm average zero (Loderer & Martin, 1992) or less (Agrawal, Jaffe, & Mandelker, 1992; Asquith, 1983).

A second field of acquisition research, the strategic management school, focuses on the strategic factors that explain the variance in performance between acquisitions (Cartwright & Schoenberg, 2006). These studies have focused on the importance of strategic fit – that is, the degree of relatedness and compatibility of resources between acquirers and targets – and its impact on acquisition performance (Bauer & Matzler, 2014; Cartwright & Schoenberg, 2006). Proponents of strategic fit argue that higher degrees of relatedness between targets and acquirers leads to superior acquisition performance, as strategic similarity fosters the creation and realisation of synergies (Homburg & Bucerius, 2006; Singh & Montgomery, 1987). Additional research in the strategic management school focuses on complementarity in acquisitions – the extent to which the differences between acquirers and targets create value by combining resources, capabilities and/or strategies (Kim & Finkelstein, 2009; Zaheer, Castañer, & Souder, 2011). Scholars following this logic argue that exploiting complementary differences between acquirers and targets allow the combined firm to develop competencies that either firm could not create individually (Larsson & Finkelstein, 1999). Empirical studies have provided support for this argument, demonstrating that complementarity enhances acquisition performance and synergy realisation (e.g. Kim & Finkelstein, 2009; Wang & Zajac, 2007).

A third school of thought, the organisational behaviour school, examines the impact of acquisitions on organisational culture and individual members of the participating firms (Bauer & Matzler, 2014; Cartwright & Schoenberg, 2006). Drawing from psychology, organisational behaviour and human resource management field, this literature
identifies poor compatibility of organisational cultures and inferior integration processes as key reasons for acquisition failure (Marks, 1982; Stahl & Voigt, 2008). It argues that acquisitions pose a threat to the social and security needs of employees, potentially creating an “us-versus-them” mindset within the participating businesses in which employee groups assert the distinctiveness of their social identities (Stahl & Voigt, 2008).

Finally, the process perspective school focuses on the importance of the acquisition process to acquisition performance (Haseslagh & Jemison, 1991; Jemison & Sitkin, 1986). Building on both strategic management and organisation behaviour schools, the process perspective argues that while strategic fit and cultural fit offer potential for acquisition synergies, the realisation of these benefits depends on the acquirers’ ability to manage the acquisition process effectively (Birkinshaw, Bresman, & Håkanson, 2000; Jemison & Sitkin, 1986). As Larsson and Finkelstein (1999, p. 16) contend, it may not be enough for an “acquisition to have potential synergies to exploit; structural and processual changes must be undertaken that allow those synergies to be realised”. Moreover, this perspective asserts the acquisition process is fraught with instabilities and ambiguities that make it difficult to manage (Meglio & Risberg, 2010). Jemison and Sitkin (1986), for example, propose there are impediments inherent in the acquisition process that affect acquirers’ ability to achieve desired benefits from acquisitions. This perspective thus focuses on the actions and processes underpinning the acquisition process to understand how managers can effectively manage the acquisition process (Birkinshaw et al., 2000). Table 1 (on page 17) provides a summary of these four approaches to M&As.

This research aims to explore the role of organisational (dynamic) capabilities in the context of acquisitions. Based on the preceding discussion, it is evident that this approach aligns with the process perspective school, which aims to identify the internal skills and abilities that enable acquirers to capture value from acquisitions. Existing research shows that acquisition success depends on issues throughout the acquisition process (e.g. Bauer & Matzler, 2014; Caiazza & Volpe, 2015; Larsson & Finkelstein, 1999; Mitchell & Shaver, 2003; Stahl & Voigt, 2008). Moreover, it argues that adopting an isolated perspective on a single phase of the acquisition process disregards the important interdependencies between different acquisition phases (Bauer &
Matzler, 2014; Larsson & Finkelstein, 1999). Subsequently, the current research focuses on multiple phases of the acquisition process. To do so, the following section examines how the acquisition process is viewed in the literature, and the organisational capabilities that underpin this process.

Table 1 – Summary of research perspectives on acquisitions

<table>
<thead>
<tr>
<th>School of thought</th>
<th>Objective function</th>
<th>Central propositions</th>
<th>Prominent literature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial economics</td>
<td>Wealth creation for shareholders</td>
<td>Acquisitions enhance the efficiency of the market for corporate control, resulting in wealth creation for shareholders</td>
<td>Agrawal et al. (1992); Asquith (1983); Asquith and Kim (1982); Datta et al. (1992)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Most of the gains from acquisitions accrue to shareholders of target firms</td>
<td></td>
</tr>
<tr>
<td>Strategic management</td>
<td>Performance of acquiring/acquired firms</td>
<td>Synergies have a positive impact on acquisition performance</td>
<td>Kim and Finkelstein (2009); Larsson and Finkelstein (1999); Singh and Montgomery (1987)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Relatedness, similarity and complementarity of resources positively impact acquisition performance</td>
<td></td>
</tr>
<tr>
<td>Organisational behaviour</td>
<td>Impact of acquisition on individuals and organisational culture</td>
<td>Cultural fit (from similarity and compatibility of organisational cultures) facilitates employee satisfaction and effective integration</td>
<td>Chatterjee et al. (1992); Shrivastova (1986)</td>
</tr>
<tr>
<td>Process</td>
<td>Creation of value after acquisition</td>
<td>The actions of management, and the process of integration, determines the extent to which the potential acquisition benefits are realised</td>
<td>Haspeslagh and Jemison (1991); Homburg and Bucerius (2006); Jemison and Sitkin (1986)</td>
</tr>
</tbody>
</table>

Adapted from Birkinshaw et al. (2000) and Bauer and Matzler (2014)

2.1.2 – The Acquisition Process

The boundaries of the acquisition process – such as when the acquisition process commences and concludes, and the number and features of each phase within this process – remain disputed throughout the literature (Gomes, Angwin, Weber, & Tarba, 2013). For example, a several scholars conceive a two phase model, separating the acquisition process into pre-acquisition and post-acquisition phases (e.g. Boland, 1970; Shrivastova, 1986). Gomes et al. (2013) contend that this model is favourable these phases can be distinguished by the date at which formal ownership of the target is transferred. This creates a clear boundary between the two phases, thus overcoming the blur in boundaries that limits more detailed models – such as the seven phase model proposed by Haspeslagh and Jemison (1991).
However, several scholars contend that this bifurcation oversimplifies the acquisition process, and has led to a significant gap in our understanding of the negotiation and transaction activities occurring between pre-acquisition and post-acquisition phases (Angwin, Paroutis, & Connell, 2015; Weber et al., 2011). As such, the current study follows previous research (e.g. Caiazza & Volpe, 2015; Chatterjee, 2009; Shimizu et al., 2004; Trichterborn et al., 2015) and groups the acquisition process into three broadly defined phases: pre-acquisition, transaction and post-acquisition. This acquisition process is outlined in Table 2, and summarised in the following subsections.

**Table 2 – Overview of the acquisition process**

<table>
<thead>
<tr>
<th>Acquisition phase</th>
<th>Related concepts and capabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-acquisition</td>
<td>Capability to identify potential targets</td>
</tr>
<tr>
<td></td>
<td>Capability to evaluate potential targets</td>
</tr>
<tr>
<td>Transaction</td>
<td>Capability to negotiate</td>
</tr>
<tr>
<td></td>
<td>Capability to build relationships</td>
</tr>
<tr>
<td></td>
<td>Effective communication</td>
</tr>
<tr>
<td>Post-acquisition</td>
<td>Integration of acquired units</td>
</tr>
<tr>
<td></td>
<td>Restructuring/reconfiguration following acquisition</td>
</tr>
</tbody>
</table>

2.1.2.1 – Pre-Acquisition Phase

Once the need for an acquisition has been established, the acquisition process begins with the acquiring firm identifying potential acquisition targets. Research suggests that the ability to identify appropriate targets is an important determinant of overall acquisition success. For example, Junni et al. (2015) provide evidence to suggest that an acquirer’s ability to identify targets with complementary knowledge is positively associated with acquisition performance, indicating that firms that can identify appropriate targets outperform those who cannot. Similarly, Chatterjee (2009) finds that successful acquirers typically possess the ability to identify and exploit market inefficiencies (such as changing markets or markets in which information is not readily available), and will often target such markets intentionally due to the lack of competitive pressure, and subsequent lower premiums associated with such markets.

Following the identification of available targets, acquirers engage in a process of evaluating targets to ensure it selects the most appropriate acquisition partner. This evaluation is underpinned by a process of due diligence – the objective examination of a target to gather adequate information about the potential value and risks associated
with the acquisition (Shimizu et al., 2004). While due diligence typically focuses on the financial performance and overall valuation of a target (Angwin, 2001; Epstein, 2005), scholars argue that it should also include an evaluation of the non-financial issues, such as strategic fit (Kim & Finkelstein, 2009; Singh & Montgomery, 1987) and organisational fit (Shrivastova, 1986; Stahl & Voigt, 2008).

The effectiveness of an acquirer to accurately perform due diligence depends on its ability to access sufficient information about the target. Research shows this is an essential determinant on acquisition performance, with insufficient information (‘information asymmetry’) leading to adverse target selection (e.g. Reuer & Ragozzino, 2008; Shen & Reuer, 2005). Reuer and Ragozzino (2008) show that the likelihood of adverse selection reduces when firms can gather more information about targets. This reflects earlier work indicating that acquirers are more likely to purchase firms they can readily access information about as they are better able to reduce information asymmetry and, thus, the risk of adverse target selection (Shen & Reuer, 2005). Interestingly, Capron and Shen (2007) illustrate that some acquirers perform better when purchasing firms with high level of information asymmetry. This suggests that some acquirers possess superior capabilities for obtaining sensitive information, and are thus able to outperform other acquirers.

2.1.2.2 – Transaction Phase
Following the selection of appropriate targets, the acquisition process moves into the transaction phase, in which participating firms enter formal negotiations. This phase plays an important role in acquisition outcomes as an acquirer’s ability to successfully negotiate with targets determines the extent to which synergy potential can be accessed by the acquiring firm (Weber et al., 2011). Alternatively, it has been found that acquirers with inadequate negotiation abilities often end up paying a higher premium for a target; thus sacrificing future financial returns (Shimizu et al., 2004). Moreover, the possession of suboptimal negotiation routines can lead to the premature termination of acquisitions despite the potential benefits (Angwin et al., 2015).

Research into the transaction phase emphasises the importance of relationship building and trust building in achieving negotiation outcomes. For example, Jemison and Sitkin (1986), contend that distrust and inadequate relationships between negotiating parties
reduces the chance of acquisition success. They propose that as relationships and trust break down between acquirers and targets, the negotiation process enters an escalating cycle of conflict and antagonism that inhibits successful negotiation conclusions. Similarly, Hitt et al. (1998) find that an inability to build relationships with targets is a common characteristic of unsuccessful acquisitions. Moreover their findings suggest that acquirers possessing an ability to build cooperation with targets during negotiations are more likely to experience successful integration and realise acquisition synergies. Thus, success in the transaction phase is often attributed to long courting periods and ensuring the deal satisfies the objectives of the firm, rather than closing the deal as quickly as possible (Caiazzo & Volpe, 2015; Chatterjee, 2009).

The ability to build relationships and trust between parties in an acquisition is underpinned by the communication abilities of the firms involved (Balmer & Dinnie, 1999). Richardson and Denton (1996) suggest that effective communication practices often lead to successful acquisition outcomes as they help firms to overcome the ambiguity, anxiety and fear associated with such high levels of change. Gomes et al. (2013) support this, contending that strong communication helps both acquiring and target firms to become sensitive to the cultural differences that often lead to misunderstandings and conflicts during the negotiation process. Thus, an acquirer’s ability to adequately manage the transaction process (through effective negotiation, communication and relationship building) impacts acquisition outcomes.

2.1.2.3 – Post-Acquisition Integration Phase
Post-acquisition integration is widely regarded as the most important determinant of value creation (Barkema & Schijven, 2008b; Bauer & Matzler, 2014; Haspeslagh & Jemison, 1991; Larsson & Finkelstein, 1999). For the purposes of this research, the post-acquisition integration phase is divided into two stages (Barkema & Schijven, 2008b). The first stage involves the initial combination of two distinct entities into a single cohesive unit. This stage focuses on implementing the necessary systems and processes that ensure an acceptable level of performance is reached following the acquisition (Birkinshaw et al., 2000; Yu, Engleman, & Van de Ven, 2005). The second stage involves the restructuring of acquired and existing units, and is only likely to occur if initial integration is inadequate (Barkema & Schijven, 2008b; Karim, 2006).
Several scholars have focused on the capabilities that underpin the integration process in order to better understand how acquirers can create value from acquisitions (e.g. Graebner, 2004; Mitchell & Shaver, 2003; Puranam & Srikanth, 2007). These studies typically find that firms possessing more effective integration capabilities experience superior post-acquisition integration. Graebner (2004) draws on case data from eight acquisitions to illustrate that effective integration depends on the abilities of managers to accelerate coordination activities and mitigate the concerns of acquired employees. These abilities consequently help to reduce the disruptive effects associated with high levels of integration, helping to enhance acquisition performance (Graebner, 2004).

Additional studies have addressed the importance of aligning cultures for mitigating the detrimental impact of cultural differences. Ranft and Lord (2002), for instance, illustrate how rich communication can help acquirers avoid the disruptive consequences of high levels of integration. Puranam, Singh, and Chaudhuri (2009) find that the ability to build or exploit common ground between acquirers and their targets helps to overcome the costs of disruption associated with high levels of integration. Similarly, Junni et al. (2015) demonstrate how acceptance of the other parties’ organisational culture is positively related to post-acquisition integration.

Notwithstanding the importance of integration capabilities in achieving coordination between existing and acquired units, additional research suggests that integration alone may not produce the predicted benefits of an acquisition. Instead, acquirers “should prepare themselves for the likelihood that units may need to be reconfigured several times before the benefit they are striving for is achieved” (Karim, 2006, p. 820). Based on a study of 250 acquirers, Karim (2006) illustrates that structural reconfiguration of both acquired and existing units improves post-acquisition performance, while also increasing the longevity of underperforming units. Similarly, Barkema and Schijven (2008b) find that organisational restructuring following a series of acquisitions helps to improve post-acquisition performance by responding to the growing internal complexities that result from acquisitive growth.

2.1.3 – Adopting a Capabilities Approach to Acquisitions
The preceding discussion points towards the importance of an acquirer’s capabilities in successfully managing the acquisition process. Despite this, gaps remain in the
acquisition literature regarding how these capabilities are developed and used. As such, Haleblian et al. (2009) urge for greater attention to the internal capabilities and processes that enable acquirers to realise value from acquisitions. They suggest that the adoption of capabilities-based approach may extend our understanding about how these capabilities enable the management of acquisitions. In a bibliometric review of M&A research over the past three decades, Ferreira, Santos, de Almeida, and Reis (2014) illustrate that although the use of capability-based approaches in acquisition research is increasing, such approaches remain vastly underrepresented in M&A literature.

The field of dynamic capabilities has received increasing attention in acquisition literature. Building on the argument that firms need to change their resource bases over time to achieve and maintain competitive advantage, dynamic capabilities are viewed as change-orientated capabilities that enable firms to extend, modify and recreate their existing resource base (Eisenhardt & Martin, 2000; Helfat et al., 2007; Teece et al., 1997). Fittingly, as acquisitions are widely regarded as mechanisms through which firms gain new resources and capabilities by obtaining them from another firm (Bower, 2001; Haspeslagh & Jemison, 1991; Karim & Mitchell, 2000), it can be argued that the dynamic capabilities framework is inherently linked to this process. Specifically, it is argued that the routines and capabilities that underpin acquisitions are dynamic capabilities (Eisenhardt & Martin, 2000; Helfat et al., 2007; Junni et al., 2015). It is this perspective that forms the basis of this research. The following section explains the theoretical justifications for this framework in greater detail.

2.2 – Theoretical Development: Dynamic Capabilities

The dynamic capabilities perspective focuses on how firms can change their resource bases (comprised of resources and capabilities) over time (Teece & Pisano, 1994). It rests on the notion that the competitive advantage of a firm lies within its managerial and organisational processes, firm-specific asset positions, and the ‘paths’ (i.e. strategic alternatives) available to the firm (Teece et al., 1997). As such, the dynamic capabilities perspective implies that competitive advantage is not a static concept, but something that changes over time. Correspondingly, it infers that firms must not only extract benefits from their existing resource base, but that they must also look to renew these resources and capabilities (Eisenhardt & Martin, 2000; Teece & Pisano, 1994). This
perspective posits that ‘dynamic capabilities’ enable firms to achieve this modification and renewal to change the way in which they generate rent over time (Helfat et al., 2007).

The definition of dynamic capabilities has been refined and expanded considerably over time. Teece et al. (1997, p. 516) define dynamic capabilities as the “ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments”. Specifically, they clarify the internal and external competences on which dynamic capabilities operate as the routines and processes firms deploy to use firm-specific assets. Building on this foundation, Eisenhardt and Martin (2000, p. 1107) define dynamic capabilities as the “organisational and strategic routines by which firms achieve new resource configurations”. Moreover, they extend the scope of the framework to suggest that dynamic capabilities enable firms to not only match but also create market change. Several subsequent studies have refined the concept of dynamic capabilities further (see Table 3 for some examples).

<table>
<thead>
<tr>
<th>Author</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Teece and Pisano (1994)</td>
<td>The subset of the competences/capabilities which allow the firm to create new products and processes, and respond to changing market circumstances (p. 541)</td>
</tr>
<tr>
<td>Teece, Pisano &amp; Shuen (1997)</td>
<td>The firm’s ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments (p. 516)</td>
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<tr>
<td>Eisenhardt and Martin (2000)</td>
<td>The firm’s processes that use resources – specifically the processes to integrate, reconfigure, gain and release resources – to match and even create market change. Dynamic capabilities thus are the organizational and strategic routines by which firms achieve new resource configurations as markets emerge, collide, split, evolve, and die (p. 1107)</td>
</tr>
<tr>
<td>Zollo and Winter (2002)</td>
<td>A dynamic capability is a learned and stable pattern of collective activity through which the organization systematically generates and modifies its operating routines in pursuit of improved effectiveness (p. 340)</td>
</tr>
<tr>
<td>Zahra, Sapienza &amp; Davidsson (2006)</td>
<td>The abilities to reconfigure a firm’s resources and routines in the manner envisioned and deemed appropriate by its principal decision makers(s) (p. 918)</td>
</tr>
<tr>
<td>Wang and Ahmed (2007)</td>
<td>A firm’s behavioural orientation constantly to integrate, reconfigure, renew and recreate its resources and capabilities and, most importantly, upgrade and reconstruct its core capabilities in response to the changing environment to attain and sustain competitive advantage (p. 35)</td>
</tr>
<tr>
<td>Helfat et al. (2007)</td>
<td>The capacity of an organization to purposefully create, extend, or modify its resource base (p. 1)</td>
</tr>
<tr>
<td>Barreto (2010)</td>
<td>A dynamic capability is the firm’s potential to systematically solve problems, formed by its propensity to sense opportunities and threats, to make timely and market-orientated decisions, and to change its resource base (p. 271)</td>
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</table>
2.2.1 – Origins of the Dynamic Capabilities Perspective

2.2.1.1 – The Resource-Based View

The dynamic capabilities perspective draws its origins from the resource-based view (RBV) of the firm, which argues that competitive advantage arises from a firm’s internal bundle of resources and capabilities. Scholars employing this view have widely adopted Amit and Schoemaker (1993, p. 35) definitions of resources as “stocks of available factors that are owned or controlled by the firm”, and capabilities as “a firm’s capacity to deploy resources, usually in combination, using organisational processes, to effect a desired end”.

The foundations of the RBV trace back to Penrose’s (1959) seminal work, and her theory that a firm’s underlying resources limits its long-term growth. She further asserts that “it is the heterogeneity, and not the homogeneity, of the productive services available or potentially available from its resources that gives each firm its unique character” Penrose (1959, p. 75). By asserting firms should be viewed as bundles of resources, Penrose’s work challenged the predominant industrial organisation view, which focuses externally on industry and product markets (Mahoney & Pandian, 1992). Wernerfelt (1984) subsequently conceptualised this as ‘resource-based view of the firm’ advancing that it was possible to identify the specific types of resources that could generate high levels of profit.

The RBV rests on two key assumptions. Firstly, firms are seen to possess different bundles of resources (resource heterogeneity), explaining the variations in performance between firms (Penrose, 1959; Wernerfelt, 1984). Secondly, this resource heterogeneity is assumed to be persistent over time, due to the fact that these resources and capabilities are hard to imitate and cannot be acquired on the open market (Penrose, 1959). Thus, when these resources are valuable, rare, inimitable and non-substitutable, it is argued they form a source of sustainable competitive advantage (Barney, 1991). Based on these assumptions, the RBV views acquisitions as mechanisms through which organisations can gain access to imperfectly mobile resources by purchasing the firm or subunits within which these resources reside (Wernerfelt, 1984; Zollo & Singh, 2004). Furthermore, the RBV also views acquisitions as a means through which firms can fully exploit their existing resource bundles, enabling them to capture rents on scarce
assets that would otherwise be underutilised (Ng, 2007; Wan, Hoskisson, Short, & Yiu, 2011).

The RBV has not gone unchallenged. A key criticism of the theory is that it does not adequately explain how firms can achieve competitive advantage in rapidly changing and uncertain environments, and thus is too static for the contemporary business environment (Teece & Pisano, 1994; Teece et al., 1997). In the economy of the past – in which products were durable, customer needs were stable, and industry and national borders were well defined – it was believed that firms could achieve sustained competitive advantage by exploiting existing resources and competences, therefore providing rationale for the RBV (Barney, 1991). However, significant changes – including globalisation, rapid advances in technology, shortened product cycles, and the merging of market and industry structures – have made the business environment a more complex and uncertain place (Teece & Pisano, 1994). Consequently, sustained competitive advantage is considered to be unlikely in rapidly changing markets (D'Aveni, 1994). Moreover, the very resources that provide firms with competitive advantage, may serve to prevent the firm from adapting to change (Leonard-Barton, 1992).

The dynamic capabilities perspective was advanced in light of this criticism by focusing on the capacity of an organisation to “integrate, build, and reconfigure internal and external competencies to address rapidly changing environments” (Teece et al., 1997, p. 157). The remainder of this section examines the dynamic capabilities perspective, beginning with an overview of additional theories that have contributed to the development of this concept.

2.2.1.2 – Additional Theoretical Underpinnings

The dynamic capabilities perspective draws on several theoretical lenses to extend the RBV. This section focuses on three of the most relevant to this research: evolutionary economics, organisational learning and schumpeterian rent generation.

The evolutionary economics perspective (Nelson & Winter, 1982) makes a significant contribution to the dynamic capability view. In their seminal work, Nelson and Winter (1982) advance that firms represent a set of path-dependent routines, which are built up
and accumulated over time. From this perspective, firms are seen to engage in a continuous process of accumulating and upgrading their knowledge in an attempt to improve performance (Nelson & Winter, 1982). Building on this foundation, Teece and colleagues (Teece & Pisano, 1994; Teece et al., 1997) extend the evolutionary economics perspective to assert that firms can maintain competitive advantage by renewing and modifying their existing resources and capabilities. They focus on the evolutionary nature of dynamic capabilities, proposing that dynamic capabilities are shaped by the evolutionary paths and asset positions that the firm has historically adopted (Teece & Pisano, 1994; Teece et al., 1997). Helfat and Peteraf (2003) emphasise this, proposing that dynamic capabilities follow a capability lifecycle involving a general pattern of founding, development and maturity; illustrating the evolutionary nature of dynamic capabilities. Thus, both the dynamic capabilities and evolutionary economics perspectives assume that the existing routines and capabilities of a firm can evolve to generate future capabilities through a process of organisational learning.

Extending the contribution of evolutionary economics, scholars exploring the development of dynamic capabilities emphasise the role of learning mechanisms (e.g. Cepeda & Vera, 2007; Zahra, Sapienza, & Davidsson, 2006; Zollo & Winter, 2002). In doing so, existing literature draws on the fields of organisational learning theory (Levitt & March, 1988; March, Sproull, & Tamuz, 1991) to conceptualise the creation of dynamic capabilities. Organisational learning theorists posit that firms learn from experience by identifying “inferential inadequacies” between anticipated outcomes and historical observations (March et al., 1991). However, for organisational learning to take place, this acquired knowledge must be distributed throughout the organisation, interpreted, and then committed to organisational memory (Huber, 1991; Levitt & March, 1988; March et al., 1991). This commitment occurs by storing inferences into organisational routines that guide future behaviour (Levitt & March, 1988), thus illustrating the links between organisational learning theory and evolutionary economics. Scholars draw on this theory to argue that the development of dynamic capabilities is shaped by an organisation’s learning mechanisms (Cepeda & Vera, 2007; Eisenhardt & Martin, 2000; Zahra et al., 2006; Zollo & Winter, 2002), as discussed further in Section 2.2.4 – The Development of Dynamic Capabilities. Moreover, they contend that by accumulating, integrating and applying knowledge, firms become better
at managing tasks by developing the capabilities required to perform the tasks (Kale & Singh, 2007).

