For firm performance, a rating system was created to capture the key indicators and their relative importance. This system produced an overall performance rating for each firm and was based on input from the managers running the allocation program. The rating relied on several performance criteria (involving financial, facilities, delivery, program compliance, technical capability, management, discipline, responsiveness, and quality). These criteria could be measured for each firm and then combined into one overall score based on their relative importance. Once this quantitative rating system was established, an average performance target for any allocation could be set.

The decision support tool also included two types of constraints that had to be met. First, the allocation had to provide a minimum amount of furniture business for each firm in the program. These minimums were based on an estimated break-even level of revenue that each firm needed to survive. Second, the allocation could not exceed a maximum amount for each firm. The maximums were based on the estimated production capacity of each firm (reflected in the number of skilled workers available and their estimated productivity).

So how was this decision support tool used to help the program managers in Malaysia? First, it shed light on previous allocation decisions by clarifying the specific “rules” that managers used when they allocated furniture demand. Basically, Yahya and Kingsman used historical data from past furniture allocations to all 68 firms while tweaking settings for important policy targets (e.g., average product quality and firm performance). In short, they crunched the numbers through the decision support tool until they found a close match with the historical allocation actually made. This revealed the implicit targets for quality and firm performance that the program managers had really used in making their allocation decisions. As a result, managers could then ask themselves, “Is this what we intended?” and “Does this match well with the stated program goals?”

Next, the tool was used to investigate the possible impact of different allocation strategies that could have been tried in the past. For example, certain decision rules could result in furniture allocations that would not be feasible or would otherwise preclude program goals from being reached. Likewise, the tool allowed managers to play out a variety of “what if” scenarios without having to actually make changes to their allocation decisions and observe the real results. For instance, by experimenting with the minimum allocation constraint, managers could predict whether the number of firms whose allocation exceeded their “survival threshold” would rise or fall (i.e., how many of the 68 firms in the program would have at least a break-even cushion). Along the same lines, running changes in quality targets through the tool enabled managers to review the impact that those changes might have on the quality of the furniture delivered (e.g., how much of the furniture delivered is of high quality?).

Yahya and Kingsman suggested using this decision support tool at the beginning of the year to help managers evaluate alternative policies for that year’s furniture allocations. They also suggested using it in an ongoing fashion to fine-tune things if undesirable effects or problems popped up as allocations were being made. Overall, Yahya and Kingsman felt that by providing a timely analysis of ongoing allocation decisions, the tool would prove invaluable for evaluating and reacting to unanticipated problems.

One significant limitation of Yahya and Kingsman’s approach is that validity concerns exist about their measures of program goals and firm characteristics. In creating such quantitative measures, researchers often must rely on data that are readily available or on the judgments of “experts.” Another possible limitation of decision support tools occurs when researchers develop their mathematical models without working closely with management. When that is the case, such tools are unlikely to be used. Fortunately, Yahya and Kingsman spent considerable time and effort with the managers who best know the Malaysian furniture industry. That said, it is unclear whether and to what extent Malaysian managers will continue to use Yahya and Kingsman’s decision support tool to help develop the country’s furniture industry. Nevertheless, Yahya and Kingsman have shown us a model-based tool that managers in Malaysia can use to help make good decisions consistently, even in a complex and evolving industry environment.


Looking Back: Does Acquisition Experience Make or Break Future Deals?

Patrick Maggitti, University of Maryland

The amount of money firms have spent on acquisitions in recent years is staggering. For instance, companies spent more than $3 trillion on acquisitions in 1999, a figure that exceeds the gross national product of some industrialized countries. On
the surface, the continued popularity of corporate acquisitions implies that acquisition is a highly successful strategy for increasing market power, developing firm skills, or gaining access to important technologies. In fact, there's good evidence that some firms, such as General Electric and Cisco Systems, are both experienced and successful in the acquisition game.

Nevertheless, many acquisitions fail miserably. Why do so many companies fall short, failing to capitalize on the prospects for learning that come with an acquisition? It appears that the reasons for failure vary. For example, acquirors may select the wrong company to acquire, pay too much in the first place, or do a lousy job of integration.

But successful or not, the prevailing wisdom is that companies with prior acquisitions under their belts are more likely to learn from the acquisition experience and be successful with future acquisitions than inexperienced companies. Unfortunately, it turns out that this is not always the case, as a recent study by Mathew Hayward from the University of Texas at Austin suggests.

Hayward's research was designed to shed light on exactly how and when prior acquisition experience matters to future acquisition performance. He developed his hypotheses based on three key insights gleaned from previous research. First, when companies acquire firms that are very similar to themselves, they seem to lose the opportunity to gain broader knowledge about other businesses and industries. On the other hand, when the acquisitions are very different, the acquiring companies are exposed to new businesses but may lack the specialized expertise or frame of reference that would allow them to draw critical lessons from the experience.

Second, the desire of managers to learn seems to be weakest when prior acquisitions are either successful or big flops. With a successful acquisition, managers may not look hard enough to understand why—perhaps due to overconfidence or a false sense of competence. Conversely, a major failure may cause managers to feel threatened. As a result, they may look for scapegoats, blaming volatile business conditions or other factors "beyond my control," instead of carefully examining why things went wrong. Of course, all of this implies that "middle of the road" acquisition outcomes produce the best learning. Indeed, Hayward argues that the best learning environment for acquiring companies exists when they suffer relatively modest losses as a result of an acquisition rather than experiencing either a big success or a big failure.

