MANAGING ACQUISITIONS TO FUEL CORPORATE ENTREPRENEURSHIP: THE INFLUENCE OF ORGANIZATIONAL MEMBERS' SENSEMAKING

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ABSTRACT

In technology intensive industries, companies have come to rely on acquisitions as a tactic for infusing the existing organization with innovative products and services and new entrepreneurial activity. Many organizations use acquisitions to complement and even substitute for "greenfield" ventures. Acquisitions can, therefore, be described as one form of corporate entrepreneurship that can be particularly useful as an established company tries to innovate and infuse the organization with more entrepreneurial behavior. However, this approach is not without its pitfalls as acquisitions, in general, have a poor performance record. In this study, we take an interpretivist perspective to explore if and how acquisitions can be used to fuel corporate entrepreneurship. The findings from this study have important implications for researchers who study mergers and acquisitions and corporate entrepreneurship, and for managers who oversee these complex organizational processes.

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For the past few years, companies in technology-intensive industries have been at the center of both entrepreneurship and corporate entrepreneurship efforts.[1] In today's competitive environment, issues related to entrepreneurship are particularly important to established companies in these industries. Due to shortened product development cycles, increased competition, and a rapidly changing marketplace, established industry leaders can no longer simply rely on a strong product or brand name to fuel their growth. Instead, established organizations must continually focus on identifying new business opportunities and developing process, product, and service innovations. These innovations are critical since innovative practices are one of the most important determinants of future business success.[2]

Corporate entrepreneurship is one way established companies encourage innovation, renew their organization, and pursue new business opportunities.[3] Corporate entrepreneurship includes activities that fuel organizational renewal, innovation, and creation.[4] There are a number of approaches that established organizations can employ as they try to develop a more entrepreneurial mind-set and continue on an innovative path of creating new products and processes. Organizations can grow internally, they can enter into partnerships or strategic alliances with other companies, and/or they can rely on acquisitions to create new competencies and entrepreneurial action in the existing organization.[5] Clearly, most large organizations innovate by all three approaches. For example, over the years Kodak and IBM have cultivated corporate entrepreneurship strategies that include internal growth through skunk work projects and internal venturing, strategic partnerships, and acquisitions.[6] Although acquisitions always have been viewed as a significant way to invoke radical change in an organization and to provide for innovation as well as the creation of new products and processes,[7] there is little research on the influence of acquisitions on corporate entrepreneurship.

In this study, we take an interpretivist approach to explore if and how acquisitions fuel corporate entrepreneurship in established technology intensive companies. In particular, we were interested in how organizational members' interpretations during the precombination and combination phases of the acquisition process affected entrepreneurial endeavors in the postcombination phase. WHY ARE WE FOCUSED ON INTERPRETATION? To address these research questions, we use a case study methodology of three acquisitions in technology intensive industries. The findings related to this paper have important implications for researchers of corporate entrepreneurship and mergers and acquisitions as well as for leaders who are involved with these organizational processes.

LITERATURE REVIEW

Corporate Entrepreneurship

Because the construct corporate entrepreneurship has come to mean a number of different things in the past few years, we feel it is important to begin by defining here how we are conceptualizing this term. When using the construct corporate entrepreneurship, we are referring to "the process whereby an individual or a group of individuals, in association with existing organizations, create a new organization or instigate renewal or innovation within that organization."[8] In other words, innovation is the medium through which entrepreneurship develops.[9] An implicit component of corporate entrepreneurship is its focus on turning both product and process innovations into top line growth and bottom line performance. There are three distinct tactics one can employ when pursing corporate entrepreneurship: creating new businesses within the established business, transforming the established business through different types of corporate renewal, and broad activities that spur innovation.[10] Although corporate entrepreneurship represents a growing field of study,[11] existing research is frequently criticized for lacking conceptual consistency, theoretical grounding, and empirical validation.[12]

With these limitations in mind, a significant amount of the research has been conducted on the strategic reasons for engaging in corporate entrepreneurship.[13] More recently, corporate entrepreneurship has been linked to improved organizational performance[14] and is described as being core to an organization's ability to maintain its competitive advantage. This research clearly makes a significant contribution as it helps to unravel the impact that these types of processes can have on an organization's strategy. What is missing, however, with regards to most research on corporate entrepreneurship, is an understanding of the process that underlies corporate entrepreneurship programs and the key factors that can facilitate or impede these efforts. In particular, we believe there needs to be more research that explores the different ways in which organizations can engage in corporate entrepreneurship and examines the unique issues that impact the success of different corporate entrepreneurship strategies. It is for this reason that, in this paper, we focus on the unique issues that impact organizations' ability to successfully engage in corporate entrepreneurship through a strategy of acquisitions.

Acquisitions as a Strategy for Fueling Corporate Entrepreneurship

The end of the 1990s represented the fifth wave of merger and acquisition (M&A) activity in the United States with more than 62 percent of the M&As (measured in dollar volume) since 1980 occurring in 1999 and 2000.[15] Environmental changes, such as technological changes, globalization, and deregulation, have frequently been cited as the drivers for the most recent M&A wave.[16]

Many researchers use the terms merger and acquisition interchangeably; however, it is important to recognize that these are two very distinct types of organizational changes. A merger is defined as the full combination of two previously separate companies into a third integrated organization. For example, when Sperry and Burroughs merged they created an entirely new organization called Unisys. In contrast, an acquisition typically involves the purchase of one organization by another organization. The purchased organization is integrated into the folds of the acquiring organization. For example, when AT&T acquired NCR, NCR was integrated into the existing AT&T organization.[17]

This paper is specifically focused on acquisitions, and, in particular, acquisitions in technology-based industries. In the most recent wave of M&A activity, technology-based industries such as computer hardware, computer software, electronics, biotechnology, and pharmaceuticals were frequently placed among the top 10 most active M&A industries in the SDC's annual M&A almanac.[18] Technology-based organizations have engaged in such extensive M&A activity in part because M&As are a useful tactic for speeding entry to market and/or quickly obtaining a larger percentage of the market share the company currently serves.[19] In addition, the acquirer is able to save time and money by limiting its own internal R&D and relying on acquisitions to fulfill the same purposes. Hence, we were focused on technology-based industries because we expected that, in these settings, part of the strategic rationale for the acquisition would be a desire to infuse the acquirer with entrepreneurial, innovative activity.

