The Role of Acquisitions in Reshaping Business Capabilities in the International Telecommunications Industry

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This paper focuses on the relationships between observed processes of post-acquisition activities within four cross-border horizontal acquisitions that occurred in the telecommunications equipment manufacturing sector between 1988 and 1992. We discuss the desirability of such acquisitions from a corporate and social welfare standpoint. We report a detailed survey of the context, post-acquisition activities and outcomes of the four acquisitions. The acquisition context includes industry characteristics, target characteristics, target strengths and acquisition motives. Post-acquisition activities include several dimensions of business restructuring, resource redeployment and creation of integration mechanisms. Acquisition outcomes include impact on business capabilities, financial performance and judgments of overall success. We conclude that the results provide stronger support for strategic reconfiguration and productive efficiency explanations for horizontal acquisitions than they do for market power, target mismanagement or resource appropriation explanations.

1. Introduction

This paper aims at providing insights into the desirability of acquisitions for corporate and social welfare by analyzing four detailed case studies of cross-border acquisitions that took place in the telecommunications industry in the late 1980s and early 1990s. Drawing from a survey of corporate managers, we describe the context and motives for the acquisitions, outline post-acquisition strategy and report managers’ assessment of post-acquisition performance. We use the analysis to explore five alternative hypotheses.

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concerning the motives and outcomes of acquisitions, comparing market power based on greater size, target mismanagement stemming from poor implementation of acquisitions, global efficiency based on greater size, strategic reconfiguration based on expansion to new markets, and resource appropriation based on acquiring the skills of the target. In contrast to previous empirical studies of acquisitions outcomes, this research concentrates on post-acquisition processes and investigates whether there appears to be an outcome for the merging businesses and social welfare depending upon the role of post-acquisition processes in reshaping businesses and firms’ capabilities. The results emerging from these analyses confirm the importance of acquisitions in creating value both for firms and society through dynamic processes of businesses’ and capabilities’ reconfiguration.

The telecommunications industry is experiencing a major restructuring in which domestic and cross-border acquisitions are common. Both in Europe and the USA, technical, economic and regulatory factors have driven domestic and foreign counterparts into reshaping the manufacturing and services telecommunications sectors since the 1980s (Bradley et al., 1993; Hausman, 1993), with a growing proportion of cross-border acquisitions. For an empirical overview of cross-border telecommunications acquisitions trends, description of environmental drivers and list of examples, see Capron and Mitchell (1997). Cross-border acquisitions involving US firms accounted for almost $19 b. between 1990 and 1995, totaling 17% of the telecommunications acquisitions activity. The telecommunications industry accounted for the largest single focus of foreign businesses acquired by US firms across all industries. Foreign purchases of US businesses has also accounted for a burgeoning part of the cross-border acquisition activity in the US telecommunications industry, with -4% of the total. Concomitantly, the European telecommunications industry was the second most active industry for cross-border acquisition activity in Europe during the period, lagging only slightly behind the food industry.

Despite their importance, business acquisitions raise real concerns from both strategic and public policy views. Strategically, unsuccessful acquisitions often divert management attention from competitive activities to unproductive attempts to merge organizations. From a public policy perspective, acquisitions that result in market power, target destruction or resource appropriation can harm rather than improve economic welfare. Therefore, determining whether post-acquisition activities and outcomes tend to improve or harm competitive strength is a critically important issue in both corporate strategy and public policy. In the theoretical literature, these concerns reflect in five different perspectives, which have different insights on
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how acquisitions affect corporate and public welfare. We now turn to the discussion of these perspectives.

2. Five Alternative Views on Acquisition Outcomes for Corporate and Public Welfare

There are at least five hypotheses concerning how horizontal acquisitions influence firm performance and social welfare, including market power, target mismanagement, productive efficiency, resource reconfiguration and resource appropriation. One common view stems from the traditional argument that horizontal acquisitions tend to create market power, thereby often leading to increased prices for consumers (Heflebower, 1963; Stigler, 1964; Scherer, 1970). If this view is correct, then acquisitions will often harm the international marketplace. A second common view is that acquirers often mismanage their targets, thereby damaging the capabilities and reducing the value of the target businesses (Ravenscraft and Scherer, 1987). If so, then the rush to acquire foreign telecommunications companies might inhibit competition, damage the combined firms and reduce technical development in the affected markets. If either the first or second view tends to dominate in the telecommunications sector, then policymakers might well want to discourage cross-border acquisitions.