The dynamic capabilities perspective also builds on the work of Schumpeter (1934) and the process of creative destruction of existing resources. Under Schumpeterian logic, firms constantly seek new combinations of resources to outperform their rivals who are continuously attempting to imitate the most qualified competitors. Building on this process, the dynamic capabilities perspective argues that firms require the capabilities to improve their distinctive capabilities and develop new domains of competence if they are to achieve long-term competitive outcomes (Teece & Pisano, 1994). The adoption of Schumpeterian rents distinguishes the dynamic capabilities perspective from the RBV. The RBV adopts a Ricardian perspective, assuming that heterogeneity in firm performance is attributed to the ownership of resources that have differential productivity (Makadok, 2001). In doing so, the RBV asserts that firms generate superior economic rent by being more effective at selecting resources than their competitors (Makadok, 2001). In contrast, the Schumpeterian perspective of rent generation – which is codified in the concept of dynamic capabilities – assumes that superior economic rent is determined by how effective a firm is at deploying resources (Makadok, 2001). It further asserts that Ricardian rents cannot provide long-term competitive returns, as such rents are eventually competed away by competitors over time (Teece, 2007).

2.2.2 – The Nature of Dynamic Capabilities
This section examines the characteristics of dynamic capabilities to gather a better understanding of how they contribute to organisational change. This section firstly examines the distinction between dynamic capabilities and operational capabilities before addressing the intentional and systematic nature of dynamic capabilities.

2.2.2.1 – Dynamic Capabilities as Higher-Order Capabilities
Existing literature distinguishes between operational capabilities and dynamic capabilities (e.g. Collis, 1994; Winter, 2003; Zahra et al., 2006). Operational capabilities – also termed zero-level capabilities (Winter, 2003) and substantive capabilities (Zahra et al., 2006) – encompass the basic functional activities and routines of a firm, such as production, manufacturing, distribution logistics and marketing
They represent the rent generating capabilities that enable firms to earn a living in the present by maintaining the status quo (Helfat & Winter, 2011; Winter, 2003). By contrast, dynamic capabilities enable firms to alter how they generate rent by modifying and renewing operational capabilities in response to change (Helfat & Winter, 2011). As such, they are often considered as ‘higher-order’ capabilities (Collis, 1994; Winter, 2003).

However, not all dynamic capabilities operate on operational capabilities (Helfat et al., 2007). Collis (1994) differentiates dynamic capabilities that enable firms to change existing operational capabilities from those that enable firms to learn new capabilities. In other words, Collis (1994) proposes that some dynamic capabilities serve to renew existing dynamic capabilities. Thus, dynamic capabilities may enable a continuous cycle of capability development that may continue ad infinitum; suggesting, “the capability that wins tomorrow is the capability to develop the capability to innovate faster (or better), and so on” (p. 148). Other scholars have supported this, conceptualising capability-learning mechanisms as ‘second-order dynamic capabilities’ (Zollo & Winter, 2002) and ‘second-order competencies’ (Danneels, 2002, 2008).

2.2.2.2 – Dynamic Capabilities as Intentional Efforts

It is argued that dynamic capabilities are intentional efforts, rather than spontaneous responses (Ambrosini & Bowman, 2009; Barreto, 2010; Helfat & Winter, 2011; Zollo & Winter, 2002). In line with the evolutionary economics underpinning of the dynamic capabilities perspective, Zollo and Winter (2002) posit that dynamic capabilities are comprised of sets of routines. Moreover, in acknowledging that routines represent consistent and predictable patterns of behaviour (Nelson & Winter, 1982), Zollo and Winter (2002) suggest that dynamic capabilities are characterised as systematic and persistent efforts. This view supports the notion that reliable performance is an important feature of an organisational capabilities (Helfat & Peteraf, 2003; Helfat & Winter, 2011).

In sum, literature identifies dynamic capabilities as change-orientated capabilities that serve to modify a firm’s existing resource base. Moreover, it positions these capabilities as higher-order capabilities that operate on the rent-generating ordinary capabilities of the firm. In reviewing the nature of dynamic capabilities, it is also evident that they...
reflect deliberate and intentional efforts for change, rather than ad hoc responses. The next section addresses the impact of dynamic capabilities on firm performance.

2.2.3 – Dynamic Capabilities and Firm Performance

Academic literature is divided on the relationship between dynamic capabilities and firm performance. In their early conceptualisation, Teece et al. (1997) advance a direct relationship between dynamic capabilities and firm performance. In support of this, Makadok (2001) proposes that the presence of dynamic capabilities increases a firm’s economic profit. Correspondingly, Zollo and Winter (2002) assume that firms who do not possess dynamic capabilities are unable to achieve superiority in changing environmental conditions. Several studies provide empirical support for a direct impact. Rosenbloom (2000), for example, draws on a case study of the NCR Corporation to illustrate how the exploitation of latent dynamic capabilities enabled the firm to successfully respond to radical changes in the technological environment surrounding the firm. Danneels (2010) illustrates from a case study of a typewriting manufacturer how the inadequate deployment of dynamic capabilities led to bankruptcy following a decline in the case firm’s core product category. More recently, Wang et al. (2015) provide evidence from a data set of 113 U.K. high-technology firms to suggest a positive and direct, yet weak, relationship between dynamic capabilities and firm performance.

Other researchers challenge the direct link between dynamic capabilities and firm performance, adopting the view that dynamic capabilities indirectly impact firm performance. Eisenhardt and Martin (2000), for example, contend that competitive advantage does not arise from dynamic capabilities per se, but rather from the new configurations of resources and capabilities that result from their deployment. Similarly, both Zott (2003) and Zahra et al. (2006) propose that dynamic capabilities indirectly impact firm performance through the modification of the firm’s resources and operational routines, which in turn impacts firm performance. From this perspective, dynamic capabilities are considered to be one step removed from rent generation (Bowman & Ambrosini, 2003), thus eliciting indirect performance benefits to the firm. Protogerou, Caloghirou, and Lioukas (2011) provide empirical support for this relationship from on a study of 271 manufacturing firms. They find that although the relationship between dynamic capabilities and firm profitability is insignificant,
dynamic capabilities have a significant and positive impact on both technological and marketing operational capabilities, which in turn positively impact profitability.

Additional research stresses the complexity of the relationship between dynamic capabilities and firm performance. Helfat et al. (2007, p. 14) contend that dynamic capabilities “do not necessarily lead to competitive advantage”, suggesting that there may be instances where dynamic capabilities renew a firm’s resource base in a way that only provides competitive parity, or that is irrelevant to the market. Drnevich and Kriauciunas (2011) draw from a survey of 700 Chilean firms to show that dynamic capabilities can elicit a negative impact on firm-level performance, suggesting that the performance gains associated with dynamic capabilities do not always offset the additional difficulty associated with managing them. Building on this argument, scholars contend that high costs associated with developing and maintaining dynamic capabilities (such as the resources, time and managerial attention) may outweigh the benefits they provide (Ambrosini & Bowman, 2009; Danneels, 2002; Helfat & Winter, 2011; Schilke, 2014). For instance, in more stable environments, the need for renewing the firm resources and operating capabilities is lower, and quick responses are less critical (Wilhelm, Schlömer, & Maurer, 2015). Moreover, in such environments, exploitation of existing resources is typically rewarded over exploration of new ones (Schilke, 2014; Teece, 2007). Thus, low cost problem solving mechanisms (such as ad hoc decision making or one-off improvements to operational capabilities) may provide sufficient alternatives to the use of dynamic capabilities – with lower cost burdens – in stable environments (Winter, 2003). Respectively, scholars argue that performance may be harmed if a firm expends significant resources attempting to develop dynamic capabilities that are neither required nor beneficial in the firm’s given environment (Winter, 2003; Zahra et al., 2006).

In sum, although it is clear that dynamic capabilities play an important role in helping organisations respond to change, it is viewed that this ability is determined less by the dynamic capabilities per se, by rather the new configurations of resources and capabilities that they create. Moreover, literature also suggests the need for dynamic capabilities is likely to depend on the firm’s specific context, given the potential cost burdens associated with their development and management. The following section addresses the mechanisms through which dynamic capabilities are developed.
2.2.4 – The Development of Dynamic Capabilities

As noted, dynamic capabilities are positioned in the literature as path-dependent routines that are built up and accumulated over time (Eisenhardt & Martin, 2000; Nelson & Winter, 1982; Teece & Pisano, 1994). As such, organisational learning mechanisms are believed to play a crucial role in the development of dynamic capabilities (Easterby-Smith & Prieto, 2008; Zollo & Winter, 2002). Drawing on the logic that repeated practice provides organisations with greater understanding of routines (Argote, 1999), scholars contend that experience accumulation helps firms to “understand processes more fully and so develop more effective routines” (Eisenhardt & Martin, 2000, p. 1114). Zollo and Winter (2002), for example, identify that dynamic capabilities develop through experience accumulation as firms learn from prior deployment of routines and their subsequent outcomes.

More latterly, Zollo and Singh (2004, p. 1237) apply this notion to the field of acquisitions, contending that “firms might be able to learn how to manage acquisition processes by simply doing more of the same, and thereby tacitly forming and refining organisational routines that might directly… impact the performance of subsequent acquisitions”. Similarly, Halebian and Finkelstein (1999) find that, with experience, firms develop the capabilities to manage acquisitions by learning to identify the similarities and differences between current and prior acquisitions. Conversely, inexperienced acquirers tend to inappropriately generalise lessons from previous acquisitions to dissimilar acquisitions, resulting in poor acquisition performance of the focal acquisition (Halebian & Finkelstein, 1999). Subsequent studies find that acquisition experience plays a role in the development of the capabilities that help acquirers manage the processes for selecting targets (Barkema & Schijven, 2008b), integrating targets (Puranam & Srikanth, 2007), and leveraging resources between targets and existing units (Zollo & Singh, 2004). Laamanen and Keil (2008) report similar findings in the case of serial acquirers – illustrating that, over time, serial acquirers develop the capability to better manage growth by gaining an understanding of how to best implement their acquisition programme (such as the types of firms that should be targeted and the optimal timing of the acquisition process).

Research indicates that dynamic capability development occurs more effectively and efficiently when firms complement experiential learning with more deliberate learning mechanisms (Amiryany et al., 2012; Trichterborn et al., 2015; Zollo & Winter, 2002).
For instance, Eisenhardt and Martin (2000) acknowledge that codification of experience makes learning easier to apply and accelerates the capability development process. Zollo and Winter (2002) postulate that deliberate learning mechanisms (such as knowledge articulation and knowledge codification) are more effective at developing dynamic capabilities than knowledge accumulation alone, as they force firms to draw explicit conclusions about experiences, rather than relying on tacit inferences alone. Cepeda and Vera (2007) provide support from a study of 102 firms, finding a positive relationship between a firm’s knowledge management infrastructure (i.e. the people, processes and technology a firm possesses to manage organisational learning) and the development of dynamic capabilities.

Research examining the development of capabilities in the context of acquisitions also highlights the importance of deliberate learning mechanisms. Zollo and Singh (2004) draw on a study of 228 acquisitions to show that codification of knowledge into acquisition documents and manuals has a positive impact on acquisition performance (as measured by improvement on return-on-assets). Correspondingly, Trichterborn et al. (2015) find a positive relationship between an M&A learning process (encompassing four deliberate learning mechanisms: codification, articulation, knowledge sharing and knowledge integration) and the development of an M&A capability (which they operationalise as a higher-order learning capability). They also highlight that this higher-order M&A capability is positively associated with M&A performance (as measured by subjective assessment of post-acquisition performance).

In sum, literature highlights the dynamic capabilities are developed from experience, as firms gain greater understanding of routines with experience, and thus learn to develop more effective capabilities over time. Extending this to the context of acquisitions, it is considered that experienced acquirers are more likely to have developed dynamic capabilities than inexperienced acquirers (Bingham et al., 2015; Zollo & Winter, 2002).

2.2.5 – Heterogeneity of Dynamic Capabilities

There is debate in academic literature regarding the heterogeneity of dynamic capabilities between firms. Scholars closely adopting a RBV approach to dynamic capabilities (e.g. Makadok, 2001; Teece & Pisano, 1994; Teece et al., 1997) have assumed dynamic capabilities are firm-specific – implying that they cannot be readily
imitated or purchased by rival firms. This position flows logically from the early conceptualisations of dynamic capabilities, in which path-dependencies were identified as critical elements in the development of a firm’s dynamic capabilities (Peteraf, Di Stegano, & Verona, 2013). Scholars adopting this view therefore advance that dynamic capabilities enable competitive advantage due to their inherent idiosyncrasy and inimitability (Teece & Pisano, 1994; Teece et al., 1997). Moreover, they contend that dynamic capabilities depending on common processes cannot contribute to competitive advantage, as the widely adopted nature of such practices does not permit firms to outperform their competitors (Helfat et al., 2007).

A contrasting position asserts that although dynamic capabilities are idiosyncratic in their details, they exhibit commonalities in key attributes (Eisenhardt & Martin, 2000). Proponents of this position contend that these commonalities arise as there are more and less effective ways of dealing with organisational challenges (Eisenhardt & Martin, 2000), and firms subsequently end up pursuing capabilities with similar attributes as they strive towards more effective routines (Ambrosini & Bowman, 2009; Peteraf et al., 2013). Consequently, this position asserts that there are multiple paths to the same dynamic capabilities, implying that dynamic capabilities are less inimitable than initially proposed. However, this equifinality also reflects the path-dependent nature of dynamic capabilities, implying that idiosyncracies may existing (Barreto, 2010; Eisenhardt & Martin, 2000). Thus, although the ostensive dynamic capability might be similar, in practice, they are likely to display subtle, yet important, differences between firms (Ambrosini & Bowman, 2009). It is through these idiosyncrasies that dynamic capabilities are believed to facilitate superior firm performance. Zott (2003) provides evidence from a simulation to suggest that firms with identical dynamic capabilities build different combinations of resources – and, subsequently, have different levels of performance – due to variations in experiences, timing and costs of dynamic capability development and deployment. Moreover, Peteraf et al. (2013, p. 1403) acknowledges the presence of commonalities “does not necessarily mean that all practitioners are equally adept at the practice”. Instead, it is argued that superior performance arises from dynamic capabilities when they are deployed “sooner, more astutely and more fortuitously” than competitors (Eisenhardt & Martin, 2000, p. 1117).
Based on this discussion, it can be seen that dynamic capabilities are idiosyncratic in detail, yet similar in the key features. While it is clear that widely adopted and understood capabilities do not enable firms to outperform competitors (Helfat et al., 2007; Teece, 2007), the argument that dynamic capabilities express commonalities, as rival firms strive towards similar routines, is compelling. Importantly, this position reflects acquisition literature illustrating that variations in acquisition capabilities lead to differential acquisition performance (see Section 2.1.2 – The Acquisition Process) – indicating that there are more and less effective ways to approach the acquisition process. The remainder of this section examines the categorisations of dynamic capabilities evident in the literature. In doing so, it identifies the framework through which dynamic capabilities will be explored in the context of acquisitions.

2.2.5.1 – Proposed Set of Dynamic Capabilities
Several scholars have attempted to conceptualise the commonalities and idiosyncrasies of dynamic capabilities, resulting in several categorisations of dynamic capabilities. For example, Eisenhardt and Martin (2000) propose three types of dynamic capabilities: those that integrate resources, those that reconfigure resources, and those aimed at gaining and releasing resources. Similarly, Verona and Ravasi (2003) extend this categorisation into the innovation process, drawing on a case study of a hearing aid manufacturer to identify three dynamic capabilities underlying the process of continuous innovation: knowledge integration, knowledge reconfiguration, and knowledge creation and absorption.

Wang and Ahmed (2007) propose that dynamic capabilities consist of three main components: the ability to identify and capitalise on market opportunities (adaptive capability), the ability to identify, acquire, assimilate and apply external knowledge (absorptive capability), and the ability to develop new products and markets by aligning strategic orientation with innovative processes and behaviours (innovative capability). Pandza and Holt (2007) provide a similar argument, drawing on a case study of a nanotechnology network in the UK to suggest that absorptive capability and transformative capacity (the ability to identify, assimilate and apply endogenous knowledge) are important components of a firm’s ability to respond to exogenous technological change. Wang et al. (2015) further support these component factors, providing quantitative evidence from a survey of 113 UK technology firms to suggest
that *absorptive* and *transformative* capacity serve as two mutually reinforcing capabilities that represent commonalities of dynamic capabilities between firms.

Other scholars have more closely adopted Teece et al.’s (1997) proposition that dynamic capabilities consist of three core elements: *coordination/integration, learning* and *reconfiguration*. For example, Pavlou and El Sawy (2011) advance that *sensing*, *learning*, *integrating* and *coordinating* capabilities play a key role in reconfiguring firms’ existing new product development capabilities. Moreover, they draw a study of 180 new product development units to provide statistical support for this construct. Protoegerou et al. (2011) also adapt this conceptualisation, postulating that *coordination/integration capabilities, learning capabilities, and strategic competitive response capabilities* (encompassing the ability to scan the environment, identify opportunities, and respond to competitive moves) represent key processes underlying dynamic capabilities. Based on data from 271 manufacturing firms, the authors find strong evidence to support their conceptualisation.

Building on earlier work, Teece (2007) clarifies that the three processes advanced in Teece et al. (1997) – *coordination/integration, learning* and *reconfiguration* – serve as ‘asset orchestration’ processes that enable managers to control and adapt the firm during times of change. More specifically, Teece (2007) explains that they represent sub-processes that underlie three generic dynamic capabilities: *sensing, seizing* and *reconfiguring*. *Sensing* refers to the ability of a firm to identify opportunities and threats by constantly scanning and searching its environment (Teece, 2007). *Seizing capabilities* reflect the capacity to address new technological or market opportunities by making high-quality investment decisions (Teece, 2007). They also represent the ability to achieve new resource combinations and leverage complementary assets within an organisation (Katkalo et al., 2010). *Reconfiguring capabilities* involve the periodic, if not continuous, renewal and realignment of resources, infrastructure and strategies to reduce internal conflicts and maximize complementarities within the organisation (Teece, 2007). To create and maintain competitive advantage in dynamic environments, organisations must simultaneously develop each of these three categories of capabilities (Teece, 2007). Despite this, the need to deploy them is likely to be shaped by opportunities and events that occur in the marketplace (Teece, 2007).
This research adopts Teece’s (2007) categorisation of sensing, seizing and reconfiguring capabilities. The value of Teece’s (2007) framework for this research arises for several reasons. Firstly, this framework parallels the other conceptualisations presented in this section, as illustrated in Table 4.

Table 4 – Categorisation of dynamic capabilities

<table>
<thead>
<tr>
<th>Dynamic capability</th>
<th>Definition of capability</th>
<th>Related conceptualisations in the literature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sensing</td>
<td>The capacity to scan and monitor changes in the environment to identify and interpret opportunities and threats</td>
<td>Learning (Pavlou &amp; El Sawy, 2011; Protogerou et al., 2012; Teece et al., 1997) Strategic competitive response capabilities (Protogerou et al., 2012) Knowledge creation and absorption (Verona &amp; Ravasi, 2003) Adaptive capability (Wang &amp; Ahmed, 2007)</td>
</tr>
<tr>
<td>Seizing</td>
<td>The capacity to address new opportunities by making high-quality, unbiased investment decisions and mobilising resources</td>
<td>Integration (Eisenhardt &amp; Martin, 2000; Pavlou &amp; El Sawy, 2011; Protogerou et al., 2012; Teece et al., 1997) Knowledge integration (Verona &amp; Ravasi, 2003) Absorptive capability (Wang &amp; Ahmed, 2007)</td>
</tr>
</tbody>
</table>

Secondly, the categories of sensing, seizing and reconfiguring fit with the capabilities that underpin the acquisition process. For instance, this process begins with the identification of new targets (i.e. sensing capabilities), followed by negotiating and integrating targets (i.e. seizing capabilities), and, potentially, the restructuring of underperforming units (i.e. reconfiguring capabilities). These conceptual links are discussed further in the following section.

Finally, the categorization of sensing, seizing and reconfiguring capabilities is of value to the current study as it has been grounded in empirical evidence. Ellonen, Wikstöm, and Jantunen (2009) apply the model to the innovative activities of four firms in the publishing. In doing so, they find evidence for all three types of capabilities in each firm. Moreover, they report that different compositions of sensing, seizing and reconfiguring capabilities between the firms led to variations in the dominant type of innovation present in each firm, suggesting differences in the form and strength result in various outcomes. In subsequent work, Ellonen, Jantunen, and Kuivalainen (2011) explore the roles of sensing, seizing and reconfiguring capabilities in the development of operational capabilities within a single case study. Their results show that all three
types of dynamic capabilities are linked to the development of innovation-related operational capabilities, and explicate six examples of these mechanisms. Additionally, Jantunen, Ellonen, and Johansson (2012) adopt this categorisation to explore the heterogeneity of sensing, seizing and reconfiguring capabilities across four case studies. They provide evidence to suggest that these dynamic capabilities express both idiosyncratic and common features in their case industry. Specifically, sensing capabilities are more likely to be similar across firms, while seizing and reconfiguring capabilities are more likely to differ (Jantunen et al., 2012). Kindström, Kowalkowski, and Sandberg (2013) explore the roles of these three generic dynamic capabilities in service innovation in multiple industries. They identify several roles for each capability, as well as critical questions managers face when deploying each dynamic capability. Finally, Mezger (2014) demonstrates how sensing, seizing and reconfiguring capabilities underpin business model innovation. The findings indicate that firms expressing low levels of sensing, seizing and reconfiguring capabilities have difficulty renewing their existing business infrastructure (Mezger, 2014). Having established the conceptualisation of dynamic capabilities to be adopted in this study, the following section explores this framework in the context of acquisitions.

2.3 – Dynamic Capabilities in Acquisition Process

This research aims to explore the roles of dynamic capabilities in the acquisition process. As identified in the previous section, it adopts Teece’s (2007) categorisation of three generic dynamic capabilities into sensing, seizing and reconfiguring capabilities. To provide a conceptual grounding for the current research, this section links these capabilities to related concepts in acquisition literature (illustrated in Table 5).

<table>
<thead>
<tr>
<th>Dynamic capability</th>
<th>Related concepts in selected M&amp;A literature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sensing</td>
<td>Identification capability (Helfat et al., 2007)</td>
</tr>
<tr>
<td></td>
<td>Identifying and reducing market inefficiencies (Chatterjee, 2009)</td>
</tr>
<tr>
<td></td>
<td>Overcoming information asymmetry (Capron &amp; Shen, 2007; Shen &amp; Reuer, 2005)</td>
</tr>
<tr>
<td></td>
<td>Selection capability (Capron &amp; Shen, 2007; Helfat et al., 2007)</td>
</tr>
<tr>
<td></td>
<td>Strategic sensitivity (Junni et al., 2015)</td>
</tr>
<tr>
<td>Seizing</td>
<td>Collective commitment (Junni et al., 2015)</td>
</tr>
<tr>
<td></td>
<td>Integration capability (Graebner, 2004; Mitchell &amp; Shaver, 2003; Ranft &amp; Lord, 2002)</td>
</tr>
<tr>
<td></td>
<td>Effective communication (Ranft &amp; Lord, 2002)</td>
</tr>
<tr>
<td></td>
<td>Post-acquisition integration (Homburg &amp; Buceri, 2006; Puranam &amp; Srikanth, 2007)</td>
</tr>
<tr>
<td></td>
<td>Relationship building (Puranam et al., 2009; Stahl &amp; Sitkin, 2010; Stahl &amp; Voigt, 2008)</td>
</tr>
<tr>
<td>Reconfiguring</td>
<td>Restructuring acquired units (Capron, 1999; Karim, 2006; Meyer &amp; Lieb-Döczi, 2003; Molliterno &amp; Wiersema, 2007)</td>
</tr>
<tr>
<td></td>
<td>Transferring resources (Bowman &amp; Ambrosini, 2003; Junni et al., 2015; Karim &amp; Mitchell, 2000; Meyer &amp; Lieb-Döczi, 2003)</td>
</tr>
</tbody>
</table>
2.3.1 – Sensing Capabilities

Sensing capabilities are defined as the ability to identify, interpret and pursue emerging opportunities (Teece, 2007). In the context of acquisitions, sensing capabilities reflect the processes that help acquirers (a) to identify new acquisition opportunities, and (b) to access sufficient information to assess targets.

Research in the field of acquisitions highlights that the identification of appropriate acquisition targets is an importance determinant of acquisition success (Chatterjee, 2009; Jnni et al., 2015). Moreover, it shows that the presence of multiple bidders increases the price paid for a given target (Chatterjee, 2009; Hitt et al., 2009; Shen & Reuer, 2005). Thus, by being the first to identify potential targets, firms can preempt price competition for a target by structuring their offer in ways that deter secondary bidders (Fishman, 1989). As such, acquirers possessing sensing capabilities are likely to be better able to identify acquisition opportunities early and benefit from lower competitive pressures and, subsequently, lower premiums (Chatterjee, 2009). Building on these arguments, literature suggests that by deploying sensing capabilities to scan markets for potential targets, acquirers can gain an early indication of promising opportunities (Schreyögg & Kliesch-Erbel, 2007). In doing so, it is believed that they will be better able to detect and, ultimately, pursue new acquisition opportunities before competitors (Katkalo et al., 2010; Teece, 2007). This supports prior work suggesting a link between the ability to identify appropriate acquisition candidates and a firm’s dynamic capabilities (Helfat et al., 2007).