Although research on acquisitions can be conducted from a financial, strategic, or organizational framework, we rely on a process perspective in this study. The process perspective frames acquisitions as a series of linked phases, each of which has an impact on the subsequent phases and on the final outcome of the process. This perspective posits that to fully understand acquisition value creation, one must study the actions that lead up to the acquisition decision along with the integration and management activities that follow the decision.[20] While there may be a well-identified strategic and organizational fit underlying an acquisition, organizational members play an important role in the realization of the potential value following the acquisition. Hence, integration process management will strongly influence value realization following an acquisition.[21]

An acquisition process can be divided into three general phases: precombination, combination, and postcombination.[22] The precombination phase denotes the time period before the acquisition closes, in which potential acquisitions are identified, due diligence is conducted, and final deals are negotiated. In the precombination phase, the acquisition process is managed by a small team of lawyers, investment bankers, and business development advisors.

After the acquisition is closed and announced, the acquisition moves into the combination phase. During this phase, a strategy must be developed for combining the two organizations. Many acquiring organizations create integration teams during this phase who will have responsibility for planning and executing an integration strategy. It is important to recognize that the integration strategy does not automatically assume that the acquirer absorbs the target into the acquirer's existing organizational structure. In some acquisitions, the target may retain its independence and be preserved as a separate company, while in other acquisitions a best of both approach is taken in which a new organization is created that incorporates the best practices of the two prior companies.[23] For any of these strategies, the integration teams will need to create a plan that addresses a diverse range of issues including integration of information systems, manufacturing processes, benefits and compensation, and role assignment. The combination phase is the most challenging phase of the acquisition process as politics, cultural differences, and individual stress and uncertainty make integrating two organizations highly problematic.[24]

After the integration strategy is finalized and a new organization is created, the acquisition moves into the postcombination phase. There is no definitive time frame on when the acquisition moves into the postcombination phase; this is dependent on how successful and quickly the combination occurs. In best-case scenarios, the postcombination phase begins a few months after the acquisition announcement, and, in worst-case scenarios, this phase begins a few years after the acquisition announcement. In the postcombination phase, the new organization is expected to move forward and begin to find ways to capitalize on the strategic synergies that were identified during the precombination or combination phase. The newly combined organization should now be focused on becoming more than the sum of its parts. It is during the postcombination phase that entrepreneurial, innovative activities should begin to emerge. Unfortunately, problems that are often left unresolved during early phases carry over into this phase and can prevent the new organization from ever achieving these synergies.[25]

As we mentioned previously, one of the most frequently cited reasons for why companies undertake acquisitions is the expectation that an acquisition will help a company expand, grow, become more innovative and as a result create more value.[26] In contrast to "greenfield ventures" which are defined as internally generated entrepreneurial activities, acquisitions often enable a firm to save both time and resources as they develop new capabilities. Acquisitions provide the acquirer with the opportunity to shorten the product development life cycle and quickly enter into a new market or obtain a larger share of the market the company currently serves.[27] Furthermore, acquisitions can be used to help the acquirer revitalize its knowledge base and enhance the success of later entrepreneurial ventures.[28] All of this implies that engaging in acquisitions may be a useful strategy for organizations that want to advance a strategy of corporate entrepreneurship.

Relying on acquisitions as a mechanism for pursuing corporate entrepreneurship is not risk-free, as researchers and practitioners have both highlighted the troubled performance record of acquisitions. From a financial perspective, acquisitions frequently destroy shareholder value and more than 50 percent of acquisitions fail to achieve their anticipated financial goals.[29] From an organizational perspective, key talent along with top managers often leave or become less productive following an acquisition,[30] employees may resist the acquisition, which makes it more difficult to achieve potential synergies;[31] and the organization's productivity can be slowed down as the companies try to merge cultures.[32] To manage these problems, acquisitions frequently incur added costs in terms of both funding as well as top management's attention.[33]

The challenge then is to better understand the acquisition process and to explore the aspects of this process that help or hinder the organization from achieving its objectives of furthering corporate entrepreneurship. We believe one of the factors that may be overlooked by both researchers and practitioners is the role individual organizational members play in this process. Researchers have highlighted the important role individuals play, in general, in the success of corporate entrepreneurship,[34] hence, it is reasonable to assume that the perceptions and behaviors of individuals in the acquisition process are critical for success and for furthering corporate entrepreneurship. Specifically, we believe research needs to explore how the acquisition process influences individuals to engage in behaviors that fuel corporate entrepreneurship following an acquisition.

An Interpretivist Framework

To explore how the acquisition process influences individuals to engage in activities that fuel corporate entrepreneurship, we take an interpretivist perspective. An interpretivist perspective focuses on how organizational members understand and make sense of their organization's environment, and the influence that this understanding has on the reality that comes to exist. For more than two decades, research has been conducted from an interpretivist perspective and is now so well established in the management literature that there is a separate division at the Academy of Management meeting that is focused on social cognition.

From an interpretivist perspective, organizational members do not simply behave and do work. They think about and make sense of their work and organizations.[35] Sensemaking refers to the process whereby organizational members interpret an organizational event, particularly an organization change, and construct a meaningful explanation for that event.[36] Specifically with regards to organizational changes, such as acquisitions, organizational members will need to make sense of that change, and, in doing so, they will often need to revise their existing values and meaning systems.[37] These interpretations are important not simply because they reflect the new organizational reality that follows the change, but also because these interpretations can create the reality that comes to rest.[38]

As organizational members make sense of and respond to organizational changes, their memories and existing interpretive frameworks often guide their understanding of the current change processes.[39] Organizational members store and process critical information that makes up an organization's history.[40] These memories often become entrenched in an organization through mental and structural artifacts, and they then influence future decision making and change initiatives in the organization.[41] Specifically, organizational memory influences how organizational members make sense of a change initiative and how willing organizational members are to engage in behavior that supports that initiative. Thus, these memories and the interpretations that arise as a result of these memories greatly influence the outcomes of organizational change initiatives.