Productive efficiency and strategy theorists provide the third and fourth views of horizontal acquisitions, which stand in contrast with market power and target mismanagement views. Productive efficiency theorists argue that horizontal acquisitions lead to increased economic efficiency through increased economies of scale (Jensen, 1986). If this view holds in the telecommunications sector, then telecommunications acquisitions will tend to reduce prices for intermediate purchasers and end-product consumers. From the fourth perspective, strategy researchers suggest that acquisitions often allow firms to reconfigure business organizations (Lubatkin and Chatterjee, 1990; Bowman and Singh, 1993). Reconfiguration supports business growth, allows changes in the mixes of goods and services that business offer, and helps businesses improve their technical and organizational systems (Seth, 1990). If the third or fourth views tend to dominate in the telecommunications sector, then policymakers might want to encourage cross-border acquisitions rather than discourage them.

The fifth view of acquisitions is that they allow the acquirer to appropriate resources of the target business (Wernerfelt, 1984; Harris and Ravenscraft, 1991; Mitchell et al., 1994; Eun et al., 1996). Target resources include technical capabilities, financial assets and other resources. Concerns about
resource appropriation are often particularly strong in public policy perspectives on cross-border acquisitions, because resource appropriation might result in a technical or financial drain from a country. For instance, concern about possible resource appropriation was one of the reasons that the French government blocked AT&T’s proposed acquisition of CGCT in 1987 (MacPhail, 1990). Knowledge of whether resource appropriation is common in international telecommunications acquisitions will help provide a guide to public policy. In addition, business strategists need to know more about the resource acquisition strategies of their competitors that undertake international acquisitions in order to compete effectively with the expanding firms.

We take an open-minded approach to which view or views are likely to dominate in telecommunications acquisitions. Rather than develop specific predictions, we prefer to undertake the empirical analysis and interpret the results. We have argued previously, though, that both the market power view and the scale-based productive efficiency view in which firms gain economies of scale simply by producing more of the same good have limited applicability to analyzing horizontal acquisitions in dynamic markets such as the telecommunications sector (Capron et al., 1998). The market power and scale-based productive efficiency incentives for horizontal acquisitions are most relevant in the context of stable industries (Dutz, 1989), where business combinations may help entrenched incumbents maintain their leadership positions. By contrast, modern businesses that operate within dynamic environments of frequent technical and regulatory changes, market globalization, product-market redefinition and competitive entry may gain little market power and efficiency by attempting to concentrate a dynamic industry through horizontal acquisitions (Hartman et al., 1994). Instead, we expect that either the resource reconfiguration or target mismanagement outcomes are more likely to occur in telecommunications cases, potentially supplemented by resource appropriation. Moreover, in our view, most productive efficiency gains will require that firms undertake substantial business reconfiguration.

3. Empirical Evidence

A uniquely detailed survey of American and European companies allows us to explore the competing views concerning horizontal acquisitions in the telecommunications sector (for a description of the conceptual and methodological development of the survey, see Capron et al., 1998). We base
our analysis on the mean responses of the four telecommunications cases. We recognize that the small sample requires caution in interpreting the results, but we believe that the detailed information provides insights into acquisition strategy and performance. We also believe that this preliminary analysis provides a relevant basis for further extension and refinement of these issues on a larger scale sample.

Our analysis proceeds as follows. First, we describe the context in which the four acquisitions occurred, addressing industry characteristics, target characteristics, target strengths and acquirer motives. Second, we describe post-acquisition activity, including restructuring of the target and acquiring businesses, redeployment of resources between the businesses, and creation of integration mechanisms to link the target and acquiring businesses. Finally, we outline the outcome of the acquisitions, addressing the impact on the capabilities of the target and acquiring businesses, as well as the impact on profitability and sales performance.

Acquisition Context

To assess the industry environment, we asked managers to report their perception of industry sales growth and rivalry. Consistent with our own qualitative judgment concerning the telecommunications sector, the firms reported substantial sales growth, with both domestic and international sales growth averaging -2 on 5-point scales, where 1 was high growth and 3 was a stable market. The sales growth was coupled with intense competitive rivalry, which managers uniformly rated 1 on a 3-point scale, where 1 was high level of rivalry intensity. This context frames the study within a dynamic competitive environment.

