Innovation as Determining Factor of Post-M&A Performance

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Innovation as Determining Factor of Post-M&A Performance: The Case of Vietnam

August 21, 2013 (Vietnamica) – In the 2005-2012 period, M&A transactions value in Vietnam was estimated around US$10 billion. Employing a categorical data sample of 212 M&A cases, Vuong, Napier and Samson (2013) investigate the relationship between determination of controlling an acquired firm’s capital, assets, and brand versus its capability of innovation and ex post performance.

Empirical evidence suggests negative performance of post M&A operations is likely rooted in an overwhelming “resource acquiring” strategy and negligence on innovation factor – for instance, a human resource, especially corporate leaders, willing and able to make creativity. Indeed, many sellers consider M&A an exit or even an end of their entrepreneurial endeavors (Vuong and Tran, 2009; Vuong, Tran, and Nguyen, 2010). In a post M&A period, some enjoy comfortable lives of wealthy retired businesspeople while others start new venture of being capitalist.
The relationship between pre-M&A determination on acquiring resources (financial/physical) and the post-M&A performance is statistically significant. Vietnam’s data suggest some positive, and profound, effects of the ‘size matters’ strategy on firms’ post-M&A performance. So to speak, the Innovation factor has not had significant meaning in an overwhelming ‘asset/capital acquiring pursuit’ strategy.

In contrast, the over-emphasis on resources and brand value – at the time of the M&A pursuit – is the major explanation of negative performance for the post-M&A operations. Simultaneously, the absence of innovation as a predefined goal in the pre-M&A period appears to have significant explanatory power for poor ex post performance.

The paper also suggests that when the M&A involves costly arrangement or expensive investments (size, price or running costs), no matter how large the resources the post-M&A firm may acquire, pre-M&A expenditures tend to adversely affect the post-M&A performance results. In light of this, innovation and creative performance can, therefore, be an important factor to pursue in M&A transitions, which suggests the need to emphasize capable and willing human capital, rather than resources or existing values of corporate/goods brands. The empirical results have in general confirmed the role of innovation (and creative performance) as the determining factor for success of an M&A transaction, especially had this factor entered the pre-M&A planning process.

However, the reality has shown that in a wave of M&A where there is an overwhelming emphasis on assets and brands, the innovation factor’s impact is limited, to a large extent.

In fact, actual observations have indicated that acquiring firms tend to be impressed by acquired firms’ market share, size of assets (including distribution system), capital base... Nonetheless, these factors are not sufficient to guarantee success in the post-M&A phase, let alone the fact that the due diligence process focusing on these factors could be costly themselves. In contrast, innovation capability – be it technology, management or distribution – of the acquired firm has generally been ignored and substantially
undervalued. To help address this, previous works such as Napier & Vuong (2013), Vuong & Napier (2012; 2013a); Vuong, Tran, Napier & Dau (2013) have made theoretical and empirical attempts in suggesting ways to look into issues of bringing up creative performance and innovation in the industry, which are to a large extent relevant to the current consideration of post-M&A performance.