Sensing capabilities also encompass the activities associated with assessing new opportunities (Teece, 2007). Specifically, this involves tapping advisors, suppliers, customers and other external sources to gain information about acquisition targets (Teece, 2007). As discussed in the review of acquisition literature, inadequate assessment of targets due to information asymmetry can lead to adverse target selection and suboptimal acquisition performance (Capron & Shen, 2007; Reuer & Ragozzino, 2008; Shen & Reuer, 2005). Thus, by deploying sensing capabilities, acquirers may gain better access to sources of market information and overcome the risks of poor target selection associated with inadequate information. This reflects research highlighting the importance of external information sources in the due diligence process (Angwin, 2001; Capron & Shen, 2007). Moreover, it supports suggestions by
Helfat et al. (2007) that the capacity to carry out effective due diligence on targets is reflective of an acquisition-based dynamic capability. Thus, to reduce the likelihood of poor acquisition selection, acquirers require sensing capabilities to correctly filter and shape the acquisition opportunities that they identify in the market (Teece, 2007).

2.3.2 – Seizing Capabilities
Seizing capabilities represent a firm’s ability to address ‘sensed’ opportunities by making high-quality investment decisions and mobilising appropriate resources (Teece, 2007). In the acquisition context, these capabilities are manifested in (a) the decision-making protocols that guide target selection and negotiation, and (b) the processes for integrating new acquisitions.

Existing literature recognises decision making as a dynamic capability that leverages and integrates knowledge from a number of sources in order to make strategic choices that shape the future direction of a firm (Eisenhardt & Martin, 2000; Katkalo et al., 2010; Teece, 2007). Acquirers face several decisions throughout the acquisition process that contribute to the overall acquisition outcome. One such decision regards the selection of appropriate acquisition candidates to pursue. Capron and Mitchell (2009) find that acquirers that carefully consider their existing capability gaps and internal constrains to integration tend to outperform those that do not consider such factors. Furthermore, Angwin et al. (2015) provide evidence to illustrate the importance of pre-acquisition decision-making criteria. They find that all 26 acquirers in their study engaged in an internal decision-making process in which legitimate candidates were presented to the board of the acquiring firm and a decision was made whether to continue through to formal negotiations or prevent further action. It was found that this process often prevented acquisitions of candidates that otherwise matched all of the acquiring firms selection criteria (Angwin et al., 2015). Thus, seizing capabilities may provide acquirers with the capacity to form decision rules that guide decision making during the acquisition process (Teece, 2007). This notion supports work from Moliterno and Wiersema (2007) who position decision making as the manifestation of the change routines that underpin the acquisition process.

In addition to guiding acquisition decisions, seizing capabilities also play a role in coordinating the integration of newly acquired units. Specifically, these capabilities
enable acquirers to overcome the potential cultural differences arising between acquiring units and target units. As Teece (2007) postulates, seizing capabilities enable firms to address opportunities by building loyalty and commitment within firms. Research exploring the transaction phase of acquisitions highlights the importance of building relationships and trust to achieving successful negotiation outcomes (e.g., Hitt et al., 1998; Stahl & Sitkin, 2010). This research suggests that by fostering relationships between parties, acquirers and targets can overcome the ambiguity that characterises negotiations (Richardson & Denton, 1996). Moreover, relationship building enables parties to become sensitive to the cultural differences that are often detrimental to acquisition negotiations (Gomes et al., 2013).

Additional studies have addressed the importance of aligning cultures to acquisition performance. Puranam et al. (2009) find that the ability to build or exploit common ground between acquirers and their targets can overcome the costs of disruption associated with high levels of integration. Similarly, Junni et al. (2015) demonstrate how acceptance of the other parties’ organisational culture is positively related to post-acquisition integration. Moreover, they illustrate that the ability to generate acceptance is linked to an acquirer’s dynamic capabilities. This reflects earlier work linking a firm’s ‘integration ability’ to a higher-order capability akin to the concept of dynamic capabilities (Zollo & Singh, 2004). Thus, literature suggests that seizing capabilities may play an important role in facilitating the coordination of targets and acquirers during post-acquisition integration.

2.3.3 – Reconfiguring Capabilities
Reconfiguring capabilities refer to the continuous renewal and recombination of activities, aimed towards maintaining competitive advantage (Katkalos et al., 2010; Teece, 2007). In the context of acquisitions, these capabilities are typically seen through organisational restructuring, whereby business units are added, deleted, or recombined following an acquisition (Barkema & Schijven, 2008b; Karim, 2006). Specifically, by deploying reconfiguring capabilities, acquirers can (a) reallocate resources, (b) restructure acquired units to unlock synergy potential, and (c) restructure existing units to manage increasing complexity.
Literature suggests that reconfiguring capabilities enable acquirers to recognise which resources generate rent, identify other areas within the organisation that these resources may create value, and design mechanisms to transfer the resources in ways that does not diminish their value (Heimeriks et al., 2012; Katkalo et al., 2010; King, Slotegraaf, & Kesner, 2008; Teece, 2007). Meyer and Lieb-Dóczy (2003) draw on 18 case studies of European acquirers to illustrate that post-acquisition resource transfer is positively associated with acquisition performance and new capability development. Similarly, based on a study of 104 Finnish acquisitions, Junni et al. (2015) find that resource redeployment improves acquisition performance, providing evidence to suggest that resource fluidity (the ability to rapidly redeploy resources) is associated with greater post-acquisition knowledge transfer and, subsequently, greater post-acquisition performance. Moreover, they link this ability to a higher-order capability that enables firms to continuously adapt to change. Thus, the literature suggests that by deploying reconfiguring capabilities, acquirers are better able to modify the resource compositions of their existing units and newly acquired units through resource redeployment.

An additional role of reconfiguring capabilities lies in restructuring acquired units to improve performance of underperforming units. As identified in the review of acquisition literature, acquirers need prepare themselves for the likelihood that acquired units may need to be reconfigured several times before acquisition potential is achieved (Karim, 2006). Thus, by deploying reconfiguring capabilities, acquirers may be better able to unlock the synergistic potential of the acquisition that is not achieved by integration alone (Barkema & Schijven, 2008b; Karim, 2006). Karim and Mitchell (2004) adopt a similar view when exploring the acquisition activity of a single case firm. Adopting a routine-based view on business change, they illustrate how the use of change-based routines helped Johnson & Johnson’s medical division to successfully recombine the resources of acquired and internally developed units following acquisitions. Similarly, Karim (2006) adopts the dynamic capabilities perspective to examine the importance of unit reconfiguration to acquisition performance, illustrating that post-acquisition restructuring increases the longevity of underperforming units.

Reconfiguration capabilities also enable acquirers to undertake restructuring events that reduce the internal conflicts and complexities arising following a series of acquisitions (Barkema & Schijven, 2008b; Teece, 2007). Barkema and Schijven (2008b, p. 699)
contend that each consecutive acquisition adds structural inefficiencies as “each acquired firm, with its own culture, structure, systems, and processes, represents a subunit that adds to the total complexity of coordinating the acquiring firm”. In their study of the acquisition activity of 25 large Dutch multinational firms over four decades, they identify that acquirers typically follow a cyclical pattern of acquisitive growth and organisational restructuring (Barkema & Schijven, 2008b). They further propose that these long-term acquisition-restructuring cycles enable acquiring firms to overcome a ‘vicious cycle’ that arises as their resources become overstretched following several subsequent acquisitions. Thus, each subsequent acquisitions requires “more managerial resources for effective coordination of the acquiring firm as a whole… thus leaving fewer resources for the integration of the next acquisition… and so on” (Barkema & Schijven, 2008b, p. 700).

The need for periodic renewal of existing units is supported by studies exploring post-acquisition divestiture of targets. Based on a study of 253 M&A in the European and U.S. manufacturing industries, Capron (1999) provides evidence to suggest that divestiture of the acquirer’s assets has a positive impact on cost savings, while divestiture of target assets has a negative effect on both cost-based and revenue-based synergies. Vidal and Mitchell (2015) identify that firms with increasing performance proactively engage in divestiture as way to tighten their operations and free resources that can be reinvested in new opportunities. Their findings suggest that divestures enable firms to maintain and enhance their performance by proactively attempting to achieve structural reconfigurations.

2.4 – Chapter Summary

This literature review explores how organisations can effectively manage acquisitions. To do this, it draws on two distinct literature streams – M&As and dynamic capabilities. Adopting a process perceptive on acquisitions, this review highlights that successful acquisition outcomes depend on how effectively acquirers manage the acquisition process. By grouping this process into three distinct phases, pre-acquisition, transaction and post-acquisition integration, existing research suggests that each phase of the acquisition process – and the capabilities underpinning them – are important determinants of the overall acquisition outcomes. However, despite important
contributions from existing literature, this review reveals that there are important gaps in our understanding of how exactly these specific capabilities underpin this process (Barkema & Schijven, 2008a; Haleblian et al., 2009). This research thus sets out to examine these processes. To provide context for this enquiry, it adopts a dynamic capabilities approach to acquisitions.

The dynamic capabilities focuses on the higher-order, change-orientated capabilities that serve to build, extend and modify the firm’s exiting resource base. Drawing on evolutionary economics and Schumpeterian rent generation to extend the RBV, the dynamic capabilities framework assumes that firm’s must constantly modify their resource base if they are to achieve and maintain competitive advantage. By effectively developing and deploying dynamic capabilities, firms can indirectly enhance their performance by ensuring their rent generating operational capabilities match the environment. Research attempting to understand the underlying nature of dynamic capabilities has illustrated that although they are idiosyncratic in their details, dynamic capabilities express commonalities across firms. Several scholars have conceptualised these commonalities and idiosyncrasies. This research adopts Teece’s (2007) conceptualisation, which categorises dynamic capabilities into three generic groups: sensing, seizing and reconfiguring.

The final section of this chapter integrates these two literature streams. The literature suggests that conceptual links between sensing, seizing and reconfiguring capabilities and related concepts in acquisition literature. However, few studies have explicated these links (Karim, 2006; Trichterborn et al., 2015; Wang et al., 2015). In doing so, it, provides theoretical grounding for this research, which aims to address the following research question:

What are the roles of dynamic capabilities in the acquisition process?

It is anticipated that addressing this question will extend theoretical understanding of dynamic capabilities in the context of acquisitions and provide insight into how acquirers can effectively manage the acquisition process. The following chapter presents the methodology used to address this question.
CHAPTER 3 – METHODOLOGY

This purpose of this research is to investigate the role of dynamic capabilities in the acquisition process. It is exploratory research as although much is known about the acquisition process, few studies have adopted a capabilities perspective to investigate the dynamic capabilities that underpin this process (Cavana, Delahaye, & Sekaran, 2001; Halebian et al., 2009). This chapter discusses the methodology used for this research. It discusses why a qualitative approach – in particular, a case study – is appropriate, given the research purpose (Section 3.1). Following this, the case firm and its acquisition process are introduced (Section 3.2). Section 3.3 presents the data collection methods used – participant interviews, direct observations and secondary data, while the subsequent sections address issues around reliability and validity (Section 3.4) and ethical considerations (Section 3.5). This chapter ends with a discussion of the analysis process used in this research (Section 3.6).

3.1 – Research Design

A qualitative approach was adopted due to the exploratory nature of this research (Bettis, Gambardella, Helfat, & Mitchell, 2015). Qualitative research encourages participants to provide unrestricted accounts, allowing researchers to capture rich contextual information not attainable through quantitative studies (Cavana et al., 2001). As dynamic capabilities represent embedded processes specific to an organisation’s context (Eisenhardt & Martin, 2000; Teece et al., 1997), a qualitative approach is considered to be well suited to this research, due to the contextualised data it provides. Qualitative research is also appropriate for studies in which variables are not easily measurable (Eriksson & Kovalainen, 2008). Dynamic capabilities are difficult to identify and measure due to their idiosyncratic nature (Easterby-Smith, Lyles, & Peteraf, 2009; Teece et al., 1997), again, making a qualitative approach appropriate for this research.

Surprisingly, there is an underrepresentation of a qualitative approach both M&A (Meglio & Risberg, 2010) and dynamic capabilities literature (Ambrosini & Bowman, 2009; Wang et al., 2015). Despite the predominance of quantitative studies in both M&A and dynamic capabilities literatures, these studies do not provide sufficient
insight into how the acquisition process unfolds (Meglio & Risberg, 2010) or what dynamic capabilities look like in practice and how they work (Ambrosini & Bowman, 2009). Thus, adopting a qualitative approach can extend the theoretical understanding of dynamic capabilities in the acquisition process.

3.1.1 – Case Study Design

Case studies represent “an empirical inquiry that investigates a contemporary phenomenon in depth and within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident” (Yin, 2009, p. 18). This approach involves the researcher systematically gathering in-depth information on a single situation or context in order to retain the holistic and meaningful characteristics associated with the observed phenomena (Eisenhardt & Graebner, 2007; Yin, 2009). Teece (2007) identifies that an understanding of dynamic capabilities requires intimate knowledge of both the firm possessing them, as well as the ecosystem within which they operate. Thus, by selecting a case study methodology, this research aims to provide a detailed and context-specific understanding of the roles of dynamic capabilities in the acquisition process (Eisenhardt & Graebner, 2007; Yin, 2009).

The use of case studies to explore dynamic capabilities is well founded. For example, Rosenbloom (2000) builds on a single historical case study of NCR Corporation to explore how dynamic capabilities enabled the firm to transition into the computer industry and adapt its core products. Danneels (2010) explore Smith Corona in a single case study to illustrate how an inability to deploy dynamic capabilities lead to the firm’s bankruptcy. Additionally, Bingham et al. (2015) draw on a single case study of Dow Chemical to understand how dynamic capabilities are developed across acquisitions and joint ventures. Moreover, Ellonen et al. (2011) adopt the case study methods to explore the role of sensing, seizing and reconfiguring capabilities in the development of innovation-related operational capabilities within a single firm.

The adoption of a case study methodology is appropriate for acquisitions, given the complex and contextual nature of the acquisition process (Hunt, 1990). Karim (2006), for example, calls for single case studies observe how organisational routines are used during acquisitions. More recently, Brueller, Ellis, Segev, and Carmeli (2015)
encourage scholars to perform in-depth studies of acquirers to understand the specific drivers underpinning acquisitions.

The case firm selected for this research is an active acquirer in the New Zealand dental industry. The firm lends itself well to this research for several reasons. Firstly, the case firm was selected as it has demonstrated the ability to sustain long-term acquisitive growth – the case firm has acquired approximately 10 dental practices per year since its inception in 2002. Therefore, given this experience, it is likely that the case firm has developed and deployed the dynamic capabilities of interest to this study (Bingham et al., 2015; Trichterborn et al., 2015; Zollo & Winter, 2002). Secondly, the case firm can be classified as a ‘serial acquirer’ due to the fact it carries out multiple acquisitions aimed at consolidating an industry (Laamanen & Keil, 2008). As a result of this acquisition programme\(^2\), the firm is engaged in several phases of the acquisition process concurrently. Consequently, at the time of data collection, all of the interviewees were (or had recently been) involved in at least one phase of the acquisition process at the time of data collection. As such, they were information-rich cases (Patton, 2002). Thirdly, as the company is a subsidiary of a publically traded organisation, financial statements and press releases were available to help analyse how well the capabilities perform time (Bingham et al., 2015). Finally, this company was chosen for this case due to ease of accessibility, with the researcher having completed a 10-week internship with the parent company prior to engaging in the research. This is discussed in greater detail in Section 3.3.2 – Observations.

It is important to clarify that the case firm is not intended to represent an exemplary acquirer, nor is it meant to be an example of how to effectively deploy dynamic capabilities. Rather, the case firm was selected as it provides an appropriate context within which this research can explore the roles of dynamic capabilities in acquisitions. This following section highlights the context of the case firm.

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\(^2\) For the purposes of this research, an acquisition programme is defined as “a group of acquisitions driven by a core business logic” (Chatterjee, 2009, p. 138). The ‘logic’ in this instance is to consolidate the dental industry through acquisition of high quality dental businesses.
3.2 – Research Context and Case Firm

The case firm is a subsidiary of a publically listed healthcare investor and operator (hereafter “parent”). The parent company focuses on investing in businesses operating in the private revenue segment of the healthcare services market. At the time of writing, the parent company owned five subsidiaries in three healthcare sectors. Each subsidiary operates largely independently, with the parent company adopting a hands-off management approach to the day-to-day operations of the businesses. Figure 2 depicts the structure of the parent company, with the parent company’s equity provided in brackets.

![Figure 2 – Structure of parent company](image)

The case firm for this research operates within the parent company’s dental sector. This sector is the primary revenue generator of the group, contributing 70 percent of the parent company’s annual revenues. The dental sector consists of two businesses – the case firm (*Subsidiary A*), which operates in New Zealand, and *Subsidiary B*, which operates in Australia. Collectively, these businesses consist of 169 practices³ across Australia and New Zealand; generating annualised gross revenues of over NZ$220 million. Although these two subsidiaries pursue similar strategies, they operate largely independently, with different business structures, systems, processes and brands.

3.2.1 – Case Firm

The case firm for this research is a leading provider of high quality, privately funded dental treatments. In its objective of becoming the largest private dental group in New Zealand, the case firm relies largely on acquisitions to fuel its growth. As one

³ For the purpose of this research, the word ‘practice’ is used to refer to the business or premise of a professional doctor, i.e. a dentist (Oxford Dictionary). All of the informants referred to the case firm’s business units as ‘practices’.
interviewee noted, the firm focuses on acquiring existing dental practices that have a strong reputation within the dental fraternity:

It’s been a strategy to acquire good quality practices and clinicians who have as good a reputation in the dental community as possible because, ultimately, what we feel is crucial is developing a network that dentists ultimately what to be a part of, and are proud to be a part of. (Interviewee 14)

We need to create a group that people want to be a part of – and doing that means you’ve got to have some of the people who are the most experience and best in the industry… [We] start from the point-of-view that we want to acquire some of the best brains in the business. (Interviewee 14)

The focus on acquisitive growth is appropriate given the nature of the New Zealand dental industry. Valued at between $600 million and $800 million per annum⁴, the New Zealand dental industry is characterised by a predominance of small dental practices that are owned and operated by practicing dentists. It is estimated that approximately 71% of the country’s dentists and dental specialists operate in solo practices⁵. Consequently, the industry is largely fragmented, with most dental clinics operating in isolation. This provides dental consolidators, such as the case firm, with a large pool of acquisition targets.

You’ve got a fragmented sector, and it’s a relatively mature sector in terms of we’re not dealing with a new product that’s new to market – dentistry’s been around for a long time. Because of the nature of the industry, it lends itself to the opportunity for acquisitional growth because there’s lots of opportunities of it. (Interviewee 14)

The maturity of the dental industry also means that acquisitive growth is much more economical than organic growth:

The costs of setting up a practice are very expensive. And then it takes time because you’ve got to build a patient base. So, to build to up a core of level of profitability might take you three of four years to get you where you need to get to – and you’d have to spend a lot of money to get there. As opposed to, you can acquire a practice (as long as your comfortable with the purchase price you’re paying) you can buy that infrastructure, buy goodwill, and secure that dentist and the patient base. For us, that


was a far more logical way to go and also a way, to some degree, to grow more quickly than to just grow organically. (Interviewee 14)

An important component of the case firm’s strategy is that it follows a model of partnering with clinicians\(^6\).

The whole philosophy around existing is really to partner with the clinicians to provide dentistry. (Interviewee 10)

While we physically own the practices... everything that we do is very much about trying to partner with the clinicians and make them feel very much that they’ve got a high degree of influence over the direction of the organisation that they’re working in. (Interviewee 14)

As part of this model, the case firm decentralises the day-to-day operations of each individual practice to the Lead Dentist and Practice Managers\(^7\) of the practices, while centralising back office functions (such as accounting, human resources, IT and procurement) to its Support Office. In doing so, the practices retain their ‘clinical freedom’, while also being relieved of the administrative and management burdens of operating a dental practice. Figure 3 illustrates this relationship.

**Figure 3 – Structure of case firm**

<table>
<thead>
<tr>
<th><strong>Support Office Responsibilities:</strong></th>
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<tbody>
<tr>
<td>– Operational oversight of practice performance</td>
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<tr>
<td>– Consolidation of financial and accounting information from practices</td>
</tr>
<tr>
<td>– HR services and support</td>
</tr>
<tr>
<td>– Group-wide marketing activities and campaigns</td>
</tr>
<tr>
<td>– IT support and upgrades</td>
</tr>
<tr>
<td>– Purchasing and maintenance of practice infrastructure (e.g. dental chairs, x-ray machines)</td>
</tr>
<tr>
<td>– Liaise with key suppliers to negotiate group discounts</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Individual Practice Responsibilities:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>– Perform dental services and treatments for customers</td>
</tr>
<tr>
<td>– Day-to-day management of practice operations</td>
</tr>
<tr>
<td>– Purchasing of materials and consumables</td>
</tr>
<tr>
<td>– Front line management of practice staff</td>
</tr>
</tbody>
</table>

\(^6\) For the purpose of this research, ‘clinicians’ is a collective term for dentists and dental hygienists.

\(^7\) Each practice typically has one Lead Dentist and one Practice Manager. The Lead Dentist is the clinical leader of the practice and is generally the owner who sold the practice to the case firm. The Practice Manager is a non-clinical employee who manages the administrative aspects of the business.
3.2.2 – Acquisition Process

The acquisition process of the case firm is illustrated in Figure 4. It is important to note the firm adopts a relatively flexible approach to this process. Subsequently, although the general steps of the acquisition process are similar for all acquisitions, the exact nature and order of these activities varies slightly for each acquisition.

Figure 4 – Acquisition process of case firm

<table>
<thead>
<tr>
<th>Pre-Acquisition</th>
<th>Transaction</th>
<th>Post-Acquisition Integration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target identification</td>
<td>Initial proposal of terms sheets</td>
<td>Preparing for integration</td>
</tr>
<tr>
<td>Initial interaction with target to determine mutual interest</td>
<td>Negotiation</td>
<td>Implementation of administrative, accounting and practice management software</td>
</tr>
<tr>
<td>Introductory meeting between Managing Director of case firm and practice owner</td>
<td>Agreement of terms sheets</td>
<td>(Potential) implementation of marketing and branding</td>
</tr>
<tr>
<td>Preliminary site visit</td>
<td>Formal offer</td>
<td>(Potential) execution of restructurings</td>
</tr>
<tr>
<td>Financial assessment and valuation</td>
<td>Legal settlement</td>
<td>Financial settlement</td>
</tr>
<tr>
<td>Board approval</td>
<td>Financial settlement</td>
<td>Preparing for integration</td>
</tr>
</tbody>
</table>

**Pre-Acquisition Phase**

The pre-acquisition phase begins with the identification of potential targets. As the case firm is a well-known acquirer within the dental industry, the majority of these targets contact the firm themselves to enquire about the process of selling their practice.

We have the luxury of primarily relying on people contacting us… We’re fortunate we’ve got a small enough market, and that we are sufficiently well known, that people who are thinking about it [selling their practice] know who to contact and will enquire. (Interviewee 14)

Leads also emerge from clinicians within the firm’s existing network who may know of peers interested in selling their business.

We’ll have people who might suggest to us, “Why don’t you give so-and-so a call because I know from talking to him that he could be interested” – so they’re slightly qualified leads that we’ve got. (Interviewee 14)

Once potential targets have been identified (or have approached the case firm), an email or phone conversation is held between the case firm’s Managing Director and the owner of the practice. The primary purpose of this meeting is to determine if there is mutual interest in the acquisition. As a member of the case firm noted, sellers typically
“put their toes in the water” at this stage, simply to seek further information about the acquisition process and what is involved with being part of a dental group (Interviewee 9). The Managing Director confirmed the importance of this initial conversation, acknowledging that although a relatively high number of leads progress through the acquisition process, “sometimes it will be a consensus in terms of just having a chat through it that they’ll realise the time is not right for them” (Interviewee 14). Additionally, through this initial conversation, it may become clear that the target is unattractive for the case firm, as “their motivation for selling might not fit with what we want” (Interviewee 14).

Once mutual interest for an acquisition has been established, targets are then evaluated to assess their feasibility. This involves a face-to-face meeting between the Managing Director and practice owner as well as a site visit. For the case firm, this provides an opportunity to conduct an early (yet largely informal) assessment of the layout of the practice. Financial information is also collected at this time, enabling the case firm to perform an accurate financial assessment of the target. The key considerations here relate to the historic revenue performance and future revenue projections of the target practice, and often determine whether the acquisition will proceed. If targets are deemed profitable enough to pursue, a valuation is determined based on a multiple of the practice’s historic earnings before interest, tax and depreciation (EBITDA). At this point, the potential acquisition is presented to the company’s board for approval. The decision-criteria for approval typically involves concerns around the multiple being paid, the potential revenue projections and how the acquisition of a given practice fits with the case firm’s overall strategy. If approval is granted, the acquisition moves into the transaction phase.