To assess the characteristics of the target businesses, we asked about target age, size and geographic market scope, and target strengths. We found that targets tended to be older, smaller, more geographically focused businesses with limited pre-acquisition international scope compared to acquirers. Targets also tended to be somewhat weaker than either the acquirer or businesses in the home industry on most commercial dimensions. This is consistent with the respondents’ reports that the targets tended to be losing money before the acquisition. Nonetheless, targets had substantial strength on the dimensions of customer-related assets and product quality (respectively 3.5 and 3.3 on a 5-point scale, where 1 was weaker to acquirer and 3 was an

1 The four cases involve one cross-border acquisition within Europe, one North American acquisition of a European firm, and two European acquisitions of American businesses. Each of the acquirers continued to own its target at the time of the survey. We cannot identify the specific cases because we promised confidentiality to the respondents, but all four cases involved substantial transaction value by globally prominent firms.
equal position). The clear implication of this pattern is that the acquirers sought targets that possessed good products and customer relationships, but were available for purchase owing to weaknesses on other key commercial dimensions.

To assess the reasons for the acquisitions, we asked managers to rate several potential motives, which we drew from the acquisitions literature. Important motives included geographic expansion, market share growth and obtaining complementary products (respectively rated 4.8, 4.0, 3.8, on a 5-point scale, where 1 was a weak motive and 5 a very important motive). At the other end of the scale, manufacturing economies, overcapacity reduction and financial risk diversification were not important motives (respectively 1.5, 1.5, 2.0 on this same 5-point scale). Clearly, the primary reason for the acquisitions was that the acquirers sought to expand their international market presence and associated product lines.

The summary conclusion concerning the context of the telecommunications acquisitions is that the acquirers sought to expand internationally in a dynamic market. They bought target businesses that had product and customer strengths in the foreign markets but were weak on other commercial dimensions. This combination of strength and weakness made the businesses both desirable targets and available for purchase.

Post-acquisition Behaviour

We now turn to examining post-acquisition activities of the acquirer and target business. We asked managers to assess three dimensions of post-acquisition activities, including business restructuring, resource redeployment and creation of integration mechanisms. Examining these activities helps us assess whether acquisitions allow a passive entry or whether the acquirers must substantially change the target in order to operate in the new market. In parallel, determining the extent of reconfiguration of the acquiring business helps us assess whether an acquirer can expand without changing its existing business or whether the acquirer must undertake fundamental changes in order to become a more global firm. Previous research (Seth, 1990; Anand and Singh, 1997) shows that acquisitions tend to create greatest value when managers undertake substantial post-acquisition reconfiguration of the businesses.

**Business Restructuring.** Business restructuring is the extent to which firms rationalize and change various parts of the target and acquiring businesses after the acquisition. Two results stand out. First, targets tended to undergo more restructuring than acquirers (an overall average of 25% of total
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targets’ staff and of 12% of total targets’ facilities affected by the restructuring, compared to 12 and 6% respectively for the acquirers’ staff and facilities). There is substantial restructuring of target administrative (40 and 20%) and manufacturing (50 and 20%) staff and facilities, along with lesser impact on target R&D (20 and 0%), distribution (15 and 0%), and sales (% and 0%) staff and facilities. The second conclusion is that the acquirers also underwent at least moderate restructuring, especially of administration (10 and 20%) and manufacturing (25 and 10%) staff and facilities. Overall, the acquisitions clearly offered opportunities to restructure and rationalize global manufacturing and administrative operations of the newly united businesses. By contrast, R&D and marketing (i.e. distribution and sales) activities required much less restructuring. Presumably, the combined firms continued to draw on the technical skills available throughout the companies and to use the country-specific marketing systems of the target and acquirer.

Resource Redeployment. Resource redeployment is the extent to which the acquirers transfer resources to their targets or appropriate resources from their targets in order to use them in the home country business. Two observations stand out. First, on average; substantially more redeployment takes place to the target than to the acquirer (with an overall mean of 4.0 for resource redeployment to target, against a mean of 2.7 to acquirer on a 5-point scale, with 1 for low redeployment and 5 for very significant redeployment). The acquirers often provide the target with resources throughout the commercial spectrum, including managerial expertise (4.8), supplier skills (4.5), manufacturing know-how (4.5), financial resources (4.3), innovation capabilities (3.8), brand names (3.8), marketing expertise (3.8), and sales and distribution networks (3.5). By contrast, acquirers obtain appreciable amounts of only innovation capabilities (3.8) and market-related resources such as sales networks (3.8), brand names (3.8) and marketing expertise (3.0) from the targets. The second observation is that there is bilateral redeployment of technical and market-related resources, i.e. both to and from the target. Looked at in isolation, the redeployment of product innovation capabilities from the targets to the acquirers might appear to be cross-national technology appropriation. When examined as a bilateral process, however, it appears that acquirers tend to give as much technology to the host country as they take from it. An implication of this pattern is that international acquisitions may contribute to stronger overall technical development, rather than exacerbate international imbalances in technical capabilities.