In acquisitions, the issue of organizational memory is particularly important because organizational members not only have strong memories of their own organization and its acquisition history, but also have strong memories of the other organization, particularly around its market reputation and history with their firm. All of these memories and the resulting interpretations of the acquisition process will clearly influence the extent to which organizational members adapt to the new integrated environment.[42]

Despite the significant influence that interpretations and memory have on organizational change in general, there is little research to date that specifically explores how organizational members' interpretations in general, and memories in particular, influence the acquisition process and organizational members' desire to engage in collaborative behavior around innovative products and processes and fuel the corporate entrepreneurship initiatives of the organization. Previous research has shown that organizational members who engage in entrepreneurial behavior often do so based upon perceptions, beliefs, attitudes, and assumptions about the world and their workplace.[43] In applying this argument to acquisitions ability to fuel corporate entrepreneurship, we suggest that organizational members' perceptions about the acquisition prior to and during the acquisition process are likely to influence their subsequent behavior and desire to act entrepreneurially. Thus, an important component of the puzzle for understanding how acquisitions fuel corporate entrepreneurship is to understand how organizational members' interpretations of the acquisition process influence their ability to engage in the creation of innovative products and processes. We explore this issue through the following general research question: How do organizational members' memories of their acquisition partner and of the history between the two organizations impact the combination and postcombination phases of the acquisition process? Given this, how do these perceptions influence behavior during the post combination phase that is necessary for fueling corporate entrepreneurship.

METHODOLOGY

To explore the influence that organizational members' interpretations and memories have on acquisitions ability fueling to fuel corporate entrepreneurship, we utilize a multi-site, multi-researcher, case-based methodology.[44] The strategy underlying case study research focuses on understanding the unique dynamics present within single case settings of the phenomenon under investigation. Theory is generated through an inductive process of analyzing within-case data and then searching for patterns across cases. The case study approach is particularly useful for studies that follow from an interpretivist perspective as it enables the research to extract the complexity and richness of individual organizational members' perspectives.[45] Furthermore, Larsson (1993) has advocated the use of case-based methodologies in the study of M&As as they enable researchers to explore the process through which value creation is identified and actualized. In spite of Larsson's advocacy, case methodologies have only been used in a limited number of M&A research studies.[46]

Case Selection for the Larger Study

We used three specific selection criteria to identify the cases that form the basis of this research. First, to compare the similarities and differences across different types of technology-intensive industries, we wanted to stratify our cases across multiple industries. In the end, we selected research sites from three different technology-intensive industries: computer hardware, computer storage, and biotechnology. Our second selection criteria related to time lapse from the acquisition announcement. Because previous researchers have suggested that knowledge transfer is not likely to occur in the first few months following the acquisition close date,[47] we wanted to study organizations that were at least one year post acquisition close date. In the end, our research sites ranged from one year to six years post closing date. Finally, we selected research sites based upon preliminary discussions with the organization that part of the strategic rationale behind the acquisition was a desire to use it as a tactic for developing innovative new products and processes, and fueling corporate entrepreneurship. We stratified our sample using the first criteria (industry mix) and selected only those cases that met the second (time lapse) and third criteria (strategic intent). Stratifying the research sites along these three criteria is consistent with case-study methodology as it allows us to better explore the patterns that exist across the cases with the goal of improving the validity and generalizability of the findings from this study.

Research Design

The three in-depth case studies that are presented here were developed using interview data along with archival analysis from public and privately held documents. Depending on where each case fell in the data collection cycle, between 10 and 40 employees were interviewed for each case (see **Appendix** for the interview protocol). In the first case, we interviewed more participants, and as we became clearer about our research findings, we did not need to conduct as many interviews in the future subsequent cases. In general, we stopped conducting interviews for a particular case when the interviews began to reveal excessively repetitive data. Descriptive information for each of the three cases is presented in **Table 1** and **Table 2**.

The interviews all followed a semistructured interview format and lasted between 60-90 minutes. The interviews focused on the respondents' perceptions of the two acquirer and target companies

TABLE 1

DESCRIPTIVE INFORMATION REGARDING CASE STUDIES

Industry	*Value Creation Proposition*	*Revenue in Year Before Acquisition*
Case A: Computer Storage (Day-Night)	Gain access to technological capabilities that would lead to product line expansion.	Acquirer: $7 billion Target: $1.5 billion
Case B: Hardware-Software (Hot-Cold)	Gain capabilities in the software and services end of the business. Increase competitive position in changing technological market.	Acquirer: $72 billion Target: $1 billion
Case C: Biotechnology (Sun-Rain)	Gain access to scientific expertise in an emerging segment of the market.	Acquirer: $353 million Target: $79 million

at the time of the acquisition, the integration process, and collaborative behavior and knowledge transfer activities that had (or had not) developed following the integration. For each of the research sites, organizational members from different levels and departments from both the acquirer and the target company were interviewed in order to develop the internal validity of each of the cases.

Data Analysis

Data analysis began using a within-case sampling frame.[48] The interviews were transcribed and data was coded using the qualitative software package Atlas TI. Coding themes were developed based upon our a prior research questions coupled with new themes that emerged from the data. Once coding was completed, in-depth case studies that highlighted the perceptions of the organizational members, the integration process, and the knowledge transfer opportunities that arose as a result of the acquisition were then written for each of the three cases. Data analysis continued with a cross-case approach, in which the researchers looked for similarities and differences between among the cases in order to develop a more robust theoretical frame. The cross-case comparisons enabled us to identify some of the challenges that acquirers face as they try to integrate competitors with the intent of cultivating corporate entrepreneurship. For more information on this study, please reference other articles that have been written from this study by the researchers.[49]

RESULTS

One of the central tenets of a process approach to acquisition research is that issues left unresolved in one phase of the acquisition process will often prevent the organization from successfully moving into the next phase.[50] This statement provides an overall frame for our findings, as we found that perception biases that were unresolved during precombination influence sensemaking during the combination phase, which in turn impact entrepreneurial behavior in the postcombination phase **(see Table 3)**.

TABLE 2

DATA DESCRIPTION

	Case A: Computer Storage Day-Night	*Case B: Software Hot-Cold*	*Case C: Biotechnology Sun-Rain*
Target Interviews	19	7	10
Acquirer Interviews	20	3	4
Total Interviews	39	10	14
Data Collection Timetable	1.5 years post closure	6 years post closure[a]	1 year post closure

[a] While this case was 6 years post closure, for the first 4 years following the acquisition the two firms were completely independent organizations. It was only in the past two years that the two organization have been integrated and opportunities for collaboration and innovation have appeared.