**Transaction Phase**

The transaction phase starts with the proposal of a preliminary offer to the practice owner. The offer is outlined in a ‘Sale and Purchase Agreement Terms Sheet’ – a non-binding legal document that outlines the commercial terms of the proposal. This document highlights the key details of the offer, such as the price to be a paid, the

---

8 Although there is a predetermined multiple that the company uses to valuate most targets (removed for commercial sensitivity), the exact multiple used for each acquisition may change depending on characteristics of the target (e.g. location, technology within the practice, visual appeal of the practice, clinical reputation, etc.).
settlement date, and the vendor’s earn-out period\(^9\), and how this fits within case firm’s strategic objectives and future strategy. It also includes a breakdown of the projected performance and returns on which the offer is based. A second terms sheet, the ‘Contract for Service Term Sheet’, is also proposed. As the vendor dentist stays on to work as a contractor during the earn-out period following an acquisition, this document outlines the nature of that contract including the dentist’s commission rate, tenure and incentives. Once agreement is reached and the terms sheets have been signed, two full legal documents are populated from the terms sheets – the Sale and Purchase Agreement and the Contract for Service.

*Post-Acquisition Integration Phase*

Following the completion and signing of the legally binding Sale and Purchase Agreement and Contract for Service, responsibility for the acquisition process is handed over from the Managing Director to the Operations Manager who is responsible for overseeing the integration of incoming practices. This process begins with a period of preparation and planning for their integration. The most important task during this stage is transferring incoming practice staff into the case firm’s standardised employment contracts.

> It’s critical we get contracts signed before [financial] settlement because otherwise it basically can’t happen. (Interviewee 12)

However, this process can take several weeks to complete, due to the potential iterations and consultation around these contracts.

> We have the soft copy send down generally three weeks prior to acquisition so staff read the soft copies, they have time to give us feedback or if they have any concerns on certain clauses in the contracts, they have time to call us and make comment. Then we need to complete hard copies of the contracts and you need to give them another week to sign the hard copies. (Interviewee 9)

During this time, the case firm also prepares other elements to ensure a successful integration. These tasks include contracting suppliers to arrange reassignment of bills, arranging public contracts (such as Ministry of Health payments) and medical

\(^9\)The case firm typically pays a percentage of the overall purchase price upfront, with the remainder deferred for four years (the length varies between acquisitions). Over this time, the vendor must “earn-out” the remaining payment by achieving predetermined revenue targets.
insurances to be transferred, and talking with landlords to secure reassignment on building leases.

This preparation culminates in the Operations Manager and the local Practice Support Manager\(^\text{10}\) visiting the practice in the days immediately preceding the settlement date\(^\text{11}\). During this period (generally the day before and the day of settlement), the case firm integrates its accounting and practice management systems into the newly acquired practice. Other systems and processes (such as branding, promotions and compliance protocols) tend to be implemented in the subsequent weeks once the acquired staff are settled. The settlement period also provides an opportunity to finalise outstanding information (e.g. debtors lists and stock takes) and provide training around operations processes such as daily banking or procurement. The end of the two-day settlement period coincides with the actual payment for the acquisition, symbolising the practice’s incorporation into the case firm.

### 3.3 – Data Collection

#### 3.3.1 – Interviews

Interviews were the main source of data for this research. Interviews provide an efficient way to gather rich empirical data (Eisenhardt & Graebner, 2007). As the aim of this research was to explore how dynamic capabilities are expressed in the context of acquisitions, it was determined that interviews would provide the detailed contextual data required for this research (Cavana et al., 2001; Edmondson & McManus, 2007).

After management of the parent company and case firm had granted approval for the research, email invitations (Appendix 1) were sent out to 16 potential participants. These participants were identified with assistance from the Managing Director of the case firm and were subsequently selected based on their involvement in the acquisition process. All 16 interviewees had been involved in at least one aspect of the firm’s acquisition process in the last year, thus representing information-rich sources of data (Patton, 2002). An information sheet (Appendix 2) was attached to this email to help

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\(^{10}\) Regional managers who oversee the operational performance of several individual practices. This position provides the vital link between the Support Office and the individual dental practices.

\(^{11}\) ‘Settlement date’ is the date of financial settlement – when the case firm transfers payment for the practice to the vendor and receives formal ownership.
inform the recipients’ decision. No respondents declined the invitation to participate, however two individuals were unavailable during the data collection period. In total, 14 members of the case firm were interviewed, representative of both top-management (6) and operational (8) levels. Interviewing members from different hierarchical levels provided diverse perspectives on the firm’s acquisition capabilities (Eisenhardt & Graebner, 2007), thus providing richer insights than relying on a single group of informants.

The interviews were semi-structured, in which themes and questions were predetermined but the wording and order of questions varied in each interview. This style of interview allowed for unexpected insights to be raised by participants, reflective of the exploratory nature of this research (Eriksson & Kovalainen, 2008). It also allowed for ‘probing’ of important or vague points raised by participants (Cavana et al., 2001).

Each interview began by going through the information sheet to ensure that each participant understood the purpose of the research and the data that would be collected. A participant consent form (Appendix 3) was also read and signed. After posing the research question to the participants, a set of open-ended questions were asked to promote unprompted and unrestricted responses (Cavana et al., 2001).

Although the precise order of these questions differed in response to the individual answers provided by participants, the general questioning pattern began with general questions around the case firm’s acquisition process and the participant’s role in the acquisition process, before focusing on the specific capabilities underpinning each phase of the acquisition process. A full interview schedule is provided in Appendix 4, illustrating the interview questions associated with each acquisition phase and the academic justifications for these questions. The interview schedule was referred to throughout the interview process to ensure that all relevant information had been gathered. Interviews lasted between 45-90 minutes.

With permission from the participants, the interviews were audiotaped to ensure that all relevant information was collected. This also allowed for full attention on listening and responding to answers provided by participants. Several precautions were taken to
reduce the possibility of the audio equipment failing (e.g. taking spare batteries and a backup recorder to the interview, and testing sound quality prior to recording). The recordings were subsequently transcribed, and individual copies were sent to the respective participants to ensure the accuracy of the transcripts.

3.3.2 – Observations
Interview data was supplemented with direct observations of the case firm and its parent company (Yin, 2009). Observations were collected during a 10-week internship at the parent company – five weeks of which were spent at the case firm. During this time, I observed operating activities of both the Support Office (such as accounting and banking processes and marketing activities) and individual practices (such as administrative tasks and practice management). Observations also included attending a number of key meetings of the case firm such as budgeting sessions and monthly board meetings. The board meetings involved senior managers of each department (e.g. finance, human resources, operations, IT, marketing and procurement) as well as two representatives from the parent company (typically the CEO and CFO). These meetings covered matters pertaining to the general administration and management of the case firm as well as the current targets in the acquisition pipeline. Observations were recorded in a journal (see Appendix 5 for sample excerpts).

These observations provided first hand exposure to the case firm and its acquisition process, supplementing interviewee accounts. Importantly, these observations also facilitated a deeper understanding of the case firm’s operations and acquisition activities, thus providing richer research insights (Yin, 2009). The use of observational data has been recommended for research in the fields of dynamic capabilities (Danneels, 2002; Gilbert, 2006) and M&As (Meglio & Risberg, 2010), reflecting the appropriateness to this research.

3.3.3 – Secondary Data
Secondary data was also collected and analysed to enhance the validity of this research. Archival data was gathered relating to the history and context of the case firm and its parent company. This data spanned 16 years and included annual reports, shareholder reports, summaries of annual meetings, press releases, news articles, and analyst research reports. In total, more than 115 public documents were collected. These
documents were used to provide sufficient background information prior to the interviews. They were also analysed after the interviewees to corroborate informant responses (Eisenhardt, 1989; Gilbert, 2006).

Participants also provided a number of internal documents they thought would be helpful for this research. These included acquisition manuals, materials sent out to newly acquired practices, valuation templates, and examples of terms sheets and full legal documents. These documents helped to build a more complete picture of the case firm and its acquisition process.

3.4 – Validity and Reliability
Validity and reliability are recognised as two criteria that help determine the methodological rigor of empirical social research (Cavana et al., 2001; Guest, MacQueen, & Namey, 2012; Yin, 2009). Four widely adopted design tests for examining the quality of social research are: construct validity, internal validity, external validity and reliability (Guest et al., 2012; Yin, 2009). This section discusses these tests in relation to this research project, focusing the case study tactics used to address these criteria. Table 6 outlines the rigor of this research.

<table>
<thead>
<tr>
<th>Table 6 – Rigor of case study</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Design test</strong></td>
</tr>
</tbody>
</table>
| Construct validity            | • Data triangulation from multiple sources (semi-structured interviews, direct observations, archival records and company documents)  
• Incorporated different informant perspectives by interviewing different hierarchical levels  
• Established a chain of evidence to illustrate link from research question to findings |
| Internal validity             | • Used ‘pattern matching’ during data analysis to couple observations with predicted patterns from dynamic capability literature  
• Used literature on acquisitions to inform the adopted acquisition process model |
| External validity             | • In-depth description of case firm and operating context provided in Section 3.2 |
| Reliability                   | • Developed a case study protocol to standardise research  
• Maintained a case study database |

Source: Yin (2009)

3.4.1 – Construct Validity
Construct validity refers to the degree to which a study investigates what it claims to investigate (Gibbert & Ruigrok, 2010). It is achieved by developing an operational set of measures that guide data collection (Yin, 2009). This research adopts two
mechanisms to increase construct validity. Firstly, data was triangulated from multiple sources of evidence to increase the accuracy of findings (Guest et al., 2012; Yin, 2009). Furthermore, the validity of the interview data was enhanced by the fact that information was collected from informants of different hierarchical levels, thus offering different perspectives to the same phenomenon.

Secondly, a chain of evidence was maintained. This provided a clear indication of how the research process progressed from the initial research question through to data collection and analysis to the final conclusions of this research (Gibbert & Ruigrok, 2010; Yin, 2009). All data was retained and labeled with a source code that included information about the date, time and venue of collection (Cavana et al., 2001). Additionally, the use of NVivo helped maintain the linkage between interview transcripts, direct quotes, and analysis codes.

3.4.2 – Internal Validity
In case study research, internal validity deals with the mechanisms used to make conclusions about real-life experiences (Christie, Rowe, Perry, & Chamard, 2000). The main concern here is to ensure that inferences are made in a credible manner (Christie et al., 2000). This research adopted two tactics to increase internal validity. Firstly, ‘pattern matching’ was used during the data analysis (Yin, 2009). This involved drawing on Teece’s (2007) categorisation of dynamic capabilities to guide analysis of empirical observations (Gibbert & Ruigrok, 2010; Yin, 2009). This provided theoretical justification for the dynamic capabilities observed within the case firm.

Additionally, acquisition literature was used to inform the logic model tracing the acquisition process (Yin, 2009). This involved matching the three phase acquisition process identified in existing literature (pre-acquisition, transaction and post-acquisition integration) with that observed from the case firm. This provided theoretical justification for the observed acquisition phases of the case firm (Yin, 2009).

3.4.3 – External Validity
External validity refers to the degree to which the research results can be generalised to a broader theory (Guest et al., 2012; Yin, 2009). While this is an inherent issue for case studies, this research follows Yin’s (2009) suggestion to provide sufficient detail of the
context of the study. In this sense, external validity is supported through the in-depth description of the case firm and its operating context provided in Section 3.2 – Research Context and Case Firm.

3.4.4 – Reliability
Reliability aims to reduce errors and biases to ensure that different researchers could reach the same findings from about the same case by adopting the same protocols (Yin, 2009). Two strategies are adopted to improve the reliability in this research. Firstly, a case study protocol was developed to provide structure and rigor to the case study process (Appendix 6). By outlining key elements of data collection (such as the research question, data collection procedures, and an interview schedule), the case study protocol provided a standardised agenda for the research (Yin, 2009).

Secondly, a case study database was maintained to organise collected data. This allowed for easy retrieval of raw data throughout the data analysis phase (Yin, 2009). All interview audio recordings, interview transcripts, filed notes and secondary sources were stored in the database. The structure of the case study database is outlined in Appendix 7.

3.5 – Ethical Considerations
A number of steps were taken to ensure that the research was conducted in an ethically constructed manner (van der Velde, Jansen, & Anderson, 2004). Prior to data collection, an Ethical Approval Form: Category B was obtained from the Department of Management and the University of Otago Ethics Committee (Appendix 8). This form was sufficient as no personal information was required from the participants. Additionally, an Information Sheet was provided to participants at the time of recruitment to provide sufficient information about the purpose of the research, what data will be collected, how this data will be collected and analysed, and how it will be stored as to preserve their confidentiality and anonymity. The researcher also went through this Information Sheet with participants at the beginning of each interview to ensure that each participant understood this information. Finally, a signed informed consent form was collected from each participant to ensure participants recognised their
right to confidentiality, and were aware that all attempts will be made to retain their anonymity (Cavana et al., 2001; Zikmund, 2003).

3.6 – Data Analysis

Primary and secondary data was analysed in NVivo software using a multi-coding process. Throughout this process, thematic analysis was used to code data – both deductively and inductively – and identify themes by matching patterns that arose from these codes (Guest et al., 2012). By doing so, themes were identified in a way that was transparent and reliable (Cavana et al., 2001). The following paragraphs discuss the multi-coding process adopted during data analysis (see Table 7). Although presented in a linear sequence, the analysis process was iterative and there was overlap between the stages of analysis (Cavana et al., 2001; Eisenhardt, 1989).

Table 7 – Stages of analysis

<table>
<thead>
<tr>
<th>Analysis stage</th>
<th>Analytical goal</th>
<th>Analytical process</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stage 1</td>
<td>Develop understanding of the context of the case firm.</td>
<td>Thematic analysis of company based on personal observations and secondary data.</td>
<td>Produced a timeline of the case firm’s acquisition process and context (as illustrated in Section 3.2.1).</td>
</tr>
<tr>
<td>Stage 2</td>
<td>Chronological arrangement of primary and secondary data into acquisition stages.</td>
<td>Deductive coding based on M&amp;A process literature. Some inductive codes emerging from Stage 1.</td>
<td>Arrangement of data into three acquisition phases: pre-acquisition, transaction and post-acquisition integration.</td>
</tr>
<tr>
<td>Stage 3</td>
<td>Categorisation of arranged data (from Stage 2) into different types of dynamic capabilities.</td>
<td>Deductive coding based on dynamic capability literature.</td>
<td>Grouping of data into sensing, seizing and reconfiguring capabilities for each phase of the acquisition process.</td>
</tr>
<tr>
<td>Stage 4</td>
<td>Identification of roles of sensing, seizing and reconfiguring capabilities in the acquisition process.</td>
<td>Inductive analysis through pattern matching.</td>
<td>Identification of seven roles of dynamic capabilities in the acquisition process – sensing (3), seizing, (2) and reconfiguring (2).</td>
</tr>
</tbody>
</table>

Adapted from Laamanen and Wallin (2009)

In the first stage of analysis, personal observations and secondary data was analysed to build an in-depth description of the case firm. The purpose of this stage was to develop an understanding of the context of the case firm due to the context-dependent nature of capabilities (Jantunen et al., 2012). This stage of analyses occurred both before and after participant interviews, helping to inform the researcher’s perspectives during the interviews.
In the second stage of analysis, data was arranged chronologically into three acquisition phases (pre-acquisition, transaction and post-acquisition integration). As Yin (2009) notes, this process enhances the validity of the case study and allows for causal inferences to be made from the observed acquisition process. This stage of analysis was primarily deductive, with the codes derived from existing acquisition literature. Additionally, some codes emerged inductively during the first stage of analysis. In total, 12 codes were used – pre-acquisition (2), transaction (5) and post-acquisition integration (5).

Once these codes were identified, primary and secondary materials were examined in search of the codes associated with each phase of the acquisition process. Corresponding sections of text were segmented and labeled within NVivo. As text segmentation was used when coding this data, the larger context of the text was taken into consideration to ensure that the integrity of the data was not lost and that the data was not interpreted out of context (Guest et al., 2012). During this stage, additional codes emerged from the data. In total, 8 codes emerged – pre-acquisition (3), transaction (3) and post-acquisition integration (2). Primary and secondary data was re-examined using these inductive codes. A full list of the deductive and inductive codes associated with this stage of analysis can be found in Appendix 9.

Table 8 (on page 61) illustrates this stage of analysis, with the original codes used within NVivo replaced by italics and underlining. In this example, two codes associated with the pre-acquisition phase (target selection and due diligence) were identified in the selected quote. Consequently, these segments of text were grouped into the pre-acquisition phase for subsequent analysis.
In the third stage of analysis, the data arranged during Stage 2 was subjected to codes derived from dynamic capabilities literature. These deductive codes were based on Teece’s (2007) classification of sensing, seizing and reconfiguring capabilities. The purpose of this phase was to categorise the data into the individual types of dynamic capabilities evident in the case firm’s acquisition process (c.f. Jantunen et al., 2012). In total, 49 codes were identified. In the pre-acquisition phase, seven codes were identified for sensing capabilities, three codes for seizing capabilities and three codes for reconfiguring capabilities. In the transaction phase, four codes were developed for sensing capabilities, seven codes for seizing capabilities and three codes for reconfiguring capabilities. Finally, in the post-acquisition integration phase transaction, six codes were deducted for sensing capabilities, nine codes for seizing capabilities and seven codes for reconfiguring capabilities. These codes are also listed in Appendix 9.

While some codes were fixed across all three acquisition phases (e.g. ‘relationship building’ was used in all three phases to code for seizing capabilities), other codes were used exclusively for a specific acquisition phase (e.g. ‘performing due diligence’ was a sensing capability code that was specific to the pre-acquisition phase). Table 9 (page 62) illustrates this stage of analysis; showing how chronologically arranged data was examined using codes related to the different types of dynamic capabilities (e.g. ‘performing due diligence’ as a code for sensing capabilities). The codes originally developed within NVivo are replaced by italics and underlining.
The fourth stage of analysis focused on identifying themes within the reorganised data that would help understand what roles sensing, seizing and reconfiguring capabilities have in the acquisition process. This involved considering patterns and interconnections between the dynamic capabilities that had been coded during Stage 3. Close examination and grouping of the observed dynamic capabilities led to the development of Table 9 – Example of third stage of analysis.

<table>
<thead>
<tr>
<th>Acquisition phase</th>
<th>Dynamic capability</th>
<th>Relevant codes</th>
<th>Quote</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-acquisition</td>
<td>Sensing</td>
<td>Performing due diligence</td>
<td>“We do a bit of due diligence of [incoming] clinicians. Do we think that person fits with the group? And often we’ll talk to our existing clinician base about whether we think that person is a good dentist and whether they have any reservations about their clinical skills… So we’ll get an idea from our own existing clinician base about some of those dentists. And it’s a relatively small community.”</td>
</tr>
<tr>
<td>Seizing</td>
<td>No supporting data identified</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reconfiguring</td>
<td>No supporting data identified</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Transaction       | Sensing            | Identifying industry changes | “In a couple of the recent acquisitions, we’ve turned up and the dentists have been on 42% to 45% commission – and we pay XX% commission and that’s our default standard. It is negotiable – if we bought a practice and they were on 42% commission then they would remain on 42% commission – but we’ve started to notice there is a bit of commission creep… there is a bit of a trend starting to appear… So I think we just need to be mindful of that.” |
| Seizing           | Relationship building | Trust building | “What typically happens, and partly it is the nature of the relationship – it’s a relationship that needs to fundamentally be built on trust… I’ll generally be pushing the settlement as soon as we can” |
| Reconfiguring     | No supporting data identified |

| Post-acquisition integration | Sensing            | Identifying to the need to change | “… The guy that we bought it from, he’s left a bit earlier than expected. So all of a sudden it’s on the table there – that that one might just merge in with the other [nearby clinic]. So sometimes it’s through looking through the results, ‘that one’s not viable by itself’ and geography enables us to move them.” |
| Seizing | Relationship building | “So the first day is literally, where I can, I’ll be starting to do things, but you’re just sitting there trying to make this contact; make them feel at ease… Just trying to get a connection with them. And for them, reassuring them that they are not just a part of a big corporate” |
| Reconfiguring | Restructuring existing units | “We get thinner and thinner on the ground as we expand and then we backfill once it’s that crises point we kind of go, ‘We need extra personnel in Finance so we’ll employ someone there’. And, ‘Oh no, we’ve got one IT guy, which was great for 50 practices, but now it’s 100. Now we’ve got two’.” |
of wider themes encompassing the roles of dynamic capabilities in the acquisition process. These wider themes represent the key findings of this research and are presented in detail in the following chapter. Once dominant themes emerged, the raw data was revisited to compare and justify these themes (Cavana et al., 2001). Table 10 illustrates how the codes captured in Stage 3 were linked to higher-level themes.

<table>
<thead>
<tr>
<th>Dynamic capability (initial coding)</th>
<th>Relevant quote</th>
<th>Role in acquisition process (higher-level theme)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reconfiguring (in post-acquisition): Realignment of central departments</td>
<td>“As a business, we’ve had to change over time to be able to provide the capabilities for us to match what we’re advertising or saying we’re going to provide as a service for the clinicians and practices as they come on to [case firm]”</td>
<td>Managing internal complexity</td>
</tr>
</tbody>
</table>

### 3.7 – Chapter Summary

This chapter has outlined the methods adopted in this study. It discusses the decisions relating to the research design, including the adoption of a qualitative approach and case study methodology. Following this, the research context and case firm were presented, along with the reasons as to why this firm is appropriate for the exploration of dynamic capabilities in the acquisition context. To gather sufficient information from this case, several sources of data were used – interviews, direct observations, archival data and company documents. This chapter also explained how issues around validity and reliability were addressed to enhance the rigor of this single case study. Finally, the data analysis process was described. This involved four iterative stages and led to the identification of the roles of dynamic capabilities in the case firm’s acquisition process. The following chapter presents these roles in detail.
CHAPTER 4 – FINDINGS

The aim of this research was to explore the roles of dynamic capabilities in the acquisition process. Building on a data set of interviews, direct observations and secondary data, this chapter provides an insight into the roles of dynamic capabilities in the context of acquisitions, and is guided by the following research questions:

What are the roles of dynamic capabilities in the acquisition process?

a. What roles do sensing capabilities play in the acquisition process?

b. What roles do seizing capabilities play in the acquisition process?

c. What roles do reconfiguring capabilities play in the acquisition process?

In total, six roles of dynamic capabilities were identified in the acquisition process. Sensing capabilities were found to play two major roles in the case firm’s acquisition process: *shaping acquisition opportunities* and *identifying opportunities and needs for change*. Two roles of seizing capabilities were uncovered: *managing strategic tensions* and *integrating new businesses*. Finally, reconfiguring capabilities were found to play roles: *unlocking acquisition potential* and *managing internal complexity*. Figure 5 outlines these roles and illustrates their sequential occurrence in the acquisition process.

*Figure 5 – The roles of dynamic capabilities in the acquisition process*

<table>
<thead>
<tr>
<th>Acquisition Process</th>
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<tbody>
<tr>
<td>Pre-Acquisition Phase</td>
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<table>
<thead>
<tr>
<th>Roles of Dynamic Capabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sensing (1): Shaping acquisition opportunities</td>
</tr>
<tr>
<td>Sensing (2): Identifying opportunities and needs for change</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Seizing (1): Managing strategic tensions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seizing (2): Integrating new businesses</td>
</tr>
<tr>
<td>Reconfiguring (1): Unlocking acquisition potential</td>
</tr>
<tr>
<td>Reconfiguring (2): Managing internal complexity</td>
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Consistent with the research questions, this chapter is organised into three sections. The first section (Section 4.1) explores the roles of sensing capabilities in the case firm’s acquisition process. The second section (Section 4.2) illustrates the roles of seizing capabilities, and the third section (Section 4.3) provides evidence on the roles of reconfiguring capabilities.

4.1 – Sensing Capabilities
Sensing capabilities encompass the ability to identify, shape and interpret emerging opportunities (Teece, 2007). The findings suggest that sensing capabilities play two main roles in the case firm’s acquisition process: shaping acquisition opportunities and identifying opportunities and needs for change.

**Shaping Acquisition Opportunities**
Sensing capabilities were found to play a role in shaping acquisition opportunities during the pre-acquisition phase. This involves, firstly, attracting targets and then gathering sufficient information to assess these targets.