Integration Mechanisms. Integration mechanisms are the extent to which
the acquirers create managerial systems that integrate the target and acquiring businesses. The primary conclusion is that integrated management by target and acquirer staff is common throughout the spectrum of business activities (with an overall mean of 4.2 for degree of post-acquisition use of integration mechanisms linking targets and acquirers, where 1 was a weak use of integration mechanisms and 5 was a large use). Integration is particularly important for R&D and manufacturing activities, along with international and management development. Even the least common integration, for marketing and training, reached at least moderate levels. The need for integration probably stems from the substantial business restructuring and resource redeployment.

In summary, firms tend to undertake substantial business restructuring, redeploy many resources and create extensive integration mechanisms following cross-border horizontal telecommunications acquisitions. The clear implication is that global expansion requires far greater concerted action than simply obtaining a business in a foreign market. Instead, both the target business and the home country business must be reconfigured if they are to become part of a well-coordinated international firm serving multiple geographic markets.

Impact of Acquisition on Corporate Performance

We next asked the managers to assess the impact of the acquisitions on the capabilities and performance of the firms. The primary conclusion is that many capabilities received at least moderate benefit from the acquisitions (with an overall mean of 3.6 for the impact of acquisition on merging businesses on a 5-point scale, where 1 was accounting for a negative impact, 3 a neutral impact and 5 a positive impact). Geographic coverage (4.2), R&D (4.0), product quality (4.0), design cycles (3.8) and product cost (3.7) especially benefited. The only common negative influence was on pricing leeway (2.7), presumably because the international operations of the broader firm required more pricing integration. By contrast, input prices (3.3), delivery speed (3.2) and output flexibility (3.0) tended to receive neither benefit nor harm. Overall, it is clear that the managers believe that the acquisitions usually led to substantial improvements in many parts of the businesses. The influences on profitability and sales were almost uniformly

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2 The cases varied in the continuing independent existence of the target businesses. In two cases, the targets continued to operate as stand-alone businesses at the time of the survey. In the other two cases, the acquirers and targets operated as combined businesses at the time of the survey.
positive, whether we measure performance as intrinsic profitability (4.0), profitability relative to the industry (3.8), sales (3.8) or market share (3.7).

The summary conclusion of the acquisition impact results is that the acquisitions tended to lead to improved capabilities and business performance of the acquiring and target businesses.\textsuperscript{3} We now use these results to help discriminate among the five hypotheses concerning the outcomes of horizontal acquisitions.

\textbf{4. Acquisition Outcomes and Theoretical Implications}

Expected Acquisition Outcomes

In the final portion of the case analysis, we assess the five hypotheses that we identified as possible explanations for cross-border horizontal acquisitions in the telecommunications sector. The hypotheses included market power, target mismanagement, productive efficiency, strategic reconfiguration and resource appropriation. In order to discriminate among the five alternative hypotheses, we compare the post-acquisition outcomes along several key dimensions. The dimensions include post-acquisition price and quantity changes, the influence on target and acquirer capabilities and performance, business restructuring, resource redeployment, and integration mechanisms. Table 1 outlines the expected outcome patterns suggested by the alternative acquisition hypotheses and the empirical results. The expected outcomes highlighted in bold type are consistent with the empirical outcomes.

The first two outcome columns of Table 1 address price and quantity changes. The traditional market power perspective suggests increased prices and, possibly, reduced quantities, as the newly united firm takes advantage of its increased power with buyers. The target mismanagement hypothesis has no direct implication for prices, but target output would tend to decline if the target became less competitive as a result of poor management by the acquirer. In the productive efficiency and strategic reconfiguration views, prices will tend to fall and quantities rise as the target and acquirer became more efficient and better suited to the market environment. The resource appropriation view has little implication for prices. Target quantities might decline if its loss of resources damaged the target’s ability to compete, but

\textsuperscript{3} At the same time, however, one of the cases was much less successful than the others. This negative result indicates the need for careful choice of targets and at least equally careful implementation of acquisition activity.
TABLE 1. Assessment of Fir between Empirical Results and the Patterns Suggested by Five Alternative Acquisition Hypotheses

