ACQUISITIONS, MERGERS AND HABITUAL DOMAINS ANALYSIS

Deepak K. Datta
Assistant Professor of
Strategic Management
School of Business
University of Kansas
Lawrence, KS 66044

P.L. Yu
Carl A. Scupin Distinguished
Professor
School of Business
University of Kansas
Lawrence, KS 66044

Abstract

Acquisitions and mergers, which have been important mechanisms in corporate growth and
diversification, involve the integration and assimilation of two previously independent organizations
with distinct habitual domains (HD). Therefore, along with the choice of the right acquisition
candidate, effective integration of the two habitual domains is key to the success or failure of an
acquisition. This paper proposes a framework for the systematic analysis of a firm's habitual domain
and its impact on acquisitions and mergers, with the objective of enhancing the probabilities of success
and minimizing the chances of failure.

I. INTRODUCTION

Organizations in the 1980s have been operating in an environment which has become
increasingly volatile and competitive. In order to survive, grow and be profitable, they are being
forced to look beyond their current operations and diversify into related and unrelated areas of
business. The transition can be effected in a number of ways (e.g., joint ventures, internal
development and acquisitions and mergers) -- however, acquisitions remain as the most commonly
used mode [22]. Billions of dollars are invested each year by U.S. corporations in such ventures -- in
1986, for example, there were more than 4000 mergers involving a total dollar value of more than
$190 billion. A similar trend has been observed in the U.K., where the number of acquisitions
increased from 940 in 1985 to 1320 in 1986 [4]. However, acquisitions have also been
characterized by a high failure rate -- 40-50% according to statistics compiled by W.T. Grimm & Co.
[11]. Thus, the effective management of the acquisition process remains a task of high priority in the
minds of many corporate executives.

Acquisitions have figured quite prominently both in the empirical literature, especially in the
areas of finance [14], industrial economics and strategic management [5,18,26], and also in the more
prescriptive, practitioner-oriented literature [15,19,29]. A variety of frameworks have also been
suggested by various authors [2,3,13,28] providing a number of alternative approaches towards
improving the chances of success. However, past efforts have generally been characterized by a rather
narrow focus and have, consequently, been of limited help to managers involved in the making of
effective acquisition decisions.

On the other hand, scholars and researchers in management science have been developing
various optimization techniques under the rubric of multicriteria decision making [27,31,34].
Unfortunately, the merging of two entities is generally a complex, dynamic process and decision situations that are encountered do not easily lend themselves to the traditional mathematical and static approaches in multiple criteria decision making (MCDM). In this context, concepts in second order games and habitual domains (HD) analysis [31,32,33], which seeks the dynamic restructuring of MCDM systems, provide at least a partial remedy.

In this paper we suggest an application of habitual domains analysis towards a more balanced and effective analysis of acquisitions and mergers. First, we introduce the concept of organizational habitual domains. Then, we provide a framework (FFS) which allows the systematic analysis of acquisition opportunities and problems. Finally, we discuss how habitual domains analysis can help facilitate negotiations and post-acquisition implementation processes in acquisitions and mergers.

2. HABITUAL DOMAINS

The concept of habitual domains can best be illustrated using the following example:

A retiring Chairman was faced with the difficult choice of selecting a heir from two prospective finalists, invited them to his ranch. Providing them with two identical horses (one white and the other black), he posed an unique and challenging problem -- "whoever's horse is slower is completing the course will be declared the winner."

The puzzled candidates were taken aback. The problem did not fit in with their habitual ways of thinking -- the emphasis and evaluation criteria in a horse race, after all, is generally "quickness" and speed. Finally, A getting out of his habitual ways of thinking, jumped on B's horse and sped to the finish line. When B realized what was happening, it was too late!

The above example provides an illustration of the fact that sticking closely to one's existing habitual domain might not be particularly conducive to the finding of a good solution in a complex problem. Indeed many non-trivial decision problems are solved by being able to "jump out" of the constraints of the current habitual domain. Many real life situations pose a broad array of "non-trivial" and "challenging" problems and decisions which typically cannot be analyzed or solved by traditional mathematical or optimal control theory. Second order games and habitual domains analysis, in such cases, can be particularly helpful [32,33].

Broadly defined, habitual domains (HD) are a "collection of ideas and actions that can potentially be activated at point in time 't'. Depending on our emphasis, we may focus on the dimension related to "information processing" (e.g., goal setting, state valuation, memory, charge structures, attention, charge release methods, external information inputs, physiological conditions etc.) or focus on the dimension related to "individual events" (decisions problems, situations etc.). The elements of habitual domains can be further decomposed into potential domains, actual domains, activation possibility and reachable domains. A detailed description of the above and on how habitual domains can reach their "steady states" most of the time can be found in [31,32]. As habitual domains in individuals reach a steady state, he or she will manifest a steady pattern of behavior and/or decisions.