The case firm primarily relies on a passive process of lead generation, with the majority of targets approaching the firm looking to sell their practice (see Section 3.2.1 – Case Firm). The findings suggest that the firm supports this passive approach by deploying sensing capabilities to influence industry perceptions and attract acquisition targets. The findings indicated that the current industry perceptions of dental corporates – such as the case firm – were unfavourable, due to misconceptions within the industry. While this has created challenges for the firm in terms of attracting high quality targets, the findings indicated that these challenges have reduced over time, as the firm’s reputation in the industry has grown. An interviewee explains this progression:

> There was a lot of misconception about what [we] were going to do. And I still strike it when we go into practices. They think that we’re going to reduce their [commission] rates, and we’re going to reduce the fees, and we’re going to make them use the same materials and the same laboratory etcetera. But as we expand and people start to talk about us, they can realise, strategically, what a company like this can do for dentists that you would not get on your own (Interviewee 9)
Importantly, the findings suggested that the case firm facilitated this change. One way it did so was by leveraging clinicians within its existing dental practices to advocate to independent practices. Two examples illustrate how the case firm used these experiences to shape industry perceptions and positioned itself as a favourable buyer for clinicians looking to sell their practices:

It’s those dentists that we can indoctrinate in the [case firm] way successfully that become the flag bearers for [us]. They go to conferences and they talk to their old classmate and they say, “Here’s what happened for me, I work for [case firm]”. And they suddenly realise, “actually I’m getting a bit of a raw deal outside of [case firm]. Maybe it’s time I contacted [case firm]”. (Interviewee 8)

When we go to NZDA [New Zealand Dental Association] conferences, they have the year group dinners so they would talk about their experience. And invariably we’d benefit – once you make a decision to do something, you’re going to back it and you’re going to outwardly tell everyone that it was a good decision you made. “I’m so good that I made that decision”. So I’m sure that helped a bit – that they talked to their colleagues about, “This really worked for me”, and so others come along as the perception is broken down that way. (Interviewee 3)

Once potential targets approach the case firm, sensing capabilities also play a role in providing the capacity to gather the information required to accurately assess these opportunities and ensure the firm selects the most appropriate acquisition opportunities to pursue. For instance, during the pre-acquisition phase, the case firm collects the historic financials from the target to assess the feasibility of an acquisition. However, the small business nature of these targets often creates challenges for the firms in terms of gathering sufficient information. As one interviewee explains:

We have a document that goes to the practice asking for all of this information and generally we have dates beside it where we go, “We need this information by this date. A couple of weeks out please have this information.” But often I’m chasing it. Often we’re working to the last minute to get that information… What often stymies us is that the clinicians are very reluctant to tell their teams they are going to be acquisitioned. I’m not sure whether it’s to do with their colleagues knowing or the reaction of staff knowing. It can be two weeks before acquisition and I have no information and they say, “Well I can’t give you that information because I haven’t told the staff yet”. (Interviewee 9)
To alleviate this issue, the case firm often leverages the existing knowledge and expertise held within its business to gain a fuller picture of the quality of the practice. Specifically, it draws on the clinical knowledge of existing clinicians to assess the reputation of incoming clinicians. As a senior manager explains:

We do a bit of due diligence of clinicians. Do we think that person fits with the group? And often we’ll talk to our existing clinician base about whether we think that person is a good dentist and whether they have any reservations about their clinical skills… So we’ll get an idea from our own existing clinician base about some of those dentists. It’s a relatively small community. (Interviewee 2)

In sum, the findings suggest that sensing capabilities play a role in enabling the case firm to attract new acquisitions by exploiting its brand and leveraging existing clinicians as advocates to independent practices. In doing so, the firm is able to supplement its passive lead generation and sustain high levels of acquisitive growth. Sensing capabilities also help the case firm to assess these potential targets by tapping the clinical knowledge held within its existing businesses to inform its decisions around which acquisition opportunities to pursue.

**Identifying Opportunities and Needs for Change**

Sensing capabilities were also found to play a role in identifying potential opportunities and needs for change throughout the acquisition process. By deploying sensing capabilities the case firm is able to remain responsive to internal and industry changes and accurately assess the impact these changes may have on its acquisition process.

One such change concerns the way the firm identifies and prepares for the potential need to merge acquired practices following their integration. As the case firm primarily acquires small dental practices, the opportunity to consolidate individual practices is attractive from a financial point of view due to the potential of achieving greater “economies of scale from bringing smaller practices together” (Interviewee 14). However, through experience, the firm has gained an understanding of the importance of considering the cultures of individual dental practices when assessing this need. As one interviewee explains, these restructuring events typically create fear and anxiety within the dental practices, making them unattractive despite the financial or economic justifications:
The culture of each individual practice and the personalities of the individuals are critical. And we will – even though it makes so much sense to be able to put that practice and that one together – we know it’s a waste of time because they’re not going to be happy to do it. (Interviewee 14)

In support of this approach, interviewees recalled how cultural issues between practices had created issues in a previous consolidation:

When Practice V\textsuperscript{12} moved in with Practice R, they were bitter enemies – so no amount of project management could have got past that. And even though it’s still together, they still, I think, don’t talk to each other, the two clinicians there. (Interviewee 3)

Practice R never worked because of some personalities. It won’t totally be fixed until one person leaves. And that was totally out of our control – not really knowing that there was a personal thing between two dentists. And when they came together, one of them just didn’t want to let go. So, you can be picked up – even though you think you’ve done it right. (Interviewee 11)

Consequently, the decision to consolidate practices together is not taken lightly, with the case firm only pursuing those opportunities that have the greatest business impetus. Subsequently, sensing capabilities play an important role in helping the firm to identify the most appropriate and feasible consolidation opportunities during the post-acquisition integration phase. It achieves this by searching for – but not necessarily pursuing – these opportunities early and then monitoring how they evolve over time. Specifically, this is facilitated by the constant assessment of factors outside of the company’s control. These include changes in leasing agreements:

At Practice C [the result of merging Practice P and Practice T] there were issues with leases – renewal of lease – at both practices, I think. The landlords start making these high demands and things like that. So, in that particular case, we looked at the two practices and decided it’s best to merge them into a new practice. A bigger practice. (Interviewee 12)

The need to merge practices also arises due to unexpected external issues:

We had Practice W and that merged into Practice B – a little bit forced there because the building was condemned as not earthquake proof, Practice W… So, those two practices merged. (Interviewee 3)

\textsuperscript{12} Practice names have been removed to ensure anonymity.
The findings show the case firm also recognises the opportunity to merge practices following an acquisition by proactively searching for these opportunities early in the acquisition process, and then assessing how they may evolve over time. For example, several interviewees noted that the people within the firm are “genuinely on the look out” for consolidation opportunities at the time of acquisition (Interviewee 3), even though few of these sensed opportunities will ultimately be pursued. Moreover, of those that are pursued, they are “generally not merged until at least a few years into their time with [case firm]” (Interviewee 5). This suggests that the firm’s capability to sense post-acquisition opportunities is underpinned by its foresight and willingness to contemplate opportunities in advance of their need. This fuels the company’s responsiveness to change by identifying possible alternatives before the need to react arises.

Sensing capabilities also help the case firm to sense industry changes that potentially impact its acquisition process. The need for these capabilities has developed as the company’s acquisition programme has grown. For example, while the interviewees widely pointed to the case firm’s superior knowledge and experience with acquisitions as a key source of advantage over targets, it emerged that this advantage was diminishing as the industry has become more aware of the acquisition process:

> There was a real imbalance of information back then [2005 to 2009] – we knew how this was working; dentists had no one else to compare to. Their mates hadn’t sold their practices. There wasn’t anyone else buying practices. And they’re often just mum-and-dad business people who haven’t really done an acquisition or a sale before. I’m sure people now are more savvy about what to expect in the acquisitions and things so it’s probably harder. (Interviewee 3)

To detect these industry changes, the case firm draws on internal and external information sources. Internally, the company frequently uses the information gained from previous acquisitions as a means to capture underlying industry trends:

> When we buy practices… we’ll be able to understand what their historic materials and labour and productivity would have been prior to acquisition. So, that is a little bit of an insight into what the rest of the industry is doing. (Interviewee 2)
In a couple of the recent acquisitions, we’ve turned up and the dentists have been on 42% to 45% commission – and we pay XX%13 commission and that’s our default standard. It is negotiable – if we bought a practice and they were on 42% commission then they would remain on 42% commission – but we’ve started to notice there is a bit of commission creep… there is a bit of a trend starting to appear… So, I think we just need to be mindful of that. (Interviewee 8)

The case firm’s ability to sense trends from internal sources also derives from its constant assessment of internal performance. As part of this, the company carefully monitors the performance of acquired units against “a set of very stringent KPIs” (Interviewee 6). This enables it to identify variations between these units and predicted performance outcomes, thereby providing an indication of potential industry-related changes. Moreover, the company’s ongoing acquisitive growth enhances the accuracy of this internal information as each new acquisition provides a more complete data set from which the company can track industry changes.

Externally, the case firm leverages its relationships with suppliers to monitor industry changes. An interviewee illustrates this:

I hear it through the suppliers – like the suppliers shouldn’t talk, but they talk to me about their experience of going out to the [competitor] practices. So I hear a lot through that. And we have a really good relationship with our suppliers... we have a really good set up that they can tell us. (Interviewee 3)

Interestingly, the company’s acquisitive growth enhances these relationships due to the fact that its attractiveness to suppliers (and their subsequently willingness to share market information) increases as the case firm’s size grows.

Being our size, our business is worth a fair amount so, service-wise, we do tend to get preferential treatment or buying power with suppliers. (Interviewee 11)

In sum, the findings suggest that sensing capabilities play a role in enabling the case firm to identify and prepare for change. Specifically, the company is dependent on internal information sources (e.g. data from previous acquisitions) and external information sources (e.g. supplier relationships) to gather information about potential industry opportunities for change. The evidence shows that the sensing of these

13 Commission figures have been removed due to commercial sensitivity.
changes has been crucial in the firm’s recognition of the need (a) to consolidate underperforming practices and (b) to update its acquisition process (e.g. responding to changes in industry commission rates). Table 11 summarises the roles of sensing capabilities in the case firm’s acquisition process.

Table 11 – The roles of sensing capabilities in acquisitions

<table>
<thead>
<tr>
<th>Role</th>
<th>Details</th>
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<tbody>
<tr>
<td>Shaping acquisition opportunities</td>
<td>• Leveraging existing resources (brand and clinicians) to shape industry perception and attract acquisition targets</td>
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<tr>
<td></td>
<td>• Tapping internal sources to assess identified targets</td>
</tr>
<tr>
<td>Identifying and responding to environmental change</td>
<td>• Proactively searching for post-acquisition merger opportunities early to provide sufficient preparation for change</td>
</tr>
<tr>
<td></td>
<td>• Constant assessment of internal performance against KPIs</td>
</tr>
<tr>
<td></td>
<td>• Gathering information from previous acquisitions to sense industry trends</td>
</tr>
<tr>
<td></td>
<td>• Leveraging supplier relationships to learn of environmental threats</td>
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4.2 – Seizing Capabilities

Seizing capabilities are categorised as the business structures, procedures, and decision-making protocols that enable firms to mobilise resources and respond to sensed opportunities (Katkalo et al., 2010; Teece, 2007). Within the case firm, seizing capabilities were found to play a role in both the transaction phase (*managing strategic tensions*) and the integration phase (*integrating new businesses*).

Managing Strategic Tensions

The case firm’s acquisition programme is driven by two distinct objectives. On the one hand, it is driven by a desire to achieve a “*dominant market share in the New Zealand dental industry*” (Interviewee 3). As one participant explained, the firm is “*hungry to build an empire*” (Interviewee 10). The motivations for this growth derive from the economic benefits associated with being a larger group – including economies of scale (Interviewee 6), increased buyer power (Interviewee 5), spreading investment costs across multiple sites (Interviewee 2), and centralising back end functions to reduce duplication (Interviewee 8). On the other hand, the case firm’s acquisition programme is concurrently guided by its strategic objective of fostering relationships with clinicians.

It’s very much a strategy of partnering with clinicians rather than a strategy of telling the clinicians what to do. [Not] that, “This is the way that it’s done within [the case firm], and you’ve basically got to like it or lump it”. So, it strengthens the culture
within the organisation. And then, from an external point-of-view, I think, again, it’s much more powerful [for attracting targets] because word-on-the-street is different. (Interviewee 14)

The findings show that these objectives (a desire to build an industry giant and a need to foster long-lasting relationships with clinicians) place different demands on the acquisition process. For instance, the desire to build an industry giant demands a consistent approach from deal-to-deal. This involves standardising acquisition processes and agreements to provide speed of acquisition and reduce the complexities associated with managing a growing business. As one interviewee explained:

What you’re trying to do, as much as, possible is have consistency because it gets difficult from a management point-of-view if you’ve got too many variations in terms of how you’re dealing with people. You’re trying to have as much consistency as you can. (Interviewee 14)

Conversely, the objective of fostering relationships with incoming clinicians demands a more flexible approach to negotiation in recognition of the fact that “everyone’s different and there’s not a cookie-cutter system; they don’t all fit the same mold” (Interviewee 9). The different demands of these objectives create tensions within the case firm’s acquisition programme. To balance these tensions, the case firm prioritises different decision-making criteria during different phases of the acquisition process. In doing so, the findings demonstrate how seizing capabilities enable the case firm to capture value from the acquisition process.

To achieve the consistency required to sustain the ongoing acquisitive growth associated with building an industry giant, the case firm relies on specific decision-making criteria when deciding which targets to pursue. These criteria are based on the financial performance of a target – in terms of historic revenue performance and future revenue projections – and help the case firm to select high quality targets that provide sufficient revenue to match the its growth targets. As one interviewee notes, potential targets are often turned down if they do not meet these criteria:

Some of them might not meet the grade. Their practice is not generating enough revenue – they might be sole traders working on their own and, generally, there’s not enough revenue out of that to make it viable for us. Sometimes [Managing Director] might make suggestions to them as to, “If you join another practice or can get another
To a lesser extent, the case firm also bases investment decisions on the extent to which it believes a target can be “indoctrinated” into the case firm’s systems and culture (Interviewee 8). This involves a brief assessment of factors such as the target’s clinicians, its equipment and the owner’s motivations for selling. One interviewee provides an example of a potential target that failed to meet the case firm’s criteria:

One that declined was in the Hawkes Bay… He had four surgeries; two of the dental chairs were about 20 years old, which is basically past their used by date – we run them to ground in about 10 years of full time use, they sort of get beyond repair. In the other two rooms, the dental chairs were from the 50s. So they were basically ornamental chairs – they had antique value, not commercial value. And I said, “Do you have a computer in this practice”. “Oh no”… If we bought them that would mean basically manually entering all these paper notes into our database – which would take about three months before we got it to a level where we could actually analyse the database – work out who was still current, and then activate those current patients by contacting them. The practice was so far gone that it would be cheaper and easier to have bought a shell and set up a brand new practice. (Interviewee 8)

To achieve the flexibility required to foster relationships with clinicians, the case firm adopts a consultative approach to decision making during negotiations. This helps to build relationships as it allows the firm to be responsive and adapt to “situations that might not have historically fitted the mold” (Interviewee 14). The consultative approach also ensures that both parties understand, and are satisfied with, the terms associated with the acquisition contracts and legal agreements. The negotiation process involves several rounds of discussion between parties, involving the agreement to ‘Terms Sheets’ – non-binding documents that outline the key terms of the agreements – before the development of legally binding documents.

I’ll say to them, “What I want us to do before we move into legal agreements is, have we got a proposal that works for you and that you’re comfortable with?” And making sure that they understand it. Making sure that they understand the assumptions that are being made because that’s very critical in terms of that long-term arrangement that you’ve got with them… There’s generally a lot of discussion around that time. (Interviewee 14)
The outcome of this consultative approach is that the case firm frequently alters specific clauses within individual settlements to ensure that incoming clinicians are satisfied with the agreements and committed to work for the company. One interviewee clarifies the rationale for this flexibility:

What might not seem important to us, to them [vendors], for whatever reason, it’s really important. You’ve just got to make those calls sometimes. “That’s OK. We can do it that way. It’s not going to cause us a major issue”. And I’ll often talk to the team in terms of, “Look, can we do it this way?” This guy might have an Associate [Dentist] who’s paid commission this way. We could go in and say, “No you can’t, we’ve got all of our systems and processes set up this way.” Or, “It’s OK, we can do that”. And that saves having to have that big barney with that associate who has been paid the way he has been paid, for whatever reason. (Interviewee 14)

In an attempt to foster relationships with clinicians, the case firm will also try to push the transaction phases through as quickly as possible. One interviewee explains how the firm often compromises on consistency and formality during the transaction phase activities in order to prioritise relationship building:

In a perfect world, you would have the Sale and Purchase Agreements and Contract for Service all signed... leading up to settlement. What typically happens, and partly it is the nature of the relationship – it’s a relationship that needs to fundamentally be built on trust... I’ll generally be pushing the settlement as soon as we can... Ordinarily a lawyer would say, “You wouldn’t want to be letting them do any due diligence”. Or, “You wouldn’t want to be letting them talk to their staff until you’ve got the signed Sale and Purchase Agreement”. Or, “You would want all the conditions satisfied before they’re able to do that”. But generally, because of the nature of the relationship, we’re able to get past that and say, “Look, don’t worry about it. We’re not going to let you down. Yes, absolutely there are some risks in terms of X, Y and Z, but so long as what you have told me is correct, then there’s no reason we’re not going to be completing. You don’t have to be anxious from that point-of-view. (Interviewee 14)

In sum, two distinct criteria guide the case firm’s acquisition activities – a desire to build an empire while simultaneously fostering long-term relationships with its clinicians. These differing objectives create tensions within the case firm’s acquisition process as they place contrasting demands on acquisition activities in terms of speed and consistency. The findings suggest that seizing capabilities help the case firm to manage these tensions by facilitating the use of different decision-making criteria at various phases of the acquisition process.
**Integrating New Businesses**

Seizing capabilities were also found to play a role in integrating newly acquired businesses. Participants identified the integration of new acquisitions as the most crucial determinant of overall acquisition performance, but also the most challenging and stressful phase of the acquisition process. As one interviewee summarised, the first two days of integration often hold the greatest impact on the ongoing performance of a newly acquired dental practice:

> If we can give them a good experience at that time, then we’ve got them on board… If we make it a good experience, and they’re not threatened, then they will continue on smoothly. Some of the ones we have issues with, I can probably take it back to the time of acquisition where it maybe didn’t go so well for varying reasons. It’s just hard to dig back out of it. (Interviewee 9)

For these reasons, the case firm adopts a flexible integration process, adjusting its approach depending on the nature and dynamics of the focal acquisition. For one, the case firm modifies the speed of integration for each acquisition. Although it prefers a quick integration process, the case firm is willing to sacrifice this speed to ensure it builds relationships with incoming clinicians and administrative staff. A key reason for this is that the fear of change and the uncertainty associated being acquired by a dental group can create resistance within newly acquired practices. As such, establishing connections with the incoming individuals often takes priority in the early stages of integration in an attempt to alleviate this fear. Examples from two informants involved in the integration process illustrate this prioritisation:

> On the first day [of integration], basically I do nothing. I have this massive checklist that I have got to tick off but you often go in and the support staff are really concerned. They think there are going to be massive changes. Will they be able to cope? Are we going to change their role? … They have fear. So, the first day is just spent alleviating fear, yet in my mind, I’ve got all these things ticking over. (Interviewee 9)

> We don’t go in like we’re invading them or anything. It’s a very gentle process, as much as behind-the-scenes it’s, “We want to get this process done”… [It] can get quite fraught and quite time consuming. (Interviewee 12)

The firm also modifies the extent of integration between acquisitions. It does this by adopting a “*softly, softly*” (Interviewee 4) approach to the implementation of operational processes and systems. Specifically, while most of the essential backend
systems (such as accounting systems, budgeting systems and purchasing systems) are implemented immediately due to their importance on the day-to-day operations of each dental practice, other elements (such as branding, IT and compliance regulations) are generally not implemented until the dental practice is operating normally – usually several weeks or months following the acquisition. Moreover, these elements are not pushed into the practices, but rather are introduced on an “opt in” basis (Interviewee 12). For example, although the case firm’s preference is to brand all new dental practices, the implementation of this branding typically depends on the extent to which a newly acquired practice is comfortable with the change. As one interviewee highlights, some practices continue to operate under their original names, in an attempt to protect its relationships with those practices:

A good example is Practice E [non-branded], who have been with us for a year and we still haven’t got signage up to say it is ours because they sort of freak out and say, “Oh, but if we change to [case firm’s brand], all the patients will think I’ve retired”. So we will say, “No, that is fine.” (Interviewee 8)

We’ve got clinics out there – there’s one… called Practice H [non-branded], it’s been with us for coming up to six years, but it’s still called Practice H, and he in no way wants to be labeled [case firm’s brand]. (Interviewee 8)

During the integration of new acquisitions, seizing capabilities also play a role in managing third-party technologies that add value to the acquisition process. For example, an interviewee explained how the company leveraged its relationship with the provider of its data warehouse system to enhance the case firm’s software capacity and support further acquisitive growth:

We’ve gone down the road of building a data warehouse with interfaces. And what that is, is that gives us quite a scalable solution. So, as we bring the practices on board, we actually get their practice management system to talk to our data warehouse. So, we actually pull their data out and we actually put it in a format that we can use. (Interviewee 2)

The case firm’s third party purchasing portal – UniMarket – also serves as an additional complementary technology that enhances its integration process. Although each practice is responsible for purchasing the consumables they use, this software provides a centralised online portal for this purchasing to occur. It combines the catalogues of the case firm’s major suppliers, specifying those products that are subject to group wide
discounts as a result of the case firm’s purchasing power over suppliers. As one interviewee clarifies, this portal has made it easy for the individual practices to identify the best products to purchase:

We’ve spent a lot of time and resource in building our web portal, which is with *UniMarket*. And the average dentist doesn’t have time to go through and understand what is the best price, what is the best product, and often doesn’t have that kind of guidance… So, there’s a significant reduction that we’ve been able to do in the past by helping the guys identify the products, identifying the ones that are of best value and just getting rid of some of the anomalies. (Interviewee 2)

In this sense, *UniMarket* is an example of a complementary technology that the case firm leverages to simultaneously introduce scale economies into the group while also providing practices with autonomy for their own purchasing decisions. This technology also enhances the case firm’s integration process as it allows the firm to introduce these economies quickly, and with little disruption to the newly acquired practices.

If they’re a normal dental practice, they are using the same suppliers as we do, and so all of a sudden they get the [case firm] discount that they didn’t get before… There’s a little bit of getting used to it and trying to find the items they normally buy, but as soon as they’re away, it’s easy. (Interviewee 3)

In sum, a second role of seizing capabilities in the case firm’s acquisition process is in managing the integration of new businesses. Specifically, they help the case firm modify the integration of its operational systems and processes in a flexible way that supports its objectives of building relationships with clinicians. Additionally, seizing capabilities facilitate the management of supplier technologies that enhance the company’s integration process. Table 12 summarises the roles of seizing capabilities in the case firm’s acquisition process.

### Table 12 – The roles of seizing capabilities in acquisitions

<table>
<thead>
<tr>
<th>Role</th>
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<tbody>
<tr>
<td>Managing strategic tensions</td>
<td>• Balancing desire to build an empire with objectives of fostering relationships by prioritising different decision-making criteria throughout the acquisition process</td>
</tr>
<tr>
<td>Integrating new businesses</td>
<td>• Achieving flexibility in integration to foster relationships with clinicians</td>
</tr>
<tr>
<td></td>
<td>• Managing complementary supplier technology that enhances the integration process and supports further acquisitive growth</td>
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4.3 – Reconfiguring Capabilities

The findings show that reconfiguring capabilities are embodied in the integration phase of acquisitions. In the case firm, these capabilities play two key roles: *unlocking acquisition potential* through the realignment and restructuring of acquired business units; and *managing internal complexity* through periodic renewal of Support Office structures and processes.

**Unlocking Acquisition Potential**

Despite the importance of dynamic capabilities in accurately sensing and effectively seizing acquisition opportunities, some acquisitions fail to reach their perceived potential. Interviewees noted that there were numerous reasons for acquired units to underperform including inadequate management of dental practices (Interviewee 9), inefficient systems within the practices (Interviewee 8), antiquated equipment (Interviewee 7) and deferred maintenance (Interviewee 11). In response to these underperformers, the findings indicate the case firm occasionally modifies the resource combinations within newly acquired business in an attempt to improve performance and realise predicted potential of acquisitions. This reconfiguration is achieved through (a) the sharing of resources between practices, and (b) the consolidation of business units to achieve new resource combinations.

Due to the predominance of small, owner-operator businesses in the dental industry, the case firm occasionally acquired practices that are “*very heavily resourced*” (Interviewee 9) and, thus, run inefficient operations. To address this issue, resources (primarily human resources) are intermittently reallocated between practices to achieve more efficient resource combinations. This reallocation is typically not performed by the case firm directly, but rather instigated by the individual practices themselves. However, to encourage this resource sharing, the case firm attempts to create an environment that stimulates collegiality amongst the dental practices. This effort is exemplified in the many conferences and events that the company organises to increase the interactions between its dental practices. These events have created an environment favourable for resources sharing between the practices as they facilitate the development of strong connections between the individual dental practices. One
interviewee explains how this collegiality has promoted greater resource sharing between practices:

In my region, for example, I’m trying to implement regular Practice Manager meetings within the teams so they get to know each other and network between themselves. I know one practice actually, they’ve got a Dental Assistant who only does a couple of days a week for them but she’s helped out at Practice B, at Practice O and Practice W… and that’s because they have met each other and they keep in touch. (Interviewee 12)

A second way the case firm achieves resource realignment is through the consolidation of dental practices. Once these post-acquisition opportunities have been ‘sensed’ (see Section 4.1 – Sensing Capabilities), the case firm requires the capability to perform these consolidations and restructure its business units – an example of reconfiguring capabilities. Throughout the interviews, the participants identified two factors as the key elements that underpinned the capability to consolidate practices – an intensive planning period and transparent communication with the practices.