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<tr>
<td>1 Market power</td>
<td>up</td>
<td>down?</td>
<td>flat</td>
<td>up</td>
<td>little</td>
<td>little</td>
<td>little</td>
<td>reject</td>
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<tr>
<td>2 Target mismanagement</td>
<td>target down, acquirer flat</td>
<td>target down, acquirer flat</td>
<td>target down, acquirer flat</td>
<td>target down, acquirer flat</td>
<td>moderate bilateral</td>
<td>moderate</td>
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<td>support</td>
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<tr>
<td>3 Productive efficiency</td>
<td>down?</td>
<td>up?</td>
<td>up</td>
<td>up</td>
<td>moderator bilateral target to acquirer</td>
<td>little</td>
<td>reject</td>
<td>reject</td>
</tr>
<tr>
<td>4 Strategic reconfiguration</td>
<td>up</td>
<td>target down, acquirer up</td>
<td>target down, acquirer up</td>
<td>target down, acquirer up</td>
<td>bilateral</td>
<td>bilateral</td>
<td>substantial</td>
<td>support</td>
</tr>
<tr>
<td>5 Resource appropriation</td>
<td>down?</td>
<td>up?</td>
<td>up</td>
<td>up</td>
<td>target and acquirer up combined up slightly</td>
<td>target: substantial</td>
<td>target: substantial</td>
<td>H3</td>
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<tr>
<td>Mean outcome</td>
<td>down?</td>
<td>up</td>
<td>up</td>
<td>target: substantial</td>
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acquirer production quantities would tend to increase if the acquirer benefited from the appropriated resources.

The third outcome column of Table 1 addresses business capabilities. The market power hypothesis suggests little change in capabilities. Target mismanagement implies reduced target capabilities, with no complementary increase by acquirers. Productive efficiency and strategic reconfiguration suggest improved capabilities, although the productive efficiency case is likely to apply most directly only to manufacturing-related skills. The resource appropriation perspective suggests reduced target capabilities, coupled with increased acquirer capabilities.

The fourth outcome column of Table 1 addresses performance. The market power, productive efficiency and strategic reconfiguration perspectives each suggest improved post-acquisition performance. In the target mismanagement and resource appropriation perspectives, target performance will decline. Acquirer performance will tend to be flat in the target mismanagement perspective, or possibly decline if target problems affect the acquirer, while acquirer performance will tend to rise in the resource appropriation view.

The fifth output column of Table 1 addresses business restructuring. The market power hypothesis suggests little restructuring of either target or acquirer. The other four hypotheses each suggest at least moderate restructuring of the target business. The productive efficiency and strategic reconfiguration views suggest substantial bilateral restructuring, with productive efficiency emphasizing manufacturing-related restructuring and strategic reconfiguration expecting restructuring throughout the business.

The sixth output column of Table 1 addresses resource redeployment to and from the target. The market power and target mismanagement views imply little resource redeployment, although some target mismanagement cases might stem from unsuccessful attempts to redeploy resources. The resource appropriation view suggests unilateral resource redeployment from the target to the acquirer. The productive efficiency and strategic reconfiguration views suggest substantial bilateral resource redeployment, with productive efficiency emphasizing manufacturing-related redeployment and strategic reconfiguration expecting more extensive redeployment.

The seventh output column of Table 1 addresses post-acquisition integration mechanisms. The market power, target mismanagement and resource appropriation views suggest little need for interbusiness integration mechanisms, although some target mismanagement cases might stem from unsuccessful attempts to integrate. By contrast, the productive efficiency and strategic reconfiguration views suggest more extensive integration mechanisms, particularly in the reconfiguration view.
Fit between Observed Post-acquisition Behaviour Patterns and Expected Outcomes

The bold type in Table 1 highlights the expected outcomes that are consistent with the empirical outcomes. Examining the patterns among the seven sets of expected relationships allows us to match the actual outcomes with the potential explanations for horizontal cross-border acquisitions in the telecommunications sector.

First, the mean outcome and individual case outcomes reported in Table 1 show that, in spite of some variation among the cases, most of the results fit with the productive efficiency and strategic reconfiguration views. The results suggest that one cannot discriminate neatly between the productive efficiency and strategic reconfiguration views. Instead, the outcomes imply that the two views tend to converge, in the sense that firms may need to undertake substantial business reconfiguration in order to attain efficiency gains. Such a convergence marks a substantial difference from traditional scale-based productive efficiency views, which emphasize the lower costs attained by increased production volume but tend to underestimate the changes that firms will need to undertake in order to produce and sell greater volumes of goods. Such reconfiguration will be particularly needed when the increased production involves differentiated products, rather than simply greater production of similar goods. Substantial product variation will be common in cases of international expansion, as firms usually will need to offer differentiated goods in the different markets in which they operate. The differentiation will require substantial adjustment of design and engineering activities, production systems, supplier networks, marketing systems, administrative support and other commercialization activities (Capron and Hulland, forthcoming). These results suggest that business reconfiguration tends to be a central part of gaining productive efficiency following horizontal acquisitions.