TABLE 3

CASE COMPARISON

	Day-Night	*Hot-Cold*	*Sun-Rain*
Precombination Perceptions: Market Image	Acquirer: negative Target: positive & negative	Acquirer: positive Target: negative	Acquirer: positive Target: positive
Precombination Perceptions: Competitive History	Acquirer: Mild Competition Target: Intense Competition	Acquirer: Mild Competition & Collaboration Target: Mild Competition	Acquirer: Mild to No Competition & Industry Collaboration Target: Mild to No Competition & Industry Collaboration
Sensemaking During Combination	Somewhat Negative	Somewhat Positive	Very Positive
Entrepreneurial Behavior During Postcombination	Low levels of entrepreneurial actions	Initially low, though increasing, levels of entrepreneurial action	Immediate, high levels of entrepreneurial action

Specifically, we found that prior to an acquisition, organizational members frequently have strong images of their acquisition partner. In particular, we found that organizational members had strong perceptions of the market image of the partner and of the competitive history that existed between the two organizations prior to the acquisition announcement. These perceptions could be classified as positive, negative, or mixed. Once the acquisition closed and the organization moved into the combination phase, these memories biased organizational members' sensemaking of their acquisition partner and of the integration process. These interpretations then led to very different behaviors during the postcombination phase such that the three acquisitions varied tremendously in the extent to which they resulted in knowledge transfer, leveraging resources, and uncovering new entrepreneurial endeavors, all of which are actions that fuel corporate entrepreneurship. A graphic representation of our conceptual framework is presented in **Figure 1**. We now go into more detail on each of the concepts that composes our model.

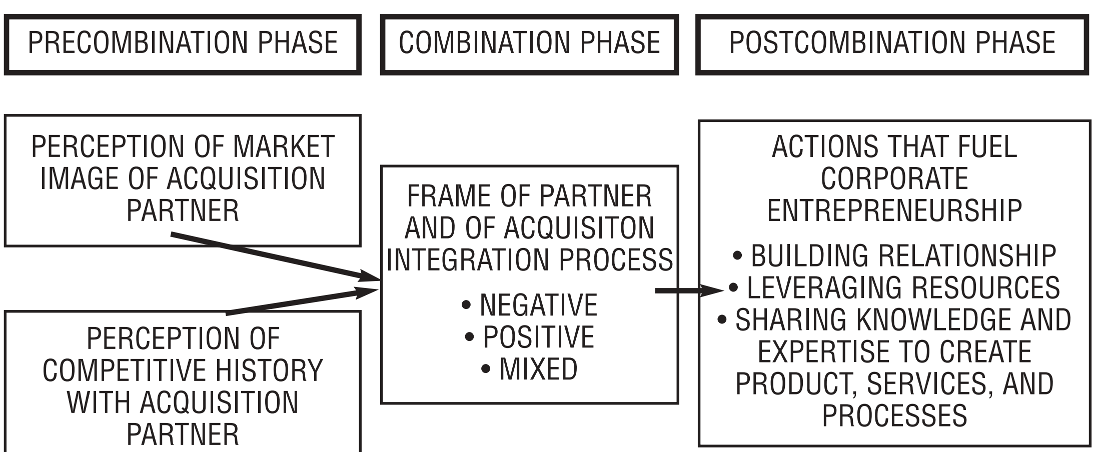
Precombination Perceptions of the Acquisition Partner

When researchers of acquisitions discuss the precombination phase of the acquisition process, they are primarily focused on the actions of those senior managers who are involved in the acquisition identification, due diligence, and negotiation process.[57] While other organizational members are not directly involved in the acquisition process at this point and may not even be aware that an acquisition is being considered, they have developed certain perceptions of the "other" company during this time. These perceptions are often quite detailed and complex as organizational members may have knowledge about the "other" company through direct competitive experiences, industry analysts, the popular press, and even friends and colleagues who have work experience with the partner. As the acquisition process moves forward and the acquisition is announced to both organizations, these complex interpretations strongly influence organizational members' sensemaking of the integration process and of their acquisition partner.

In our case studies, we found two aspects of these precombination perceptions were particularly important to framing organizational members' sensemaking of the integration process: perceptions of the market image of the acquisition partner and perception of the competitive history. We specifically use the term perception here to clarify that these are the perceptions that the organizational members held. While these perceptions may have been created out of an objective data point such as an industry report, they do not represent a valid outsider analysis of

FIGURE 1

CONCEPTUAL FRAMEWORK



market image or competitive history. We believe these perceptions are more important than external "objective" measures of market image because it is organizational members' subjective perceptions, not external measures, that influence organizational members' interpretations of the acquisition process and the extent to which they help fuel corporate entrepreneurship following acquisition.

Perceptions of Market Image. During the precombination phase, most organizational members had enough experience with their future acquisition partner that they developed a strong perception of the market image of the acquisition partner even though they were not aware of the impending acquisition. Because of the highly competitive, rapidly changing nature of technology-intensive industries, industry members are constantly monitoring their environment to be aware of who the industry leaders are, how the market is changing, and who are the rising stars. In addition, because individuals in these industries are changing jobs fairly frequently, individuals accumulate a great deal of personal knowledge about different organizations. Through this information, organizational members develop strong perceptions of the market image of other organizations in their industry.

We found that in each of the cases we studied, these perceptions were slightly different. Sometimes organizational members from both the acquirer and the target had a negative perception of the market image of the other company, sometimes they all had positive perceptions of one another, and sometimes these perceptions were more mixed.

Case A: Day-Night

Day organizational members had primarily negative perceptions of the target, Night, while Night organizational members had more mixed perceptions of the market image of the acquirer, Day. Night organizational members perceived Day as being very strong technologically but as not having a very friendly culture. The following quotes show these differences in perceptions of market image.