Once the decision has been made to merge practices together, a temporary project team is assembled to plan and coordinate the consolidation process. This team develops the ‘project plan’ – a master spreadsheet that covers all aspects involved in the merger including practice design, building work, equipment, compliance and regulations, implementation of IT, HR considerations, marketing requirements, patient communications and the actual transition period itself. The core of the team consists of the General Manager of Operations, the respective Practice Support Manager(s), and the Infrastructure Manager; with either the General Manager of Operations or Practice Support Manager appointed as the temporary Project Manager. The Human Resource Manager, Marketing Manager and IT Manager are also involved in this project team as required. As the Infrastructure Manager noted, this multifaceted approach to the planning process is a key factor that contributes to the case firm’s ability to amalgamate individual practices:

I can walk in and do the bricks and mortar but then HR, Marketing and Operations (the Practice Support Managers) need to be there, crossing off all this other stuff. The soft stuff. That is the stuff that can tip it over… So that process is as long as a construction period – or longer than the planning. It’s six months of designing and planning the construction work and it’s equally six months of, “What is our HR plan? How are we
going to move these people together? How are we going to consult with them?”
(Interviewee 11)

Open and transparent communication during the consolidation process was also found to underpin the case firm’s consolidation capabilities. In addition to the Support Office staff involved in the project team, the Lead Dentists and Practice Managers of each respective practice are also engaged throughout the planning and implementation process. Their inclusion in the process allows for frequent communication between the project team and the practices involved in the consolidation, helping to facilitate feedback and generate buy-in from within the practices. An interviewee recalls the importance of communication to a recent consolidation:

In Practice C we did that, we came together. Same process: spending the time getting their feedback, listening to what their concerns are. If they want something, we just make it work [and] that they are feeling that they actually buy into it and feeling like they’re contributing to it. We’re not just delivering something and saying, “Well here’s the key, go down and see where you’re going to work”. They actually have a feel for what they're going to do. They have an input into certain things. So that’s key. That’s why it’s worked. (Interviewee 11)

Moreover, the results revealed that both the reallocation of resources and consolidation of acquired dental practices are facilitated by the case firm’s loosely coupled structure that provides the flexibility to periodically achieve new asset combinations. This structure consists of a Support Office that provides central corporate services (e.g. financing, marketing, HR, IT and operational support), combined with individual dental practices that operate as semi-independent unit, largely responsible for their own profitability. This loosely coupled structure facilitates the reallocation of resources as it decentralises day-to-day decision making to the individual practices. This ensures that the Practices Managers – who have the greatest understanding of their practice’s resource requirements – are in control of the transfer of resources, thus providing the organisation with responsiveness to resource demands.

They need to understand that we still expect them to be leaders of their practice and run and manage their own practice. So, we come in as a support network behind them but we don’t have the capability to be running and dealing with every issue that they have. (Interviewee 9)

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This loosely coupled structure also enhances the case firm’s consolidation activities, as it reduces the risk associated with merging two distinct entities. The challenge of combining the different cultures from each practice is often one of the greatest challenges that arise during a consolidation, as it is “totally out of our control” (Interviewee 11). However, it emerged that the case firm’s loosely coupled structure helped the company overcome these risks, by limiting the potential fallout of unsuccessful mergers.

In sum, reconfiguring capabilities are embodied in the way the case firm modifies the resource configurations of acquired units to ensure they achieve their full potential following an acquisition. Specifically, these capabilities are displayed in the reallocation of resources and the consolidation of practices. By promoting a culture of collegiality, engaging in constant communication with acquired practices and adopting a loosely coupled structure, the case firm creates an environment that is favourable for the periodic modification of the resource bases of acquired units.

Managing Internal Complexity

Over time, the continual acquisition of new practices has created internal complexities within the Support Office due to the extra demands associated with a growing number of practices. For example, it was identified that as the case firm has grown, it has struggled with a number of internal challenges such as overstretched resources (“we get thinner and thinner on the ground as we expand” – Interviewee 8) and delays in data retrieval processes (Interviewee 2). Thus, the challenges associated with ongoing growth bring about the need to periodically modify and realign the Support Office resources to match acquisition growth. As one interviewee noted:

As a business we’ve had to change over time to be able to provide the capabilities for us to match what we’re advertising, or saying we’re going to provide, as a service for these clinicians and practices as they come on. (Interviewee 5)

In renewing the Support Office over time, the case firm has demonstrated reconfiguring capabilities. One way these are embodied is in the modification of the Support Office systems and processes. For example, in the past, the company manually aggregated data from its network to produce financial reports and assess operational performance. However, as the size of this network has grown, the ability to manually extract this
information has become increasingly difficult. Thus, in an attempt to realign its Support Office capacity with the growing demand for the corporate services it provides to the wider group, the case firm has increased the level of automation of these processes. As one interviewee explains, this change has not only improved efficiency, it has also extended the operational capabilities of the Support Office:

We have also gone through a process of betting down our systems and making things a lot more streamlined. Particularly in Accounts from my point of view, going from a place where everything was sent in by spreadsheets and re-keyed into six other spreadsheets to a place where we’re now getting majority of that data from the data warehouse and it’s [automatically] integrating into our cashbook, into our sales and into our commission. So, initially you’re probably gone from a data collection thing to now actually being able to use the data in various ways. (Interviewee 5)

The case firm has also undertaken several structural changes over time to deal with this increased internal complexity. For instance, it has modified the department structures and job roles within the Support Office. In particular, the company has seen the creation of several new departments – including the Marketing and HR functions – to further centralise backend services across the network.

Job roles have also become more specialised in order to streamline the Support Office processes. Whereas, in 2005, the Finance department housed three employees in broadly defined roles, it now has eight employees, each of whom has a specific role in the accounting process (e.g. Payroll Manager, Bank Reconciliation Assistant, Accounts Payable Assistant, Accounts Receivable Assistant). Consequently, the department has gone from a situation where employees were matched to tasks as required, to one where there is greater alignment between required tasks and Support Office resources. Similarly, whereas the Marketing department began, in 2006, with one employee, it now houses six employees, each with their own specialisations (e.g. CRM Specialist, Digital Specialist).

The renewal of the Support Office – both in terms of modifying systems and introducing structural change – occurs reactively, only when the business need is greatest. As one interviewee noted, organisational changes were generally implemented when the challenges associated with increasing internal complexity had reached a “crisis point” and the company was left “playing catch up with support staff resource
level” (Interviewee 8). Thus, although the case firm’s acquisitive growth is continuous, the deployment of reconfiguring capabilities only occurs periodically. As one interviewee explained, although “the business is changing and the dynamic is changing...”:

…I don’t think the reason that we would change [the business model] is because our business has got bigger. I think the reason we’d change it is because we’d noticed we’re doing a dragging-the-chain kind of approach, and in fact it could be done more efficiently in some way, it could be done faster in some way, or we could be involving a different person in a different way or something. (Interviewee 10)

In sum, reconfiguring capabilities were found to play a role in renewing the Support Office over time to help manage the increasing complexity and internal challenges arising from the case firm’s ongoing growth. These changes were embedded in the increased automation of operational activities as well as the specialisation of jobs and department structures. Moreover, while this restructuring was not continuous, it provided the ability to managing ongoing growth. Table 13 summarises the roles of reconfiguring capabilities in the case firm’s acquisition process.

<table>
<thead>
<tr>
<th>Table 13 – The roles of reconfiguring capabilities in acquisitions</th>
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<tr>
<td>Role</td>
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<td>Unlocking acquisition potential</td>
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<td>Managing internal complexity</td>
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4.4 – Chapter Summary

This chapter presented the findings of this research. Following the research questions of this study, this chapter explored the roles of sensing, seizing and reconfiguring capabilities throughout the case firm’s acquisition process. The findings of this research indicated that these dynamic capabilities play six roles throughout the acquisition process.

Sensing capabilities were found to play two key roles in the acquisition process. Firstly, they are important for shaping acquisition opportunities during the pre-acquisition
phase. In the case firm, this identification of targets is passive, with the majority of potential targets approaching the company directly. However, this passive process has developed as the company has shaped its reputation in the marketplace by leveraging existing clinicians within its business to openly advocate for the case firm to their peers. Secondly, sensing capabilities help the case firm identify opportunities and needs for change throughout the acquisition process. This was found to be embedded in the case firm’s ability to use information gained from historic acquisitions and leverage supplier relationships to identify potential post-acquisition merger opportunities early and recognise industry threats.

Seizing capabilities were found to underpin the case firm’s ability to respond to acquisition opportunities by enabling the company to manage strategic tensions that arose during the transaction phase. The findings indicated that these capabilities provide investment discipline through the establishment of clear decision-making criteria, as well as the prioritisation of key strategic issues (e.g. relationship building over empire building). Based on this prioritisation, seizing capabilities also play a role in integrating new businesses by helping the case firm modify the speed and extent of integration in a way that is geared towards achieving its strategic objectives. The findings suggest that these capabilities also support integration through the management of complementary technologies.

Reconfiguring capabilities were found to play two roles in the case firm’s post-acquisition integration phase. Firstly, they are important for unlocking acquisition potential by facilitating the realignment and restructuring of underperforming acquired units. The findings indicate this occurs through (β the sharing of resources between practices, and (b) the consolidation of business units to achieve new resource combinations. Secondly, reconfiguring capabilities were also found to play a role in managing internal complexity. This role involves facilitating the renewal of Support Office structures and processes to achieve realignment with the growing demands of the case firm’s network of practices. Moreover, the findings of this research reveal that both of these roles were enabled through the case firm’s loosely coupled organisational structure and the culture that had developed within the practices. The following chapter discusses these findings, linking them with existing literature and highlighting the theoretical implications of this research.
CHAPTER 5 – DISCUSSION

This study explores the role of dynamic capabilities in the context of acquisitions, an area that has received incomplete attention to date (Trichterborn et al., 2015; Vogel & Güttel, 2013). To do so, it presents and discusses a case study of a leading dental company that has demonstrated the ability to sustain acquisitive growth over a ten-year period.

This chapter discusses the key findings of this research and links these findings with existing literature in the fields of dynamic capabilities and acquisitions. The first section (Section 5.1) discusses the main roles of sensing, seizing and reconfiguring capabilities identified in the case firm’s acquisition process. In doing so, this section addresses the research question of this study: **what are the roles of dynamic capabilities in the acquisition process?**

The second section (Section 5.2) discusses the theoretical implications of these findings. It focuses on the interrelated roles of sensing, seizing and reconfiguring capabilities in the acquisition context, and the inherent complications associated with their concurrent use. It also addresses the impact of organisational structure and culture on the implementation of dynamic capabilities in the context of acquisitions.

5.1 – Dynamic Capabilities in the Context of Acquisitions

The findings show that sensing, seizing and reconfiguring capabilities (Teece, 2007) play six important roles in the acquisition process and, collectively, help the case firm to successfully manage ongoing acquisitive growth. This section expands on these findings, linking the roles of sensing, seizing and reconfiguring capabilities with existing literature.

**Sensing Capabilities**

The findings suggest that sensing capabilities play two key roles in the acquisition process. Firstly, they help acquirers to *shape acquisition opportunities* in the pre-acquisition phase by attracting and assessing new targets. Existing literature highlights the importance of acquisition capabilities in identifying and exploiting market
inefficiencies (Chatterjee, 2009), recognising appropriate targets (Junni et al., 2015), and obtaining sufficient information about these targets (Capron & Shen, 2007). This research builds on this work, providing evidence to that sensing capabilities play a role in enabling these processes. It was found that the case firm leverages its existing resource base (primarily its brand and existing clinicians) to shape industry perceptions and position itself as a favourable buyer for vendors looking to sell their dental practices. In doing so, the case firm deploys sensing capabilities to manage industry perceptions and attract new acquisition opportunities. This fits with the description of sensing capabilities, which Teece (2007) propose help firms to shape industries in ways that create value for the firm. It is also consistent with literature that positions a firm’s ability to leverage existing resources, in order to precipitate the creation of new resources, as a dynamic capability (Eisenhardt & Martin, 2000; Pablo, Trish, Dewald, & Casebeer, 2007).

Once acquisition targets have been identified, acquirers must gather sufficient information to determine the feasibility of an acquisition (Angwin, 2001; Shimizu et al., 2004). Existing literature indicates that a lack of information about targets leads to poor selection and, ultimately, suboptimal acquisition performance (Capron & Shen, 2007; Reuer & Ragozzino, 2008; Shen & Reuer, 2005). The findings from this study suggest that acquirers can overcome this information asymmetry and gather sufficient market information by deploying sensing capabilities. The case firm demonstrates this by leveraging the expertise held by its existing clinicians to get an indication of the clinical reputation of targets. In doing so, the case firm is able to supplement the financial information it requests from targets, thus providing a more complete picture of the potential benefits and risks of an acquisition. Ultimately, this increases the likelihood of appropriate selection decisions. These findings support literature suggesting that acquirers should gather information about targets from a wide range of sources when engaging in acquisitions (Angwin, 2001; Capron & Shen, 2007). Moreover, they imply that sensing capabilities play an important role in helping firms to access this information by facilitating both internal and external search routines (Teece, 2007; Vassolo & Anand, 2007).

Sensing capabilities also play a role in identifying opportunities and needs for change throughout the acquisition process. Literature has illustrated the importance of dynamic
capabilities in enabling firms to respond to change throughout the acquisition process (e.g. Protogerou et al., 2011; Teece et al., 1997; Wilhelm et al., 2015). The findings from the current research supports this benefit, showing how sensing capabilities enable the case firm to recognise and respond to industry changes that impact its acquisition process.

For the case firm, these changes primarily involve the potential to merge individual practices together in response to underperformance of acquired units. This is consistent with literature indicating that not all acquisitions create value immediately, and thus acquirers may need to periodically reconfigure acquired units in order to realise predicted acquisition potential (Karim, 2006; Meyer & Lieb-Dóczy, 2003). The findings reveal that by deploying sensing capabilities, the case firm is able to preempt change by identifying potential merger opportunities before they are required (Schreyögg & Kliesch-Erbel, 2007). This finding supports Moliterno and Wiersema’s (2007) assertion that firms must periodically review the competitive benefits that arise from acquired units and be prepared to restructure these units if they are underperforming.

To identify these opportunities and needs for change, the case firm exploits both internal and external information sources. The findings indicate that, internally, the firm senses trends by undertaking constant assessment of internal performance (Moliterno & Wiersema, 2007). It also assesses information gained from prior acquisitions to capture industry trends. Externally, it is evident that the case firm leverages relationships with suppliers to gain access to market intelligence. This activity – tapping suppliers for market information – exemplifies sensing capabilities (Teece, 2007).

**Seizing Capabilities**

Seizing capabilities were found to play two roles in the acquisition process. Firstly, they help the case firm to respond to acquisition opportunities by managing the strategic tensions that arise during the transaction phase. In the case firm, these tensions materialised in a conflict between its “hunger to build an empire” (Interviewee 11) and its strategic objective of fostering relationships with clinicians. While its desire to achieve a dominant market share demands consistency in the processes and agreements between acquisitions, fostering relationships requires a
flexible approach to adapt to the idiosyncratic requirements of each individual acquisition (Heimeriks et al., 2012).

In line with literature advancing strategic decision making as an important dynamic capability (Eisenhardt & Martin, 2000; Moliterno & Wiersema, 2007), the findings of this research illustrate that the case firm manages this tension by prioritising different decision-making criteria at different phases of the acquisition process. These findings provide evidence to support the notion that seizing capabilities enable managers to override existing rules and decision-making protocols (Teece, 2007). Moreover, they provide evidence to suggest that seizing capabilities help acquirers to undertake the decision-making processes that guide acquisitions (Angwin et al., 2015).

The findings from this research also highlight the importance of relationship building to successful acquisition outcomes (Gomes et al., 2013; Hitt et al., 1998; Stahl & Sitkin, 2010). They illustrate that the case firm fosters relationships with targets by adopting a consultative approach to acquisition negotiations, ensuring that both parties agree to the decisions and assumptions made at each stage of the negotiation process. In doing so, the findings demonstrate that relationship building in acquisitions can be achieved through frequent and transparent communication (Ranft & Lord, 2002), and facilitated through seizing capabilities.

Seizing capabilities were also found to play a role in integrating new businesses. Specifically, the findings illustrate that the case firm adopts a flexible approach to integration in an attempt to meet its objective of fostering relationships with clinicians. This flexibility surfaced in the way the firm adapts the speed and extent of integration to match the idiosyncratic preferences of each target. By approaching post-acquisition integration in this way, the case firm demonstrated the capability to build loyalty and commitment with incoming clinicians and administrative staff – a manifestation of seizing capabilities (Teece, 2007).

High levels of structural integration between acquirers and targets can be detrimental to acquisition performance because of the disruptive costs to the target firm associated with a loss of autonomy (Graebner, 2004; Puranam et al., 2009). Although structural integration is necessary in some acquisitions to achieve coordination between distinct
entities (Puranam et al., 2009), findings from this research suggest the case firm pursues low levels of integration due to its strategic objective of fostering relationships and partnering with clinicians. In saying this, the firm tends to integrate operational capabilities (e.g. financial systems and purchasing systems) as quickly as possible to achieve the potential synergies associated with the acquisitions. This supports the observation by Schweizer (2005) that technical business units require different integration approaches to non-technical units. Thus, seizing capabilities can be viewed as higher-order capabilities that modify non-technical operational capabilities to achieve high levels of acquisition integration (Collis, 1994; Winter, 2003).

Importantly, the findings suggest that the case firm’s ability to pursue a hybrid approach to integration (high levels of integration in backend processes, low levels of integration in clinical aspects) is facilitated by the use of complementary technologies. Teece (2007) identifies this ability as a central component of seizing capabilities. For instance, the case firm leverages its data warehouse facilities to automatically assimilate information from the various practice management systems used within individual dental practices. This allows practices to operate independently, while providing the centralised accounting and finance departments in the Support Office with the daily information they require. Similarly, the third-party purchasing platform the case firm uses provides dental practices with the ability to make their own decisions around the materials and consumables they wish to purchase, while simultaneously introducing scale economies into the group.

**Reconfiguring Capabilities**

The findings illustrate that reconfiguring capabilities play two roles during post-acquisition integration. Firstly, they help acquirers *unlock acquisition potential*. Existing literature highlights that reconfiguration of acquired units may be necessary to create value from acquisitions (Capron, 1999; Meyer & Lieb-Dóczy, 2003). This was evident within the case firm, as it employs reconfiguring capabilities to restructure underperforming acquisitions (Galunic & Eisenhardt, 2001; Karim, 2006). This restructuring was embodied in two post-acquisition activities – resource redeployment (Bowman & Ambrosini, 2003; Capron, 1999; Junni et al., 2015) and business unit consolidation (Karim, 2006) Consistent with literature (Birkinshaw et al., 2000; Yu et
al., 2005), it was found that this activity was generally not undertaken immediately, but only in the event that initial integration efforts had failed to create value.

Reconfiguring capabilities also play a role in managing internal complexity associated with acquisitions by renewing the Support Office over time. As Barkema and Schijven (2008b) warn, successive acquisitions add structural inefficiencies that increase the complexity of managing the acquiring firm. This increasing complexity was observed within the case firm, as the ongoing growth has created a number of internal inefficiencies over time, such as overstretched resources and delays in data retrieval. The findings reveal that reconfiguring capabilities help alleviate this complexity by facilitating restructuring events that lead to automation of processes and greater specialisation in job roles within the Support Office. Thus, reconfiguring capabilities appear to modify the operational capabilities of the Support Office in response to acquisitive growth, reflective of the higher-order nature of dynamic capabilities (Collis, 1994; Winter, 2003). Overall, this research indicates that reconfiguring capabilities play a crucial role in helping acquirers periodically restructure their business units and achieve resource realignment (Galunic & Eisenhardt, 2001; Katkalo et al., 2010; Teece, 2007).

5.2 – Theoretical Implications
This section builds on the roles of sensing, seizing and reconfiguring capabilities identified in this case study and considers the theoretical implications of these findings. Firstly, it addresses the interrelated nature of these capabilities, and the implications for the deployment of dynamic capabilities in the context of acquisitions. It also focuses on the challenges that arise from the concurrent use of sensing, seizing and reconfiguring capabilities and how acquirers may be able to manage these challenges. Following this, attention turns to the case firm’s structure and culture, and their impact on dynamic capability development.

**Sensing, Seizing and Reconfiguring Capabilities as Interrelated**
The findings suggest that the dynamic capabilities underpinning the acquisition process are interrelated. For example, the findings provide evidence to suggest that the case firm’s ability to make acquisition investment decisions (a seizing capability) is
dependent on its ability to gather the market information that informs these decisions (a sensing capability). Similarly, the propensity to transfer resources between acquired units (a reconfiguring capability) appears to depend on the company’s capability to build trust and commitment with the dental practices during their integration (a seizing capability); and is only relevant if the case firm possesses the capability to identify these restructuring opportunities in the first instance (a sensing capability).

Based on these observations, this research points to a need for acquirers to pursue sensing, seizing and reconfiguring capabilities in tandem. Existing literature illustrates the importance of employing multiple types of dynamic capabilities to effectively manage organisational change (Gilbert, 2006; Verona & Ravasi, 2003). Teece (2007, p. 1341), for example, notes that firms will need all three capabilities to be “simultaneously developed and applied for it to build and maintain competitive advantage”. More recently, Bingham et al. (2015) explains that the pursuit of multiple dynamic capabilities concurrently provides greater value to firms than pursuing one particular type of dynamic capabilities.

However, literature also highlights that attempting to simultaneously achieve sensing, seizing and reconfiguring capabilities is likely to cause internal chaos and lack of effectiveness due to the contrasting mindsets and sub-systems associated with each capability (Fourné, Jansen, & Mom, 2014; Pablo et al., 2007; Teece, 2007). Similarly, this study finds that the inherent contradictions of sensing, seizing and reconfiguring capabilities often lead to the prioritisation of certain dynamic capabilities over others within the case firm. For example, in some instances, the case firm’s focus on building relationships with incoming clinicians (reflective of a seizing capability) has, inadvertently, suppressed the due diligence process (reflective of a sensing capability). Specifically, the firm has compromised on a robust due diligence process out of concern for “frightening people too much” (Interviewee 11) and potentially harming the relationships with incoming clinicians. This prioritisation of relationship building over due diligence has led to suboptimal investment decisions. “[Due diligence] doesn’t always happen and we’ve acquired some practices you would classify as mistakes” (Interviewee 8).
Collectively, these findings imply that although sensing, seizing and reconfiguring capabilities provide benefit to the acquirers, they may face trade-offs when deploying them (Wang & Ahmed, 2007). Teng and Cummings (2002) contend that when implementing capabilities, managers should address the potential trade-off that arises between the perceived value of the capability and any unanticipated impact these capabilities have on other resources and capabilities. The current research supports this, indicating that managers may face similar decisions when implementing sensing, seizing and reconfiguring capabilities in the acquisition context. Thus, while each capability in itself may provide value to the acquirer, the interrelationships of these capabilities and their wider implications on the resource base of the firm should also be considered. This reflects the fact that the conflicting ways in which different dynamic capabilities use existing resources pressures managers to make difficult choices about which dynamic capabilities to pursue (Zahra et al., 2006). It also supports the notion that dynamic capabilities are deliberate and intentional process that require careful consideration in regards to their implementation (Winter, 2003; Zollo & Winter, 2002). Indeed, scholars warn that the potential costs associated with maintaining dynamic capabilities – such as (financial) resources and managerial attention and time – may outweigh the benefits they provide (Ambrosini & Bowman, 2009; Helfat & Winter, 2011).

**Enabling Dynamic Capabilities**

This research also sheds light on the importance of organisational elements on the deployment of dynamic capabilities, suggesting that the case firm’s structure and culture impact the deployment of dynamic capabilities in the acquisition process. By adopting a loosely coupled structure and promoting a culture of collegiality, the case firm has created an environment that is favourable for the deployment of dynamic capabilities.

Regarding structure, existing literature suggests firms can create an environment that is conducive to the use of dynamic capabilities by adopting loosely coupled organisational designs (Fourné et al., 2014; Galunic & Eisenhardt, 2001). These designs typically encompass decentralising day-to-day decisions and operations to independent business units (Teece, 2007). Such decomposability is evident within the case firm’s structure, with the Support Office providing centralised corporate services...
(e.g. financing, marketing, HR, IT and operational support) to the dental practices within the company, which operate as semi-independent units.

This structure creates an environment conducive to change for several reasons. Firstly, the decentralisation of decision making provides the case firm with the capacity to make rapid decisions and respond to opportunities and threats expeditiously (Teece, 2007). For example, by decentralising decisions regarding resource sharing to the Practice Managers within each practice, the case firm achieves speed in resource reallocation. Not only does this remove the unnecessary administrative burden that would arise if the centralised Support Office made these decisions, it also ensures the Practice Managers – the individuals who have the greatest understanding of their practice’s resource requirements – are responsible for responding to reallocation needs. Secondly, the loosely coupled structure provides ‘adaptive potential’, allowing individual units to respond opportunities without being constrained by other units (Galunic & Eisenhardt, 2001). Thus, the malleable and compartmentalised nature of this structure means that individual dental practices can be merged or restructured quickly in response to environmental change (Fourné et al., 2014; Teece, 2007).

The findings also suggest the case firm’s culture is an important enabler of dynamic capabilities (Danneels, 2008; Rosenbloom, 2000). Specifically, the firm has created a culture that supports organisational change both in its Support Office as well as within the independent dental practices that operate within its wider network. Within the Support Office, the ongoing acquisitive growth has created an inherent acceptance for continuous change and organisational growth. “If there isn’t any acquisitions… people are going, ‘Well, when’s the next acquisition’. So there’s an expectation that it’s constantly growing” (Interviewee 9). Combining this mentality with a decentralised management style, the firm has developed a culture that welcomes change. Importantly, this culture encourages Support Office employees to actively engage in constant assessment of internal performance to identify potential areas for improvement. In doing so, this helps the firm to identify opportunities or needs for change (a sensing capability).