Second, the empirical results rule out the market power explanation. Traditional market power theory predicts higher prices and reduced output following horizontal acquisitions while our data show that prices tended to decrease (with an average difference of -0.4 between the pre-acquisition and post-acquisition prices that are measured on a 5-point scale, with 5 for high prices and 3 for equal to industry average), while output slightly tend to increase (with an average of 3.5 on a 5-point scale, with 3 for no change and 5 for change). The quality assessment shows that product quality tended to increase after the acquisition (with an average difference of 0.8 between the pre-acquisition and post-acquisition product quality levels measured on a
5-point scale, with 5 for high quality and 3 for standard quality), consistent with the product quality results. The increase in quality rejects the possibility that the lower post-acquisition prices stemmed from reduced post-acquisition quality, a pattern that also might be consistent with the market power hypothesis. The conclusion is that there is little initial support for the market power explanation.

Finally, the results largely contradict the target mismanagement and resource appropriation explanations since bilateral resource redeployment processes and use of integration mechanisms to share knowledge and resources across merging businesses are commonly observed.

In summary, the results of this study strongly support the argument that acquisitions provide opportunities for firms to undertake substantial changes to both target and acquiring businesses. Such reconfiguration is particularly important in dynamic market environments, such as the international telecommunications sector, in which firms must develop new business capabilities and market positions in order to compete effectively.

5. Conclusion

The telecommunications industry is at least as important to economic development and social welfare as we reach the twenty-first century as it was at the beginning of the twentieth. Owing to its economic and social importance, the industry remains a focal point of public policy (Sandholt, 1992; Greenstein and Spiller, 1995). What has changed, though, is the speed and complexity of technical, market, social and competitive transformation of the telecommunications environment. The dynamism of the telecommunications environment has outstripped the ability of public policy to undertake fine-grained regulatory oversight of the firms offering telecommunications services and products (Mitchell and Teece, 1995). Rather than provide detailed oversight, telecommunications policies need to offer guideposts to effective management and constructive competition. Acquisitions policy is a key area in which firms require such guideposts concerning what different countries will accept and encourage.

Policymakers and managers throughout the world face critical choices concerning acquisitions policy. One policy approach would be to discourage most telecommunications acquisitions; in essence, to put up stop signs. Such a stop-sign approach is rooted in the traditional suspicion-based perspective on acquisitions. The traditional perspective, however, is the wrong view of dynamic environments. Indeed, we believe that the stop-sign approach would damage social welfare, rather than improve it. By contrast, a more effective
policy approach would be to encourage acquisitions that allow firms to develop the capabilities they need to compete effectively in changing environments.

Mergers and acquisitions are a fact of daily commercial life in dynamic markets. The traditional views of acquisitions focus on their static influences concerning market power, scale economies and resource appropriation, and have stressed that many acquisitions appear to fail. In contrast, we stress that acquisitions provide a means for buyers and sellers to adapt quickly and successfully to new technologies and markets. In many cases, attempting to create new businesses or adapt existing businesses through internal growth would take longer than the competitive environment allows or would simply be impossible owing to lack of knowledge of the organizational and technical capabilities needed. Managers must adapt quickly to changing technologies, products, markets, production methods, regulations and competitive strategies, or their firms will fail. In turn, the economies that depend on successful commercial operations gain or lose strength depending on how quickly firms can adapt to changing conditions. Therefore, acquisitions serve critically important functions for both corporate and social success.

This study shows that the four cases we examined undertook extensive reconfiguration of the target businesses and, to a lesser extent, acquiring businesses following cross-border telecommunications equipment acquisitions. In turn, the acquisitions improved the capabilities of the firms and, in most cases, led to improved financial performance. The results provide much stronger support for strategic reconfiguration and productive efficiency explanations for cross-border telecommunications acquisitions than they do for market power, target mismanagement or resource appropriation explanations. These results do not suggest that managers or public officials should take a sanguine view of acquisitions. Nonetheless, the results do suggest that cross-border telecommunications acquisitions often contribute to both corporate welfare and social welfare.

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