> "I must admit that at the time that they announced it, my first thought was, 'Why? Why are we doing this?' Night's not a company that's been very innovative in technology. They haven't been successful since the '80s: I think probably 1986. It's been a company that's downsized. Why is Day acquiring a company this size with a lot of what I call baggage and liabilities." (Day, Engineer)

> "[Night] was just a company that was downsizing. Had reached its peak. There is a down side to the wave. They had peaked on the wave and were on the down side." (Day, Technical Lead)

> "I think it's hard not to develop an arrogance, if that's the right word, when you're a company on a roll, where you're the darling of Wall Street, you have a technology lead on your competition that is not measured in months but is in years, you can demand a premium from your customers ..." (Night, Sales Manager)

> You know, I thought they had the right strategy. From the business perspective

> — you know, they've done marvelous things. But there is that arrogance." (Night, Marketing)
>
> Day was a competitor for us, so my perception: a market leader, high-value, high-priced organization that was at the right place at the right time and got a tremendous head start on the marketplace, but I thought because of their sales practices and their pricing, and their value proposition, their customers would eventually get eroded, so, it was more of a competitive view of Day than anything. Being such a large employer in the area and having some people that went over there, I actually had a fairly negative view of the work environment at Day, just from folks that had left here and gone there." (Night, Program Management)

In Case B, organizational members had very different perceptions of the market image of their merging partner. Organizational members at the acquirer, Hot, had very favorable perceptions of the market image of Cold. Cold was perceived to be a young, innovative organization. In contrast, organizational members at the target, Cold, had more negative perceptions of the acquirer, Hot. As the following quotes illustrate:

Case B: Cold-Hot

> "[Cold was a] much smaller organization and moved quicker. Strong brand in the software marketplace. Innovative, very creative, strong developers of unique and leading technologies." (Hot, VP Strategic Partnerships)
>
> "Well, my initial perception, and I think they were representative of many other employees at Cold at the time, was that Hot was a weak, old company. Their stock price was depressed, and the company was fat at the time, and the market was not looking very favorably upon them." (Cold, Marketing Manager)

In the prior two cases, at least one of the acquisition partners had a negative perception of the market image of the other acquisition partner. In the third case, Rain-Sun, both partners held favorable market images of one another. This will prove to be particularly important as we later explore how these perceptions influenced interpretations of the acquisition process and engagement in entrepreneurial activities.

Case C: Rain-Sun

> "You have to give them credit, they had done amazingly well, in spite of their thin structure. The science was there. They pioneered the sale of their former replacement market. They were the most respected people in terms of XXX science." (Sun, VP Finance)
>
> "They were a strong research-based organization that had just really reached the commercial stage of their premier product line. And it (Rain's flagship product) was seen in the marketplace as a high quality product that really had tremendous potential and future growth." (Sun, VP HR) "Sun was a financially stable, reasonably competent biotech company. Decent science. Decent manufacturing.

> You know, clearly one of the survivors, and an outfit of interest." (Rain, Scientist)

Perceptions of Competitive History. In addition to perceptions of market image, organizational members had strong perceptions of the competitive history that existed between themselves and their acquisition partner prior to the acquisition announcement. The term competitive history refers to the type of competitive relationship and the intensity of the relationship that existed between the acquiring firms. Prior to the acquisition, the merging organizations may have engaged in direct, aggressive competition, they may have simply been operating in the same industry sector, or they may have had a more collaborative history in which they engaged in strategic partnerships with regards to marketing, selling, or delivering their services. In addition, the organizational members may have seen the employees of the partnering firm as competitors or they may have seen each other as collaborators who are linked through a larger industry culture. Different perceptions of the competitive history between the acquiring firms led organizational members to have very different interpretations of the acquisition integration process.

Just as Day and Night had varied perceptions of one another's market images, they also had varying perceptions of the competitive history that existed between the two organizations. While Day's organizational members did perceive some competition between themselves and Night, they did not perceive Night to be a strong competitor. In contrast, Night's organizational members saw Day as the "enemy" and perceived a highly competitive history between the two organizations. Because of Day's strong market image, Night clearly saw Day as the organization to beat. The following quotes illustrate these differences in perceptions:

Case A: Day-Night

> "So really we bumped into Night from a competitive standpoint with their storage products. Day's products are really targeted at the mid- to high-end market and Night's products were really targeted at the mid- to low-end market. So, you know, to some extent, they were a competitor of ours." (Day, Sales)

> "I knew they were a computer company, but I really hadn't followed them closely because I didn't consider them to be a key competitor or a hot commodity at this point. I thought that they were a company that had sort of fallen back on technology, to be honest with you." (Day, Finance Manager)

> "Night used to have posters up that you know—and I'm sure Day did as well, you know. Kill Day. These were like—they were our enemy. We had plenty of other competition, but they were the declared enemy. So, as any two warring tribes will do, once you capture your enemy, what do you do with it? You kill it." (Night, VP Human Resources)

> "We used to market ourselves—we would go to candidates—we're the warmer, gentler place, you know. This is a good place to work. People treat you well. You're going to like working here. … A lot of people from Night had gone to Day to work. And as sad as it is, our perception was we had thrown out the weaklings. And they were down there now in positions of power. We knew we could run circles around. So there was a little built-in animosity from the get-go. It was a

> highly competitive—two companies doing the same thing eight miles apart. In fact they were widely successful, but we used to look at them and say—actually kind of looked under the covers—think about how much more widely successful you could be. But they were disinterested." (Night, Human Resources)

In the other two cases, neither the target nor the acquirer had perceived there to be a highly competitive history between the two organizations. In the Cold-Hot case, organizational members recognized that the history between the two companies was complex. In some situations, the two organizations were direct competitors but it clearly was not an intense competition as was the case with Day-Night. In other situations, the two organizations were collaborators both in terms of R&D and sales. Finally, Cold, the acquirer, was also a customer of the target, Hot. The following quotes illustrate the different types of experiences that underlay the competitive history between these two organizations.

Case B: Cold-Hot

> "First, (prior to the acquisition there was) the awareness of the technology. Cold, Japan had worked with Hot research, and they had already been discussing their technologies. So a relationship had already started between Cold development and Hot research lab. (Hot, Knowledge Management)

> "[Hot, the acquirer, was] both a customer, a very large customer, and a partner of ours in terms of their go-to-market channels using our technology as well as internal use of our products, and in some places they were a competitor with some of our key technologies." (Cold, SVP)

> "If you looked at the account sets—Cold's largest customers, and Hot's largest customers were—I would say that there were a 75 percent overlap, if you looked at those account lists. So, there was a lot of synergy to be had in terms of managing those same sets of customers together. (Cold, Sales Director)

These quotes illustrate that neither organizational members from Cold or Hot saw themselves as having the same intense competitive history that emerged in the first case.

Finally, in the Rain-Sun case, the competitive history was perhaps better described on both sides as collaborative than competitive. Not only was there limited competition between the two organizations but also there was a belief among the organizational members that they were already connected prior to the acquisition. As one of the following quotes illustrates, organizational members in these two companies perceived their history to be one of peaceful coexistence and collaboration toward a larger goal rather than as an "enemy" to be killed.