Take, as another example, the consultative approach the case firm adopts in the negotiation process in its attempts to foster relationships with incoming clinicians (a
seizing capability). Not only does this approach require responsiveness during these negotiations to meet the requests of acquisition targets, it also demands flexibility in the case firm’s integration processes to adapt to these requests. The findings suggest that this flexibility (reflective of a seizing capability) is underpinned by a culture that openly encourages and accepts change. “[The Support Office is] very flexible and we work out what we need to do to make that happen. I think it’s very cognitively agile as a group and as a team, ‘Let’s just make that happen’.” (Interviewee 10).

Within its network of dental practices, the case firm has built a culture of collegiality between the semi-independent practices. This has created an environment that is favourable for resource sharing (Galunic & Eisenhardt, 2001), thus supporting the firm’s reconfiguring capabilities. Moreover, this collegiality also serves to coordinate the loosely coupled practices in the absence of more formalised structures. Puranam et al. (2009) note that common ground (deriving from shared interests and beliefs) provides an alternative mechanism to structural integration for achieving coordination between acquired units. Thus, the shared culture and collegiality the case firm has developed can be seen to enable the case firm to balance its desire to provide practices with a need to achieve coordination (Teece, 2007). In doing so, this culture supports the firm’s flexible approach to integration and, consequently, its seizing capabilities. Collectively, these findings suggest that the deployment of dynamic capabilities may depend on an acquirer’s ability to combine its organisational structure and culture in a way that promotes and facilitates change.

5.3 – Chapter Summary
This chapter discussed the findings of this research. Specifically, it linked the six roles of dynamic capabilities observed in the case firm to existing literature. In doing so, this addresses the primary research question of this study, by providing theoretical grounding for the observed roles. Overall, these findings suggest that sensing, seizing and reconfiguring capabilities are each linked to the acquisition process and, collectively, help the case firm to effectively manage long-term acquisitive growth.

There are clear benefits associated with pursuing all three capabilities, given their complementary outcomes. However, a major challenge in the deployment of sensing,
seizing and reconfiguring capabilities is that the different skills and subsystems required to manage these capabilities creates complexity for organisations attempting to implement them concurrently. In this study, the findings illustrate that the deployment of dynamic capabilities in acquisitions requires careful consideration, with managers likely to face trade-offs at various phases of the acquisition process.

This research also illustrates the importance of organisational elements, such as structure and culture, on the implementation of dynamic capabilities in the context of acquisitions. In line with existing literature, these findings imply that the effectiveness of dynamic capabilities may depend on whether acquirers can combine their structure and culture to create an environment conducive to their deployment.
CHAPTER 6 – CONCLUSION

The aim of this research was to explore the roles of dynamic capabilities in the acquisition process. To do so, it focused on three generic groups of dynamic capabilities – sensing, seizing and reconfiguring (Teece, 2007) – and posed the following research questions:

**What are the roles of dynamic capabilities in the acquisition process?**

a. What roles do sensing capabilities play in the acquisition process?

b. What roles do seizing capabilities play in the acquisition process?

c. What roles do reconfiguring capabilities play in the acquisition process?

These questions were explored in the case study of a firm that has demonstrated the ability to sustain long-term acquisitive growth. Data was collected primarily from 14 in-depth interviews with senior managers and employees of the case firm that are involved in the firm’s acquisition process. These interviews were supplemented with direct observations from a five-week placement within the case firm, internal company documents and publically available information. Data was analysed using a multi-stage coding process encompassing both chronological logic models and pattern-matching techniques (Yin, 2009).

Based on the findings of this analysis, this research makes a notable contribution by explicating six roles of dynamic capabilities and positioning them in the case firm’s acquisition process. Specifically, it was identified that sensing capabilities – encompassing the ability to identify opportunities and threats by constantly scanning and searching the environment (Teece, 2007) – play two roles throughout the case firm’s acquisition process: *shaping acquisition opportunities* and *identifying opportunities and needs for change*. Seizing capabilities – reflecting the capacity to address new opportunities by making high-quality investment decisions and mobilise resources (Teece, 2007) – were found to play two roles in the acquisition process: *managing the strategic tensions* that arise during the transaction phase and *integrating new businesses*. Finally, reconfiguring capabilities – reflecting the ability to renew and realign resources, infrastructure and strategies to reduce internal conflicts (Teece, 2007)
were found to play two roles in the post-acquisition integration phase: *unlocking acquisition potential* and *managing internal complexity*.

### 6.1 – Contributions to Literature

This research contributes to both dynamic capabilities and acquisition literatures. With respect to dynamic capabilities, it makes three primary contributions. Firstly, it extends literature by explicating the roles of dynamic capabilities throughout the acquisition process. This is an important development, as there has been insufficient attention to date on focusing on how dynamic capabilities manifest in practice, and the mechanisms through which they influence the management of acquisitions (Ambrosini & Bowman, 2009; Karim, 2006; Trichterborn et al., 2015; Wang et al., 2015). Thus, by providing an in-depth insight into the six roles of dynamic capabilities in the case firm’s acquisition process, this research sheds light on the ways in which these capabilities enable acquirers to manage the acquisition process. Moreover, this research positions these capabilities in specific phases throughout the acquisition process. Within the case firm, sensing capabilities were evident throughout the acquisition process, seizing capabilities were found during the transaction and post-acquisition phase, and reconfiguring capabilities were identified only in post-acquisition integration. This provides an important extension to existing literature on dynamic capabilities acquisitions, which has predominantly focused on their role in the post-acquisition phase (e.g. Amiryany et al., 2012; Junni et al., 2015; Karim, 2006; Karim & Mitchell, 2004).

Secondly, by exploring these roles, this research also highlights the complexity associated with implementing dynamic capabilities in the acquisition process. On the one hand, it provides evidence to suggest that the roles of sensing, seizing and reconfiguring capabilities are interrelated. This supports the argument that pursuing several dynamic capabilities concurrently provides greater value to firms than focusing on one dynamic capability in particular (Bingham et al., 2015; Gilbert, 2006). On the other hand, the findings also indicate that the use of multiple dynamic capabilities is not without cost, as the conflicting outcomes of each dynamic capability – and the different skills required to implement them – can create tension within the organisation. An important implication of these findings, then, is that that the use of dynamic capabilities
in acquisitions is more complex than existing literature indicates. Moreover, this suggests that acquirers are likely to face trade-offs when implementing sensing, seizing and reconfiguring capabilities (Teece, 2007; Wang & Ahmed, 2007). This reflects the notion that the use of dynamic capabilities cannot be ad hoc (Winter, 2003), but rather, must be intentional and contemplative (Lavie, 2006; Zollo & Winter, 2002).

Thirdly, these findings also shed light on the enablers of dynamic capabilities in the context of acquisitions. It identifies that the case firm’s loosely coupled structure and organisational culture – promoting change within the Support Office and encouraging collegiality between independent dental practices – have created an environment that is favourable to the deployment of dynamic capabilities. These findings suggest that, to deploy dynamic capabilities effectively, acquirers will likely need to pay attention to the structure and culture of the organisation, and ensure that these elements are combined in a way that is conducive to the use of dynamic capabilities (Pablo et al., 2007; Verona & Ravasi, 2003).

This research also contributes to the field of M&As. It does so by suggesting that sensing, seizing and reconfiguring capabilities play important roles in helping acquirers to more effectively manage the acquisition process. In essence, it illustrates the value of adopting a (dynamic) capabilities approach to the acquisition context. In doing so, this research answers calls for greater understanding of the capabilities that underpin the acquisition process (Haleblian et al., 2009; Karim, 2006). Moreover, by positioning dynamic capabilities throughout the acquisition process – and illustrating the interrelations between these capabilities – these findings provides support for calls that research should adopt a holistic approach to acquisitions (Bauer & Matzler, 2014; Larsson & Finkelstein, 1999).

6.2 – Managerial Implications
In light of the roles of dynamic capabilities observed in the case firm’s acquisition process, it is encouraged that managers consider the potential benefits of sensing, seizing and reconfiguring capabilities to their own acquisition programmes. Moreover, the interrelated nature of these dynamic capabilities indicates managers should remain open to the possibility that these capabilities may need to be deployed in tandem if they
are to provide benefits to the acquisition process. This suggests that managers may need to take stock of their current capabilities, and develop those they require, before engaging in an acquisitive growth strategy. However, it is strongly recommended that managers approach this decision carefully, given the inherent challenges associated with the concurrent use of sensing, seizing and reconfiguring capabilities.

Furthermore, considering the importance of the case firm’s structure and culture on its ability to deploy dynamic capabilities, it is encouraged that managers to pay close attention to the impact of their firm’s context to the deployment of dynamic capabilities. Specifically, managers may need to modify firm structure or culture if they are to effectively exercise dynamic capabilities.

6.3 – Future Research and Limitations

This research is an exploratory attempt to identify the roles of dynamic capabilities in the context of acquisitions. A logical extension of this work would be to focus on the mechanisms through which these dynamic capabilities are developed. Existing literature identifies the importance of an acquisition learning process to the development of (dynamic) acquisition capabilities (Bingham et al., 2015; Trichterborn et al., 2015; Zollo & Singh, 2004; Zollo & Winter, 2002). It is recommended that future research explore how this relates to the findings from the current study, to understand how these capabilities are built. Moreover, given the tentative findings regarding the impact of the case firm’s structure and culture on the deployment of dynamic capabilities, research exploring the impact these elements have on their development may also be fruitful.

There are several limitations of this research that future research could also address. Firstly, this research draws on a single case study of an acquirer in the New Zealand dental industry. Although this approach provided the rich contextual data required to understand the roles of dynamic capabilities, it is acknowledged that this approach limits the generalisability of the findings. This is especially important considering that a firm’s specific organisational context creates idiosyncratic dynamic capabilities (Eisenhardt & Martin, 2000; Zott, 2003). Consequently, it is recommended that similar
studies be carried out in different industries and geographical locations to verify the findings.

Secondly, this study only drew responses from managers and employees of the case firm’s Support Office. As such, it is possible that the observed roles of dynamic capabilities in the acquisition process may be biased towards the perspectives of Support Office employees. Thus, target firms may have different perceptions on the effectiveness of these capabilities. It is suggested future research adopts a more holistic perspective, exploring how targets view the role of dynamic capabilities to the management of acquisitions (Meglio & Risberg, 2010).

In conclusion, the purpose of this research was to use the dynamic capabilities framework to shed light on the change-orientated capabilities that underpin the acquisition process. It illustrates how sensing, seizing and reconfiguring capabilities play supporting roles throughout the acquisition process and, collectively, help the case firm to manage the acquisition process to achieve long-term acquisitive growth. By explicating these roles and positioning them throughout the acquisition process, the current research provides a notable insight into the importance of dynamic capabilities in the context of acquisitions.
REFERENCES


APPENDICES

Appendix 1: Invitation Email to Participants

Subject: Invitation for interview: Organisational Capabilities in the Acquisition Process

Dear ____,

I would like to invite you to take part in an interview as part of my Master's research thesis in Strategic Management at the University of Otago. The research thesis is titled: 'The role of dynamic capabilities in the context of acquisitions'.

I am conducting a case study of [case firm’s] acquisition process, from the identification and acquisition of targets through to their integration and management, to explore the organisational change capabilities that are required throughout this process. The data collected will be useful in gaining a better understanding of the internal capabilities that organisations require to successfully manage acquisition performance.

Should you agree to take part in this project, you will be asked to participate in an interview, sharing your professional knowledge and experiences about your organisation's acquisition process. The interview should take no longer than one hour, and your responses during this interview will be confidential and anonymous. A complete information sheet is attached as a PDF document.

If you are willing to participate – thank you. Please reply with your contact details and I will contact you to arrange a suitable date and time for the interview. Alternatively, you may want to propose a date and time that is suitable for you (preferably during the month of July).

If you are unable to participate, please consider forwarding this invitation to people you may consider suitable for this project, or replying with their details and I will contact them directly.

Please note this research project has been approved by [case firm’s] management team.

Sincerely,

Matt Lowe
Master's Candidate
Department of Management, University of Otago
matt.lowe@otago.ac.nz
Mobile: 027 846 0626
Office: (03) 479 8152

If you have any questions about this project, either now or in the future, please feel free to contact either myself or my supervisor:

Dr. Conor O'Kane
Department of Management
conor.okane@otago.ac.nz
Office: (03) 479 8121
Appendix 2: Information Sheet

The Role of Dynamic Capabilities in the Context of Acquisitions
INFORMATION SHEET FOR PARTICIPANTS

Thank you for showing an interest in this project. Please read this information sheet carefully before deciding whether or not to participate. If you decide to participate, we thank you. If you decide not to take part there will be no disadvantage to you and we thank you for considering our request.

What is the Aim of the Project?

This project explores the organisational capabilities that underpin acquisitions. This involves conducting a case study of a New Zealand organisation actively involved in acquisitions. It is anticipated that this project will help to develop an understanding of the internal capabilities that influence acquisition performance.

This project is being undertaken as part of the requirements for a Master of Business (Management) at the University of Otago.

What Types of Participants are being sought?

Participants who work in an organisation that is actively involved in acquisitions. Participants will selected based on their involvement in the acquisition process and will be representative of the organisation’s senior management team and head office support staff. It is anticipated that between 15-20 participants will be interviewed.

What will Participants be asked to do?

Should you agree to take part in this project, you will be asked to participate in an interview lasting approximately 60 minutes. During this interview you will be asked for your personal experiences with the acquisition process within your organisation.

This project involves an open-questioning technique. The general line of questioning focuses on the organisational capabilities used throughout the acquisition process. The precise nature of the questions which will be asked have not been determined in advance, but will depend on the way in which the interview develops. Consequently, although the Department of
Management is aware of the general areas to be explored in the interview, the University of Otago Human Ethics Committee has not been able to review the precise questions to be used.

In the event that the line of questioning does develop in such a way that you feel hesitant or uncomfortable, you are reminded of your right to decline to answer any particular question(s).

**What Data or Information will be collected and what use will be made of it?**

The data collected for this project will be used to inform an understanding of the organisational capabilities that underpin acquisition performance. It is being collected for research purposes only and will not be used for commercial use.

The data collected will be the responses of participants to the various open questions posed in an interview. The interviews will be audio recorded and the recording will be used purely for research purposes in referring back to the responses provided by participants. The data collected will be securely stored in such a way that only those mentioned below will be able to gain access to it. Data obtained as a result of the research will be retained for at least five years in secure storage. Any personal information held on the participants may be destroyed at the completion of the research even though the data derived from the research will, in most cases, be kept for much longer or possibly indefinitely.

The results of the project may be published and will be available in the University of Otago Library (Dunedin, New Zealand) but every attempt will be made to preserve your anonymity. You will not be named or identified in subsequent reports or outputs and only Matt Lowe will know of your involvement in this research. The results will also be provided to each participant at the conclusion of the study if required.

**Can Participants change their mind and withdraw from the project?**

You may withdraw from participation in the project at any time and without any disadvantage to yourself.

**What if Participants have any Questions?**

If you have any questions about our project, either now or in the future, please feel free to contact either:

- Matt Lowe
  - Department of Management
  - University Telephone: (03) 479 8152
  - Email Address: matt.lowe@otago.ac.nz

- Dr Conor O’Kane
  - Department of Management
  - University Telephone: (03) 479 8121
  - Email Address: conor.okane@otago.ac.nz

This study has been approved by the Department of Management. However, if you have any concerns about the ethical conduct of the research you may contact the University of Otago Human Ethics Committee through the Human Ethics Committee Administrator (ph 03 479-8256). Any issues you raise will be treated in confidence and investigated and you will be informed of the outcome.
Appendix 3: Consent Form

The Role of Dynamic Capabilities in the Context of Acquisitions
CONSENT FORM FOR PARTICIPANTS

I have read the Information Sheet concerning this project and understand what it is about. All my questions have been answered to my satisfaction. I understand that I am free to request further information at any stage.

I know that:

1. My participation in the project is entirely voluntary;

2. I am free to withdraw from the project at any time without any disadvantage;

3. Personal identifying information (e.g. audio recording via MP3 files) will be destroyed at the conclusion of the project but any raw data on which the results of the project depend will be retained in secure storage for at least five years;

4. This project involves an open-questioning technique. The general line of questioning includes organisational capabilities used during the acquisition process. The precise nature of the questions which will be asked have not been determined in advance, but will depend on the way in which the interview develops. In the event that the line of questioning develops in such a way that I feel hesitant or uncomfortable I may decline to answer any particular question(s) and/or may withdraw from the project without any disadvantage of any kind.

5. The results of the project may be published and will be available in the University of Otago Library (Dunedin, New Zealand) but every attempt will be made to preserve my anonymity.

I agree to take part in this project.

............................................................................. ..................................................
(Signature of Participant) (Date)

............................................................................. ..................................................
(Printed Name)
# Appendix 4: Interview Schedule

<table>
<thead>
<tr>
<th>Theme</th>
<th>Question and Follow-up Questions</th>
<th>Justification</th>
</tr>
</thead>
</table>
| **General strategy** | 1. Could you explain to me [case firm’s] general strategy?  
  − How has this strategy developed over time?  
  − Where do you see [case firm] in 10 years? Why?  
  − How has [parent company’s] history influenced what [case firm] does today? | Ease participant into interview |
| | 2. In your opinion, what are the core capabilities/points of differentiation that underpin [case firm’s] success?  
  − How have these been built over time?  
  − How sustainable do you think these core capabilities are?  
  o Do you think that they will continue to provide advantage in the future? Why so?  
  o How do you ensure they will be relevant in the future?  
  o How do you protect them against competitive imitation to ensure no one can imitate them? | Context-setting |
| **Nature of industry** | 3. Could you explain to me a bit about the NZ dental industry, and where [case firm] fits within that?  
  − Competitors?  
  − Impact of regulatory environment (governments, health & safety laws)?  
  − Impact of reputation of dental consolidators? | Case firm’s influence in industry |
| | 4. In strategic management literature, they talk about successful strategies shaping the industry. How relevant do you think this is to [case firm]?  
  − Do you believe [case firm’s] acquisition strategy has or will shape the NZ dental industry? | Context-setting |
| **Acquisition strategy** | 5. What role do acquisitions play in relation to your general strategy?  
  − How important are they to [case firm’s] overall performance? | Clarification question |
| | 6. In your opinion, how successful is [case firm] at performing acquisitions?  
  − What do you believe are the key capabilities that underpin this success?  
  o Key resources? (Personnel, branding, money, reputation, connection with parent)  
  o How did these capabilities come about? | Initial thoughts on capabilities underpinning acquisition success |
| **General acquisition process** | 7. Could you explain the general acquisition process within [case firm’s]?  
  − What stages are involved?  
  o (Briefly) hat is involved in these stages?  
  o How long does each stage typically take?  
  − What are some of the key decisions made throughout this process? Who makes these? | Authority relationships – Teece (2007) notes decentralisation as reconfiguring capability |
| | 8. What role(s) does your department have during this process?  
  − What does this involve? | Understanding participant’s role (and knowledge and expertise) |
To what extent do you work with / interact with other departments with to achieve this?

- How does this occur?
- Is there much formal communication between departments in terms of learning, debriefing on practices? How does this occur?
- How is knowledge about targets shared and transferred throughout the organisation? (Formal processes/documents)

Bingham et al., (2014); Zollo & Winter, (2002); Zollo & Reuer (2010) illustrate that knowledge articulation is important for development of dynamic capabilities

**Acquisition experience**

9. Research shows mixed results in terms of the benefit of acquisition experience on acquisition performance. How do you think this relates to [case firm]?

- How have previous acquisitions influenced the current ways in which you acquire and integration practices?
- What are some key lessons that have been learnt?
  - How, if at all, has this learning been codified?

Associated literature identifying role of learning in development of DCs (Zollo and colleagues)

10. Could you explain to me how [case firm] identifies and selects acquisition targets?

- How are potential acquisition targets identified?
  - Do you actively search for new leads?
  - What processes are used to identify potential targets? (referrals, networking events)
- What type of information are you looking for when assessing an acquisition target?
  - How do you gather this information and ensure it is sufficient to accurately assess the target?
- Do you consider how these opportunities may evolve over time? (e.g. pre-empt challenges, predict synergies with other practices)
  - How so?
  - How do you stay in tune these external changes?
  - How do you adapt to these changes?
- To what extend does the internal capacity of [case firm’s] support office departments to manage new acquisitions influence this decision?
- What organisational skills and abilities do you think [case firm] possesses that makes you particularly good at this task?
  - How have these been developed over time?
  - How sustainable do you think these are?
  - How to protect/preserve these?

Sensing as activities associated with the assessment of identified opportunities (Teece, 2007)

Ability to gather sufficient information is an essential determinant on the outcome of the target selection process (Capron & Shen, 2007; Reuer & Ragozzino, 2008; Shen & Reuer, 2005)

**Identifying and selecting targets**

**Now turning attention to INTEGRATION that occurs after an acquisition has been settled.**

12. To what extent are newly acquired practices integrated?

- Management and control processes
- Sales and marketing process
- Financial systems

Juni et al., (2015) assess resource fluidity based on degree of integration
<table>
<thead>
<tr>
<th>Integration process</th>
<th>13. What steps are typically involved in the integration of newly acquired businesses in your department?</th>
</tr>
</thead>
</table>
|                     | - What processes are followed?  
|                     |   o How do you ensure coordination?  
|                     |   o How, if at all, is this process codified into written documents? (e.g. checklists, systems conversion manuals, integration manuals, systems training manuals, staffing manuals etc.)  
|                     |   o To what these been redesigned or changed over time?  
|                     | - What capabilities do you consider to be the most important when integrating a new practice?  
|                     |   o How have these been developed over time?  
|                     |   o How sustainable do you think these are?  
|                     |   o How to protect/preserve these?  |
|                     | Bingham et al., (2014); Zollo & Winter, (2002); Zollo & Reuer (2010) illustrate that knowledge codification is important for development of dynamic capabilities |
| Building relationships and communicating | 14. How do you build loyalty and commitment with clinicians and their staff following an acquisition? |
|                     | - What types of challenges and barriers typically arise?  
|                     |   o How do you overcome these challenges and barriers?  
|                     | - What role does communication with newly acquired targets play in this process?  
|                     | - What organisational skills and abilities do you think [case firm] possesses that makes you particularly good at this task?  
|                     |   o How have these been developed over time?  
|                     |   o How sustainable do you think these are?  
|                     |   o How to protect/preserve these?  |
|                     | Building loyalty and commitment as microfoundation of seizing capabilities (Teece, 2007)  
|                     | Acquisitions bring two separate entities (each with their own cultures, systems etc.) together and expect to go forward as one (Barkema & Schijven, 2008) |
| Transferring resources between practices | 15. To what extent are resources (clinicians, admin staff, chairs, software, etc.) moved between acquired practices? |
|                     | - How frequently do these resource reallocations occur?  
|                     |   o How are these opportunities/needs identified?  
|                     |   o What are the typical motivations for this reallocation?  
|                     | - How do these resource reallocations occur?  
|                     |   o What processes are followed?  
|                     |   o What departments are involved?  
|                     | - What types of challenges typically arise in this process?  
|                     |   o How have overcome these challenges?  
|                     | - What organisational skills and abilities do you think underpinned this success?  
|                     |   o How have these been developed over time?  
|                     |   o How sustainable do you think these are?  
|                     |   o How to protect/preserve these?  |
|                     | Resource reallocation decisions as seizing capability (Bowman & Ambrosini, 2003; Teece, 2007) |
| Restructuring acquired units | 16. Have acquired practices ever been restructured or changed following an acquisition (e.g. merger, divested etc.)? |
|                     | - Could you talk me through that process?  
|                     |   o What were the reasons for this change?  
|                     |   o How were these opportunities/needs identified?  
|                     |   o How did this event(s) impact/influence your current operations?  |
|                     | Restructuring as reconfiguration capability (Teece, 2007)  
|                     | Divestment as reconfiguration capability (Moliterno & Wiersma, 2007) |

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What organisational skills and abilities do you think underpinned this success?
  - How have these been developed over time?
  - How sustainable do you think these are?
  - How to protect/preserve these?

<table>
<thead>
<tr>
<th>Restructuring existing units</th>
<th>17. Have the Support Office departments ever been restructured?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Refer Question 16</td>
</tr>
</tbody>
</table>


Finally, focus on organisational learning…

<table>
<thead>
<tr>
<th>Learning</th>
<th>18. Do you actively attempt to develop new routines, processes and procedures for conducting acquisitions?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>How is this achieved?</td>
</tr>
</tbody>
</table>

“The capability that wins tomorrow, is the capability to develop the capability, to develop the capability… and so on” (Collis, 1994)

19. Those are all the questions I have. Are there any other comments you would like to make in relation to [case firm’s] acquisition capabilities?
Appendix 5: Sample Excerpts from Direct Observation Journal

Excerpt One: Taken from 21/11/14

... [Procurement Manager] pulled me aside to explain his role at [case firm]. His role is to analyse and assess the purchasing performed by each practice, and then inform them of how to purchase better in the future (e.g. which suppliers provide the best discounts, which products are cheaper alternatives, etc.). He explained that although each practice is provided with clinical freedom (i.e. responsible for their own purchasing) they are encouraged to use a third party portal for their purchasing. This portal aggregates the catalogues of each supplier, allowing the practices to compare prices and products on a single webpage. Those suppliers with whom [case firm] has negotiated discounts appear at the top of the search results with a “[case firm] Recommends” label visible to encourage practices to purchase those specific consumables. A common metric used to assess the practices is “materials % of revenue” (i.e. the percentage that materials costs constitutes of that practices revenues) ...