Case C: Rain-Sun Case

> "They had some sales guys in the intersection of one of our important markets. So the thought was this would help extend us in some places we wanted to be." (Sun, President)

> "I had some passing knowledge of Sun just because of working in the same field.

> I had a little bit more in depth knowledge because I had hired someone away from there about a year and a half before the deal closed." (Rain, VP HR)

> "I knew the VP of R&D there. We were both scientists in the same field. So we got to know each other from going to the same scientific meetings. He's a very nice person. He's bright. So I had a very good opinion, that they were interesting They were not like a big pharmaceutical. I thought that they were more like us." (Rain, VP of R&D)

In summary, organizational members' perceptions of the market image and of the competitive history of their acquisition partner created a strong memory that influenced organizational members' sensemaking once the acquisition was announced. In Case A, Day-Night, these perceptions created a memory that was primarily negative. The target, Night, saw the acquirer as the enemy and the acquirer saw the target as an organization that was past its prime with limited technological capabilities. In Case B, Hot-Cold, organizational members' perceptions were more mixed. Hot's organizational members had a positive perception of the market image of Cold and were aware of the collaborative history that existed between the two organizations. Cold's organizational members had a more negative perception of the market image of Hot, but they also recognized the simultaneously competitive and collaborative history that existed between the two organizations. Finally, in Case C, Day-Night, organizational members in both the target and the acquirer had primarily positive perceptions of one another. In both organizations, organizational members emphasized the positives in the market image of the acquisition partner and described their competitive history as being both competitive and collaborative. As we will show below, these different perceptions that organizational members held prior to the start of the acquisition became important memories that influenced how organizational members responded to the acquisition and the integration process.

Sensemaking During the Combination Phase

It was only after the acquisitions were announced and the organizations began to move forward with the combination phase that the aforementioned perceptions had affected the acquisition process. Until the combination phase, organizational members' perceptions simply existed. After the combination phase, these perceptions were important memories that guided organizational members' interpretations as they tried to make sense of the acquisition and the integration process. Depending on whether these memories of the acquisition partner were negative, positive, or mixed, organizational members made sense of the acquisition process in very different ways.

In Case A, Day-Night, organizational members from both the target and the acquirer had mostly negative perceptions of one another. Due to their negative memories of the market image of Night, organizational members at the target, Day, did not see the strategic value of the acquisition. Organizational members at Day recognized the strong market image of Night, but they also were influenced by their memories of a highly competitive, antagonistic history between the two organizations. These memories biased both Day and Night's organizational members at the start of the acquisition combination process. Due to the influence that these memories had on organizational members sensemaking, most organizational members saw the combination acquisition process as primarily negative.

Case A: Day-Night

> "We feel like we're the red-headed step children. We're not—we don't feel included. It's us and them. We feel like we're looked down to. I don't think we generally don't feel like they respect us." (Night, Marketing)

In Case B, Cold-Hot, organizational members from both the target and the acquirer had more mixed perceptions of one another. Hot, the acquirer, had a fairly positive perception of the market image of Cold. Cold, on the other hand, had a fairly negative perception of the market image of Cold. Hot's positive perceptions of Cold lead these organizational members to manage the acquisition combination process in a way that was highly inclusive towards Cold. As a result, organizational members were fairly positive as they made sense of this acquisition process.

Case B: Cold-Hot

> "Cold was still an independent business entity. And with a great deal of autonomy in terms of expanding our brand and market presence. And a great deal of support given from the most senior levels in Hot and that created an environment that was nonthreatening and supportive and had access to resources that were probably impossible before to get." (Cold, SVP of Knowledge Management)

> "I think people—I can speak for myself, but I think this was fairly true across the board. I think people were incredibly pleasantly surprised. Because I think the anticipation was, "Holy expletive," (laughter) "here they come." And "Everybody's going to be out of a job," and "We'll all be assimilated into the Borg," and a lot of people anticipated that would happen right away. And to Hot's credit, the exact opposite happened. … So Hot really had a smart plan in place, because I think they recognized that when you buy a software company, you're not buying provable assets, you're buying intellectual capital. And if all the intellectual capital walks out in the first 12 months, you've got a big problem on your hands. So I think the smartest thing that was done was actually taking a hands off—allowing Cold to remain relatively autonomous for its first few years of operation, till it made more sense to pull it in." (Cold, Sales)

> "And I remember when the acquisition first took place, there was so much interest and excitement on the acquirer IBM site, and they wanted to pursue every opportunity, and every day my voice mail box and my e-mail box was overflowing with people wanting to help." (Cold, VP Strategic Partnerships)

These quotes illustrate that organizational members from both Hot and Cold made sense of the acquisition in a fairly positive way once the combination process was underway. Hot's organizational members entered the acquisition with a positive perception of Cold. As a result, these organizational members took actions that showed their excitement and positive interpretations of the acquisition. Cold's organizational members also then became more positive in their interpretations of the acquisition. This suggests that the positive perceptions of one company can lead to actions during the combination process that overcome the negative perceptions of the other company during the precombination phase.

Finally in Case C, Rain-Sun, organizational members' perceptions of one another when the acquisition was announced were mostly positive. Organizational members had memories of positive market images of both companies as well as of a competitive history that was both positive and negative. Because these organizational members already saw value in what each organization brought to the partnership and because they already had a somewhat collaborative stance towards one another, organizational members' sensemaking of the acquisition combination process was mostly positive.

Case A: Day-Night

> "I think having a commonality of purpose was very important. Because from the get-go, everyone recognized that they were talking to people who had come from a similar situation—which is that they had pioneered a breakthrough technology. That allowed, I think, an immediate respect and understanding of the commonality of our purpose and success. This was very important as we began a dialogue and moved positively ahead in the integration." (Sun, VP of Operations)

> "There was sort of this mutual admiration happening from a scientific side. There was a lot of respect. Our senior management knew each other. And then, in talking to their upper middle management as the integration began—their perception, and they were very excited about this—was that OK, here's a buyer. Sun has the presence in the marketplace. They have a scientific reputation. They have the management skill. Take us to the next level. So I think everyone was very excited and it (the integration) went well." (Sun, VP of Finance)

> "The scientists had all worked in this area for 10-15 years, in the case of senior people. They knew each other. It was obvious the things that we could do that they couldn't and vice versa. The intellectual property overlap was pretty obvious. And you know, we spent a fair amount of time around the tactics of that [how to integrate the people]. But, it didn't take much. It was merely just a matter of getting it done and then they're off to the races with each other." (Rain, VP of HR)

> "We had meetings that were set up specifically to get everyone to know each other and familiar with each other's technology. And then there was a social event. And this happened a few times. So, in the beginning, that was very helpful. And then, it just sorted out which people would be integrated into which projects. And it wasn't a forced thing, it was more or less a natural fit. (Rain, R&D)

In summary, we found that organizational members' memories of their acquisition partner had a strong influence on how they made sense of the acquisition combination process after it was announced. Organizational members who entered an acquisition with negative memories were biased to interpret the combination acquisition and the integration process as negative. In contrast, organizational members who entered the acquisition with positive memories were biased to make sense of the combination phase in a positive light. What is most important about these differences in organizational members' interpretations of the acquisition combination process is the influence they then have on organizational members' actions in the postcombination phase.

Entrepreneurial Action in the Postcombination Phase

Sensemaking is an important construct in organizational studies because how organizational members make sense of a situation influences their actions and behavior towards that situation.[52] Relative to this study, how organizational members made sense of the acquisition process set the stage for how easily organizational members took action that would further corporate entrepreneurship initiatives. Examples of these types of actions included building relationship, sharing knowledge and information, and leveraging resources with organizational members from the acquisition partner. Across the three cases, depending on how organizational members made sense of the acquisition process greatly influenced the extent to which organizational members took action that would further a corporate entrepreneurship strategy.

In the Day-Night case, we saw very few actions on the part of individuals that would further a strategy of corporate entrepreneurship. In fact, in this case, organizational members tended to act in ways that prevented collaboration on entrepreneurial endeavors from occurring between the acquisition partners. The lack of support for collaborative efforts is to be expected given the negative perceptions and negative interpretations organizational members had of the acquisition process. The following quotes illustrate the issues that were faced in this case as organizational members tried to engage in collaborative, entrepreneurial actions:

Case A: Day-Night

> "I think that we're—there's increasing work and cross-functional teams in the product marketing and engineering side of it. The groups are now—it takes a while, because you have a lot of—not invented here—People said to me like—boy, you have people do things that we just don't do." (Day, VP of Strategy)
>
> "We have the enterprise class and now we move departmentally to extend that total solution to the customer. So the message is clear, but the perception internally—that's not valued by Day's engineering group. So engineering buying into the fact that this is Night market, this is our strategy and Night plays this role. Engineering's response, probably internally, is we'll develop a Night killer and people know that." (Night, Manufacturing)
>
> "There is a lot of people who would love to. Like our whole group would love to be over on the Day side. The money's better, bigger stuff—we're bumping heads right now with Day on some of the deals. Like we may be pitching Night products—but if Day's in there—Day could be in there pitching Day with a Night competitor. And it gets ugly." (Night, Manager Engineering)

In the Cold-Hot case where organizational members' sensemaking of the acquisition process was more positive than negative, we found many more instances of organizational members engaging in actions that would fuel an agenda of corporate entrepreneurship. While there were some examples given that showed some struggles organizational members had taking these types of actions, for the most part we found numerous examples of collaborative efforts. The positive interpretations organizational members had of the acquisition process clearly had a strong influence on these collaborative, entrepreneurial actions.

Case B: Cold-Hot

> "We've had both run-ins at the customer level and development organization plans going on simultaneously. … [A new leader] came in to Cold from Hot and knew what Hot was doing in development so could see where efforts were being duplicated or where one side could leverage code already developed or where two teams could come together and excel as a result of experience, previous work, current project, goals, etc." (Cold, Sales Executive)

> "We've built a new system called KMS, knowledge management system. And a lot of the technology, the intellectual capital, also the raw code, in that system has come with, elements of that have come from Hot research. There's a huge amount of collaboration between our organizations. Those guys are starting to work really well together. And I don't think KMS would be what it is today if it didn't have their input." (Cold, Director of Strategy)

> "We had a situation where the industry's leading database had these attributes, and we needed those attributes inside of our product, but we can't pick up that code and cram it in, so we'll go to the people who invented it and ask them what we should do. And they were now on our team so they developed some codes and prototypes." (Cold, SVP of Knowledge Management).

> "The learning product came from Cold from another research group here. And the notion was really to bring collaboration into learning situations, and bring a learning product that had a lot to do with what Cold was about. As the—certainly evangelist for that product—started trying to build a business case, it became more and more clear that products in that market needed the kind of services support that you can get from Hot. Exactly how it came about that the groups found each other. And I'm not even sure that I could reconstruct it at this point." (Cold, R&D)

Finally, in the Rain-Sun Case, we found an overwhelming amount of action that was taken by organizational members that would further corporate entrepreneurship. In this case, organizational members entered the acquisition with positive perceptions of one another and of the competitive history between the firms, these perceptions in turn led organizational members to positively make sense of the acquisition and move quickly towards building relationships, sharing knowledge, creating cross-functional teams, and taking action that encouraged entrepreneurial activities. These organizational members saw the value in the competencies of their acquisition partner, which enabled them to quickly make connections between products in different phases of the lifecycle and set the stage for innovation and entrepreneurship. The following quotes illustrate the difference between the actions that were taken in this case and those that were taken in the prior two cases:

Case C: Rain-Sun

> "There are a lot of R&D folks whose expertise can blend into the Sun group and work on various projects that alone we could not have had the resources to fund." (Sun, VP of Human Resources)
>
> "The technology of Rain and their patents when combined with our technology and our patents is allowing us to move ahead a lot more aggressively and with a lot greater confidence." (Sun, EVP Operations)
>
> "I think there's always a lot that isn't evaluated during the merger because you just don't have enough information. And we've been pleasantly surprised to find some other potential products that may have been bigger opportunities than we gave them credit for during the due diligence process. So, we believe the result when we work together on them is that we're going to have a technology platform in our R&D pipeline that is going to be second to none."
>
> "Within a month after the merger, we formed a team to develop a specific new product, using our patented technology (Rain's). And half the people from New Jersey are on that team. So that was an immediate sort of jumping into using what they bought." (Rain, VP of R&D)

DISCUSSION

Succeeding at the acquisition game is an uphill battle in the best of circumstances. These issues are clearly more complex when taking into account people's perceptions, memories, and attitudes about the acquisition during the precombination, combination, and postcombination phases. To summarize our findings, organizational members' memories of the relationship between the acquisition partners greatly influences their sensemaking of the acquisition and integration process, which in turn influences the extent to which organizational members are interested in engaging in actions that enable the two organizations to share resources, leverage knowledge, and build relationships. All of these actions are critical if the acquisition is going to fuel corporate entrepreneurship. In the following section, we point out the limitations to our work as well as the implications this study has for researchers who study corporate entrepreneurship and mergers and acquisitions, and for managers who oversee these complex organizational processes.