Excerpt Two: Taken from 10/12/14

... I spent the final 15-20 minutes of the visit at [Practice P] with the two receptionists behind the reception desk to observe their day. Over this time, I observed the basic pattern of workflow associated with a patient’s visit (patient arrives – receptionist confirms arrival in the computer system – dentist receives notification and comes to waiting room – treatment – patient makes payments and schedules next appointment). All of this was done directly thought the software system I had become familiar with from my time in the accounting department. The receptionist clarified that this allowed the day-to-day activities performed within the practice to be linked back to support office without them having to do anything...
Appendix 6: Case Study Protocol
Based on Yin (2009)

1. Research Question
What are the roles of dynamic capabilities in the acquisition process?
What roles do sensing capabilities play in the acquisition process?
What roles do seizing capabilities play in the acquisition process?
What roles do reconfiguring capabilities play in the acquisition process?

2. Theoretical Framework
Acquisition process: Everything from the decision to consider acquisitions to the initial search for potential acquisition targets, through to their integration and management. Depending on the situation, this could even extend as far as the divestment, restructuring, merging of targets (and so on).

Dynamic capabilities: The capabilities that enable firms to modify and alter their resource base over time; to sustain competitive advantage

<table>
<thead>
<tr>
<th>Dynamic capability</th>
<th>Definition</th>
<th>Related concepts in selected M&amp;A literature</th>
</tr>
</thead>
</table>
| Sensing            | Capacity to identify, interpret and pursue opportunities | **Identification capability** (Helfat et al., 2007)  
**Identifying and reducing market inefficiencies** (Chatterjee, 2008)  
**Overcoming information asymmetry** (Capron & Shen, 2007; Shen & Reuer, 2005)  
**Selection capability** (Capron & Mitchell, 2009; Helfat et al., 2007)  
**Strategic sensitivity** (Junni et al., 2015) |
| Seizing            | Capacity to address new technological or market opportunities by making high-quality investment decisions and mobilising resources | **Collective commitment** (Junni et al., 2015)  
**Integration capability** (Mitchell & Shaver, 2003; Graebner, 2004; Ranft & Lord, 2004)  
**Effective communication** (Ranft & Lord, 2002)  
**Post-acquisition integration** (Homburg & Bucerius, 2006; Puranam & Srikanth, 2007)  
**Relationship building** (Stahl & Sitkin, 2012; Puranam et al., 2009) |
| Reconfiguring      | Capacity to renew and realign resources, infrastructure and strategies to reduce internal conflicts and maximize complementarities within the organisation | **Restructuring acquired units** (Capron, 1999; Karim, 2006; Meyer & Lieb-Doczy, 2003; Moliterno & Wiersena, 2007)  
**Transferring resources** (Capron et al., 1998; Bowman & Ambrosini, 2003; Karim & Mitchell, 2000; Junni et al., 2015; Meyer & Lieb-Doczy, 2003) |
3. Interview Documents

Information sheet (Appendix 2)
Consent form (Appendix 3)

4. Interview Checklist

Pre-interview
☐ Check interview timetable to clarify date, venue and time of next interview
☐ Consent forms (plus extras)
☐ Information sheets (plus extras)
☐ Questions
☐ Digital voice recorder and spare batteries
☐ Phone as backup recorder
☐ Pens
☐ Notepad
☐ Check digital voice recorder storage space
☐ Check digital voice recorder batteries and sound quality of venue
☐ Review interview questions

During interview
☐ Greet and thank
☐ Ask for consent to record *(Remind of confidentiality and anonymity)*
☐ Start recorder
☐ Provide participant with information sheet and consent form
☐ Briefly go through information sheet
  – Define acquisition process (see Theoretical Framework)
  – Define dynamic capabilities (see Theoretical Framework)
☐ Ask if any questions
☐ Ask to sign consent form *(Remind of confidentiality and anonymity)*

Post interview
☐ Transfer voice recording to laptop; label: [yymmdd]_ [participant name].mp3
☐ Backup voice recording to USB drive
☐ Backup voice recording to GoogleDrive
☐ Type up any paper notes made during interview
☐ Make reflection notes
☐ Email participant to thank

5. Interview Schedule

See Appendix 4
### 6. Interview Guide

<table>
<thead>
<tr>
<th>Interview #:</th>
<th>Date:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participant:</td>
<td>Start time:</td>
</tr>
<tr>
<td>Venue:</td>
<td>Finish time:</td>
</tr>
<tr>
<td><strong>ADDITIONAL QUESTIONS:</strong></td>
<td></td>
</tr>
</tbody>
</table>

**NOTES:**
Appendix 7: Case Study Database Directory

Master’s Case Database

⇒ Case Study Protocol
⇒ Correspondence
  – Email to participants
  – Initial request for research
⇒ Ethical Approval Documents
  – Consent form
  – Ethical confirmation (Category B)
  – Information sheet
⇒ Interviews
  – Interview recordings
  – Interview transcripts
  – Reflection notes
  – Signed consent forms
  – Timetable
⇒ Observation notes
⇒ Secondary data (case firm)
  – Internal documents
  – News articles
  – Press releases
⇒ Secondary data (parent company)
  – Annual meeting summaries (+ special meetings)
  – Annual reports
  – News articles
  – Press releases
  – Shareholder newsletters
# Appendix 8: Ethical Approval Documents

**Ethical Approval Application**

---

**UNIVERSITY OF OTAGO HUMAN ETHICS COMMITTEE APPLICATION FORM: CATEGORY B**

(\(\text{Departmental Approval}\))

1. **University of Otago staff member responsible for project:**
   O’Kane Conor Dr

2. **Department/School:**
   Management, School of Business

3. **Contact details of staff member responsible:**
   conor.okane@otago.ac.nz; ph 479 8121

4. **Title of project:** The Role of Dynamic Capabilities in Acquisitions

5. **Indicate type of project and names of other investigators and students:**

<table>
<thead>
<tr>
<th>Staff Research</th>
<th>Names</th>
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<tbody>
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<table>
<thead>
<tr>
<th>Student Research</th>
<th>Names</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Matthew Lowe</td>
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</tbody>
</table>

   *(Level of Study \(\text{e.g. \text{PhD, Masters, Hons}}\))*

<table>
<thead>
<tr>
<th>External Research/ Collaboration</th>
<th>Names</th>
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</table>

*Institute/Company*
6. **When will recruitment and data collection commence?**

   June 2015 onwards

   **When will data collection be completed?**

   October 31st 2015

7. **Brief description in lay terms of the aim of the project, and outline of the research questions that will be answered** (approx. 200 words):

   This project explores the organisational capabilities that enable the acquisition process. The aim of this project is for assessment for Matthew Lowe’s Master of Business thesis.

   The research draws on the dynamic capabilities perspective (Teece et al., 1997) to explore the impact that different types of dynamic capabilities have on the acquisition process. Specifically, it explores how Teece’s (2007) three main categories of dynamic capabilities (*sensing, seizing* and *reconfiguring*) underpin the acquisition process. This follows similar work from Ellonen et al. (2009) and Jantunen et al. (2012). The driving question of this project is therefore to explore how organisational sensing, seizing and transforming dynamic capabilities underpin the acquisition process of a specific organisation.

   It is anticipated that this research will contribute to academic literature around dynamic capabilities and acquisition performance by providing an in depth case study that sheds light on the role of internal capabilities in enabling acquirers to capture value from acquisitions. This is an area that is ambiguous in the literature (Haleblian et al., 2009). This research may also provide practical recommendations on how to improve acquisition performance.

8. **Brief description of the method:**

   As exploratory research, the approach is qualitative and will consist of a single case study of a New Zealand organisation that is actively involved in acquisitions. Data will be collected using in-depth semi-structured interviews (a projected interview schedule is attached).

   The organisation has been selected due to proximity to the student (with the student having completed a 10-week internship with the organisation between November 2014 and February 2015). Interviews will be conducted with selected members of the organisation – a total of 20 participants. These participants will be chosen by their availability and involvement in the acquisition process. It is anticipated that participants will include the organisation’s management team who are involved in acquisition decision-making (e.g. senior management team, company directors), as well as employees who are involved in the acquisition process (e.g. those involved with the pre-acquisition identification, valuation, selection of potential targets, and those involved with the post-acquisition integration and on going management of the acquired businesses).
The student will approach participants via email and then arrange a suitable time for the interviews to take place. It is anticipated that each interview will last approximately 60 minutes. Each interview will be recorded with participant consent. The interviews will be analysed with a thematic analysis.

This project involves an open-questioning technique. The general line of questioning includes the role of dynamic capabilities throughout the acquisition process. Participants will be made aware of this technique, and will be informed of their right to decline to answer any particular question(s) if the line of questioning develops in such a way that they feel hesitant or uncomfortable.

Data will be stored in such a way that only the researcher and supervisor has access to it. Hardcopies, audio recordings and external storage media (e.g. memory sticks) will be stored securely in the Department of Management and access to computer files is protected through password protection.

At the end of the project, any personal information held on the participants will be destroyed immediately. As required by the University’s research policy, any raw data derived from the research will be retained in storage for five years, after which it will be destroyed.

9. **Discuss and discuss any potential problems:**

We do not anticipate any problems. A consent form will be used in each interview and participants will be made aware of the fact the interview is being audio recorded. The participants will be anonymous in any written form and the raw data will be confidential. Only the named researcher will have access to the raw data (e.g. audio recordings via MP3 files).

*Applicant's Signature: .................................................................

Name (please print): .................................................................

Date: .................................

*The signatory should be the staff member detailed at Question 1.

**ACTION TAKEN**

☐ Approved by HOD  ☐ Approved by Departmental Ethics Committee
ACTION TAKEN

☐ Approved by HOD
☐ Approved by Departmental Ethics Committee
☐ Referred to UO Human Ethics Committee

Signature of Head of Department: .................................................................

Name of HOD (please print): .................................................................

Date: .................................................................

Departmental approval: I have read this application and believe it to be valid research and ethically sound. I approve the research design. The research proposed in this application is compatible with the University of Otago policies and I give my approval and consent for the application to be forwarded to the University of Otago Human Ethics Committee (to be reported to the next meeting).

References used in this application


IMPORTANT NOTE: As soon as this proposal has been considered and approved at departmental level, the completed form, together with copies of any Information Sheet, Consent Form, recruitment advertisement for participants, and survey or questionnaire should be forwarded to the Manager, Academic Committees or the Academic Committees Administrator, Academic Committees, Rooms G22, G23 or G24, Ground Floor, Clocktower Building, or scanned and emailed to either gary.witte@otago.ac.nz or jane.hinkley@otago.ac.nz

4
The Role of Dynamic Capabilities in Acquisitions
INFORMATION SHEET FOR PARTICIPANTS

Thank you for showing an interest in this project. Please read this information sheet carefully before deciding whether or not to participate. If you decide to participate, we thank you. If you decide not to take part there will be no disadvantage to you and we thank you for considering our request.

What is the Aim of the Project?

This project explores the organisational capabilities that underpin acquisitions. This involves conducting a case study of a New Zealand organisation actively involved in acquisitions. It is anticipated that this project will help to develop an understanding of the internal capabilities that influence acquisition performance.

This project is being undertaken as part of the requirements for a Master of Business (Management) at the University of Otago.

What Types of Participants are being sought?

Participants who work in an organisation that is actively involved in acquisitions. Participants will be selected based on their involvement in the acquisition process and will be representative of the organisation’s senior management team and head office support staff. It is anticipated that between 15-20 participants will be interviewed.

What will Participants be asked to do?

Participants who work in an organisation that is actively involved in acquisitions. Participants will be selected based on their involvement in the acquisition process and will be representative of the organisation’s senior management team and head office support staff. It is anticipated that between 15-20 participants will be interviewed.

Participants who work in an organisation that is actively involved in acquisitions. Participants will be selected based on their involvement in the acquisition process and will be representative of the organisation’s senior management team and head office support staff. It is anticipated that between 15-20 participants will be interviewed.
What Data or Information will be collected and what use will be made of it?

The data collected will be used to inform an understanding of the organisational capabilities that underpin acquisition performance. This data is being collected for research purposes only and will not be used for commercial use.

The data collected for this project will be the responses of participants to the various open questions posed in an interview. The general line of questioning includes organisational capabilities used during the acquisition process. The precise nature of the questions which will be asked have not been determined in advance, but will depend on the way in which the interview develops. In the event that the line of questioning does develop in such a way that you feel hesitant or uncomfortable you are reminded of your right to decline to answer any particular question(s).

The interview will be audio recorded and the recording will be used purely for research purposes in referring back to the responses provided by participants. The data collected will be securely stored in such a way that only those mentioned below will be able to gain access to it. Data obtained as a result of the research will be retained for at least five years in secure storage. Any personal information held on the participants may be destroyed at the completion of the research even though the data derived from the research will, in most cases, be kept for much longer or possibly indefinitely.

The results of the project may be published and will be available in the University of Otago Library (Dunedin, New Zealand) but every attempt will be made to preserve your anonymity. You will not be named or identified in subsequent reports or outputs and only Matt Lowe will know of your involvement in this research. The results will also be provided to each participant at the conclusion of the study if required.

Can Participants change their mind and withdraw from the project?

You may withdraw from participation in the project at any time and without any disadvantage to yourself.

What if Participants have any Questions?

If you have any questions about our project, either now or in the future, please feel free to contact either:

Matt Lowe
Department of Management
University Telephone: (03) 479 8152
Email Address: matt.lowe@otago.ac.nz

Dr Conor O’Kane
Department of Management
University Telephone: (03) 479 8121
Email Address: conor.okane@otago.ac.nz

This study has been approved by the Department of Management. However, if you have any concerns about the ethical conduct of the research you may contact the University of Otago Human Ethics Committee through the Human Ethics Committee Administrator (ph 03 479-8256). Any issues you raise will be treated in confidence and investigated and you will be informed of the outcome.
The Role of Dynamic Capabilities in Acquisitions

CONSENT FORM FOR PARTICIPANTS

I have read the Information Sheet concerning this project and understand what it is about. All my questions have been answered to my satisfaction. I understand that I am free to request further information at any stage.

I know that:
1. My participation in the project is entirely voluntary;
2. I am free to withdraw from the project at any time without any disadvantage;
3. Personal identifying information (e.g. audio recording via MP3 files) will be destroyed at the conclusion of the project but any raw data on which the results of the project depend will be retained in secure storage for at least five years;
4. This project involves an open-questioning technique. The general line of questioning includes organisational capabilities used during the acquisition process. The precise nature of the questions which will be asked have not been determined in advance, but will depend on the way in which the interview develops. In the event that the line of questioning develops in such a way that I feel hesitant or uncomfortable I may decline to answer any particular question(s) and/or may withdraw from the project without any disadvantage of any kind.
5. The results of the project may be published and will be available in the University of Otago Library (Dunedin, New Zealand) but every attempt will be made to preserve my anonymity.

I agree to take part in this project.

...............................................................................

(Signature of participant) ...............................................................................

(Date) (Printed Name)
### Projected Interview Schedule

<table>
<thead>
<tr>
<th>Theme</th>
<th>Question</th>
<th>Follow-up Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition Process</td>
<td>Please explain the acquisition process in your organisation.</td>
<td>What stages are involved?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>How long does each stage typically take?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>What is involved in these stages?</td>
</tr>
<tr>
<td></td>
<td>Who is involved in this process?</td>
<td>How many different departments are involved?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>How many organisational layers are involved?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>At what stages of the process are these people/departments involved?</td>
</tr>
<tr>
<td></td>
<td>How are decisions made?</td>
<td>What decision rights does each group have?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>What role do strict rules and protocols play in the acquisition process?</td>
</tr>
<tr>
<td>Acquisition Performance</td>
<td>In your opinion, how successful is your organisation in performing acquisitions relative to competitors?</td>
<td>How do you measure acquisition performance?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Who is responsible for measuring acquisition performance?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>How many competitors do you have in this area?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>To what extent has your organisation shaped the industry through its acquisition process?</td>
</tr>
<tr>
<td></td>
<td>What would you consider to be the key determines of your performance throughout the acquisition process?</td>
<td></td>
</tr>
</tbody>
</table>

Now going to focus on specific stages in acquisition process.

<p>| Sensing Capabilities          | How are potential acquisition targets identified?                        | Do you actively search for new leads?                                                |
|                               |                                                                          | What processes are used to identify potential targets?                               |
|                               | How do you stay in tune with business environmental changes?            | To what extent does the environmental situation determine your decision to engage in acquisitions? |
|                               | How do you identify opportunities to combine business units internally? | Do you actively search of areas of synergy between businesses?                        |
|                               |                                                                          | What processes are used to identify these areas?                                     |</p>
<table>
<thead>
<tr>
<th><strong>Seizing Capabilities</strong></th>
<th><strong>Questions</strong></th>
</tr>
</thead>
</table>
| How are newly acquired businesses integrated into your organisation? | How frequently does this occur?  
How long after acquisition would this occur?  
Which departments champion these processes?  
What processes are followed?  
Which departments champion these processes?  
How involved are other departments (e.g. those involved in identifying potential targets) in this integration?  
How do you ensure coordination amongst operational activities? |
| How do you ensure coordination amongst operational activities? |  |
| How frequently are resources moved between departments/practices? | How are these opportunities identified?  
How are these redeployments performed?  |
| **Transforming Capabilities** | **Questions** |
| How frequently are acquired units restructured or changed following an acquisition (e.g. merger, re-staffing etc.)? | What are the typical motivations for this process?  
How is this need identified?  
What department identifies this need, and how are other departments made aware?  
How successful were these restructurings, and what were the factors behind this success?  |
| Have the support departments (finance, marketing, operations etc.) ever been reconfigured in the past due to the increased number of acquisitions? | How was this need identified?  
Who designed this change and how was this change implemented? |
| **Learning Routines** | **Questions** |
| How does previous acquisition experience impact your current acquisition activities? | Do individuals involved in the acquisition process frequently share their acquisition experience with one another? Even if in different departments?  
Is knowledge codified into written documents, guidelines, checklists etc.? |
| How is knowledge shared and transferred throughout the organisation? |  |
Initial Ethical Approval Letter

Dr C O’Kane
Department of Management
Division of Commerce
School of Business

10 July 2015

Dear Dr O’Kane,

I am writing to let you know that, at its recent meeting, the Ethics Committee received a copy of the Reporting Sheet relating to your Category B ethics proposal entitled “The Role of Dynamic Capabilities in Acquisitions”.

For your future reference, the Ethics Committee’s reference code for this project is:- D15/203.

The Committee appreciates that Category B proposals may commence as soon as approval has been obtained at departmental level and that, in some instances, the research or teaching may be well advanced or even completed by the time the Reporting Sheet is received by the Committee.

Nonetheless, in the case of this particular proposal (D15/203), the Ethics Committee has recorded a status for it of Approved HOD at this stage, and has asked me to pass on it’s views to you as follows:-

The Committee noted that in the Information Sheet on page 5, the same paragraph is repeated three times under two separate headings. The Committee would be grateful if the Information Sheet could be revised to delete the repetition, and to ensure that participants are clearly informed what it is they are being asked to do.

Yours sincerely,

Mr Gary Witte
Manager, Academic Committees
Tel: 479 8256
Email: gary.witte@otago.ac.nz

c.c. Assoc. Prof. I C McAndrew Department of Management

*The required amendments were made prior to data collection (see Appendix 4).
Confirmed Ethical Approval Letter

17 November 2015

Dr C O’Kane
Department of Management
Division of Commerce
School of Business

Dear Dr O’Kane,

I am writing to confirm for you the status of your proposal entitled “The Role of Dynamic Capabilities in Acquisitions”, which was originally received on June 22, 2015. The Human Ethics Committee’s reference number for this proposal is D15/203.

The above application was Category B and had therefore been considered within the Department or School. The outcome was subsequently reviewed by the University of Otago Human Ethics Committee. The outcome of that consideration was that the proposal was approved.

Approval is for up to three years from the date of HOD approval. If this project has not been completed within three years of this date, re-approval must be requested. If the nature, consent, location, procedures or personnel of your approved application change, please advise me in writing.

Yours sincerely,

[Signature]

Mr Gary Witte
Manager, Academic Committees
Tel: 479 8256
Email: gary.witte@otago.ac.nz
# Appendix 9: Codes for Data Analysis

## Codes for Second Stage of Analysis (Acquisition Phases)

<table>
<thead>
<tr>
<th>Acquisition phase</th>
<th>Codes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-acquisition</td>
<td>• Due diligence (D)</td>
</tr>
<tr>
<td></td>
<td>• Lead generation (I)</td>
</tr>
<tr>
<td></td>
<td>• Qualifying leads (D)</td>
</tr>
<tr>
<td></td>
<td>• Site visit (I)</td>
</tr>
<tr>
<td></td>
<td>• Target selection (D)</td>
</tr>
<tr>
<td>Transaction</td>
<td>• Contractual agreement (D)</td>
</tr>
<tr>
<td></td>
<td>• Board approval (I)</td>
</tr>
<tr>
<td></td>
<td>• Deal structure (D)</td>
</tr>
<tr>
<td></td>
<td>• Financial valuation (D)</td>
</tr>
<tr>
<td></td>
<td>• Formal offer (D)</td>
</tr>
<tr>
<td></td>
<td>• Negotiation (D)</td>
</tr>
<tr>
<td></td>
<td>• Pricing proposal (I)</td>
</tr>
<tr>
<td></td>
<td>• Terms sheets (I)</td>
</tr>
<tr>
<td>Post-acquisition integration</td>
<td>• Consolidation (I)</td>
</tr>
<tr>
<td></td>
<td>• Integration (D)</td>
</tr>
<tr>
<td></td>
<td>• Integration preparation (D)</td>
</tr>
<tr>
<td></td>
<td>• Restructuring acquired units (D)</td>
</tr>
<tr>
<td></td>
<td>• Restructuring existing units (D)</td>
</tr>
<tr>
<td></td>
<td>• Settlement period (I)</td>
</tr>
<tr>
<td></td>
<td>• Transferring resources (D)</td>
</tr>
</tbody>
</table>

(D) = Deductive  
(I) = Inductive

## Codes for Third Stage of Analysis (Dynamic Capabilities)

<table>
<thead>
<tr>
<th>Acquisition phase</th>
<th>Sensing</th>
<th>Seizing</th>
<th>Reconfiguring</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-acquisition</td>
<td>• Identifying acquisition opportunities</td>
<td>• Decision-making protocols</td>
<td>• Managing threats associated with growth</td>
</tr>
<tr>
<td></td>
<td>• Identifying acquisition targets</td>
<td>• Relationship building</td>
<td>• Realigning resources with growth</td>
</tr>
<tr>
<td></td>
<td>• Identifying complementary technology</td>
<td>• Trust building</td>
<td>• Renewing systems and processes due to growth</td>
</tr>
<tr>
<td></td>
<td>• Gathering market information</td>
<td>• Accessing financial resources</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Overcoming information asymmetry</td>
<td>• Decision-making protocols</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Performing due diligence</td>
<td>• Effective communication</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Sensing industry changes</td>
<td>• Relationship building</td>
<td></td>
</tr>
<tr>
<td>Transaction</td>
<td>• Identifying complementary technology</td>
<td>• Trust building</td>
<td>• Managing threats associated with growth</td>
</tr>
<tr>
<td></td>
<td>• Gathering market information</td>
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<tr>
<td></td>
<td>• Sensing industry changes</td>
<td>• Effective communication</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Predicting how post-acquisition opportunities arise</td>
<td>• Integration processes</td>
<td></td>
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<tr>
<td></td>
<td>• Sensing industry changes</td>
<td>• Managing complementary technology</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Identifying complementary technology</td>
<td>• Mobilising resources for integration</td>
<td></td>
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<tr>
<td></td>
<td>• Identifying consolidation opportunities</td>
<td>• Planning post-acquisition integration</td>
<td></td>
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<tr>
<td></td>
<td>• Identifying internal opportunities</td>
<td>• Planning consolidations</td>
<td></td>
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<tr>
<td></td>
<td>• Gathering market information</td>
<td>• Relationship building</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Sensing industry changes</td>
<td>• Trust building</td>
<td></td>
</tr>
<tr>
<td>Post-acquisition integration</td>
<td>• Decision-making protocols</td>
<td>• Effective communication</td>
<td>• Adopting loosely-coupled structures</td>
</tr>
<tr>
<td></td>
<td>• Identifying complementary technology</td>
<td>• Integration processes</td>
<td>• Managing threats associated with growth</td>
</tr>
<tr>
<td></td>
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<tr>
<td></td>
<td>• Gathering market information</td>
<td>• Planning post-acquisition integration</td>
<td>• Restructuring acquired units</td>
</tr>
<tr>
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<td>• Sensing industry changes</td>
<td>• Planning consolidations</td>
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