Although we believe that the interpretivist perspective can lead to important insights for both acquisition and corporate entrepreneurship research, there are clearly limitations to this research. Research in this area would benefit greatly from a longitudinal approach to data collection. To fully understand how organizational members' interpretations influence entrepreneurial behavior, it is critical to look at these issues over time and to explore the influence that organizational factors can have on this relationship over time. In addition, we believe future research would benefit from the use of more quantitative measures of entrepreneurship. In this study, we have relied on organizational members' interpretations of entrepreneurial behavior. However, we believe future research would benefit from developing more objective measures to assess corporate entrepreneurship. In this way, differences in entrepreneurial action could more clearly be compared across the cases to more precisely explore why these differences occur. Finally, the findings from this study are particularly relevant for acquisitions where part of the strategic rationale for the acquisition was a desire to fuel corporate entrepreneurship through collaboration between the two organizations. The importance of organizational members' sensemaking and memories may not be as important when there is a different value proposition underlying a merger.

The Value of an Interpretivist Perspective

Because information about the past is contained within an organization,[53] organizational history can influence different types of behavior.[54] In the merger and acquisitions literature, discussions of strategic fit, financial gain, culture, leadership involvement, and employee incentives are often seen as important variables for understanding success and failure in this domain. As we have stated, however, there has not been significantly less work that explores how organizational history impacts acquisition success. Organizational members' memories of their acquisition partner and of the organization's acquisition history are likely to influence their sensemaking of the acquisition and the extent to which they engage in action that supports the acquisition. We believe an interpretivist perspective that focuses on acquisition history and sensemaking may be able to shed important light on the role that individual organizational members play in the value creation process following an acquisition. The perceptions of individuals may be an overlooked factor that greatly influences acquisition success.

The findings from this study also have important implications for researchers who study corporate entrepreneurship. As we mentioned previously, existing research has shown that organizational members who engage in entrepreneurial activities often do so based upon the perceptions, beliefs, and assumptions they hold about their organizations.[55] Furthermore, existing research has shown that when negative employee perceptions are not dealt with directly, these negative perceptions have a direct influence on overall organizational productivity and innovation.[56] Our findings clearly support this research. When organizational members do not see value in other organizational members' knowledge and capabilities, they are not likely to engage in collaborative activities that often are critical to corporate entrepreneurship. Future research would benefit from exploring the role that cognition and sensemaking play in the success of corporate entrepreneurship initiatives. Corporate entrepreneurship is highly dependent on the interpretations, actions, and social relationships of individual organizational members. Yet, current research continues to focus on more macro-level issues such as how organizational design, rewards, and culture relate to corporate entrepreneurship. We believe future research needs to focus more on the individuals who engage in corporate entrepreneurship and how organizational factors influence organizational members' perceptions and beliefs towards engaging in entrepreneurial behavior.

Understanding Different Models of Corporate Entrepreneurship

As we have previously stated, there are many ways organizations can engage in corporate entrepreneurship including greenfield ventures, acquisitions, and product expansion. In this study, we focused specifically on understanding the unique issues associated with using acquisitions to fuel corporate entrepreneurship. In acquisitions, organizational history as well as organizational members understanding of the acquisition process influence the extent to which the acquisition results in corporate entrepreneurship. It is likely that there are different factors that are important to understanding the process by which other tactics fuel entrepreneurial behavior. Future research would benefit from exploring from understanding the different factors and processes that are associated with the different ways of engaging in a strategy of corporate entrepreneurship. Furthermore, research is also needed that compares and contrasts the different tactics so that we can develop a better understanding of the different management practices and returns associated with the different approaches. In this way, we can help organizations develop a more tailored strategy for engaging in corporate entrepreneurship, and we can help researchers better understand the practice of corporate entrepreneurship.

Managerial Implications

While existing academic and practitioner literature provides exhaustive recommendations on how to manage postacquisition announcement issues such as culture clash, depression, feelings of isolation and lower status, this literature does not suggest how integration leaders can better manage the organizational memories the acquirer and the target have of one another. Our research shows a key challenge following an acquisition is how to manage the integration process such that these biases are countered diffused and organizational members develop a positive interpretation of the acquisition process. This diffusion is necessary if the acquisition is to yield the entrepreneurial initiatives that are often fundamental to its value proposition.

To better manage the integration process so it helps to diffuse these memories, integration leaders would benefit from first assessing organizational members' perceptions of the acquiring partners' market image and of the competitive history. Organizational members' perceptions need to be made more explicit at the start of the integration process, so that integration leaders can understand what they are working with before the acquisition announcement even takes place. These memories may create either a positive or negative context the integration leaders will need to manage to.

After the identification of these perception biases, the integration leaders then need to decide how best to use this information to overcome any negative memories or to reinforce positive ones. One of the ways to do this is to quickly build integrated cross-organization relationships following the acquisition. Leadership placement, integration team placement, etc. all become important symbols that can either reinforce or break down meaning.[57] It is important to note, we are not suggesting the integration leaders can directly manage organizational members' interpretations. However, through their actions, they can indirectly influence and shape how organizational members make sense of the emerging acquisition process. Another critical element to influencing this sensemaking process is providing organizational members with opportunities to learn firsthand the value that members from the other organization bring to the partnership. By providing employees with opportunities to experience the value of the other organization—be it through strategic task forces, new work groups, meetings with customers, or strategic partners—organizational members will be able to learn for themselves the value of the acquisition. By learning this on their own rather than being told, organizational members will be able to move into a collaborative and, ultimately, entrepreneurial relationship.

While these recommendations can help an organization set the stage for engaging in an acquisition to incite stimulate corporate renewal and entrepreneurship, none of these recommendations will ensure that this happens. Relying on acquisitions to fuel corporate entrepreneurship will require time and patience as the new organizations works to break down a strong competitive history and create a new collaborative, entrepreneurial spirit.

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