Hayward's third insight about learning has to do with the timing of acquisitions. Previous studies suggest that when acquisitions occur in rapid succession, managers may lack the time to fully assimilate all that they've learned. On the other hand, when the gap between acquisition experiences is long, learning is also compromised but for different reasons. A long interval between acquisitions makes it more difficult to remember and apply lessons learned, particularly if no effort has been made to record or institutionalized those lessons in the intervening period. In essence, the best chance for company learning should take place when a moderate gap exists between acquisitions. A very short or a very long time interval between acquisitions reduces the odds that firms can successfully apply what they have learned to subsequent acquisitions.

To put these ideas to the test, Hayward examined all 535 publicly disclosed acquisitions made from 1985 to 1995 by 100 of the largest (in terms of market capitalization) U.S.-based firms. To determine whether the results would generalize across industries, these companies included representatives from six different industries (i.e., telecommunications services, regional banking, oil and gas refining/production, forest products/packaging, food processing, and drug/medical supplies). Hayward treated the acquisitions that the companies made in the first five years (1985–1989) as experience forming. By using the characteristics of these early acquisitions, he then tried to predict the performance of firms' later acquisitions (i.e., those made from 1990–1995). Overall, the 100 acquiring firms averaged less than two acquisitions during their "formative period" but averaged more than three acquisitions over the final five years. Other measures used in the study included the total number of recent acquisitions made by the firm, the similarity of the acquired firm to the acquiror (based on industry codes), and the average number of days between acquisitions.

Hayward used two key measures to gauge acquisition performance. First, abnormal returns were identified using complex event study methodology (this involved comparing the acquiring firm’s stock price against market returns for a period 30 days prior to and 250 days after the acquisition). A "small" acquisition loss was defined as the number of times that an acquisition announcement resulted in a stock price loss of no more than 3%, as determined by this methodology. Second, 64 security analysts in the six industries were surveyed to assess whether, in their opinion, the acquiring firm generated wealth for shareholders by making each acquisition.

The results supported all three of Hayward's basic hypotheses. First, when companies acquire highly similar or dissimilar firms, they appear to learn relatively little from the experience and per-
form poorly as a result. The companies that performed best, however, were those that acquired firms during 1990–1995 that were moderately different from the firms acquired during 1985–1990.

Second, small losses on acquisitions seemed to teach managers to strive for better results the next time. When early acquisitions (i.e., from 1985–1990) resulted in small losses, the performance of later acquisitions (i.e., from 1990–1995) tended to be better. Moreover, bigger losses early on had a negative impact on later acquisitions, consistent with Hayward’s idea that major failures would prove to be poor teachers. Finally, moderate time intervals between acquisitions (i.e., 6–12 months) tended to be most strongly related to future performance, although the “optimum gap” increased when prior acquisitions were larger. But the bottom line was that a modest gap seemed to help companies assimilate the lessons learned from prior acquisitions (i.e., a gap long enough for managers to grasp key lessons, but short enough not to forget them).

Whether all of these findings also apply to other corporate strategies, such as alliances, joint ventures, and international expansion, remains to be seen. Nevertheless, Hayward’s study has clear and important implications for managers involved with mergers and acquisitions. First, managers who experiment with moderately different types of acquisitions are more likely to reap benefits from the experience than those who acquire very similar or vastly different types of businesses. Second, managers should closely monitor the performance of their acquisitions to minimize overconfidence from past successes or, conversely, the temptation to place the blame for failures elsewhere (e.g., on circumstances or bad luck). Moreover, small acquisitions setbacks may be the most valuable learning experience of all, especially if managers take the time to learn from them before they make the next big deal. Heeding Hayward’s advice may help managers develop the special skills required to successfully exploit existing acquisition opportunities as well as explore new ones.


Want a Better Team? Foster a Climate of Fairness

Amy B. Henley and Kenneth H. Price, University of Texas at Arlington

Does treating your employees fairly really matter? Many studies covering employees at different levels and in a wide variety of different companies have concluded that it does. Generally speaking, employees who feel they are treated fairly are more satisfied with their jobs, are better organizational citizens, are more loyal to the organization, and perform better than employees who don’t. But although we know that fair treatment matters a great deal to individual employees, very little is known about the causes and consequences of fairness in teams. And that makes for a big gap in the research literature, particularly given the increasing importance of teams in modern corporations (e.g., due to foreign competition, changing task requirements, rapidly evolving technologies, and so on).

Bridging that gap was the goal of a recent study by Jason Colquitt of the University of Florida, Raymond Noe of The Ohio State University, and Christine Jackson, also of the University of Florida. In a nutshell, Colquitt, Noe, and Jackson examined both the factors that help create a climate of fairness in teams as well as the consequences of such a climate for team performance.

For example, the size of a team and the degree of team-member diversity may affect how fairly members think their team is being treated and the extent to which team members agree about that treatment. It may be easier to create a climate of fairness among members in a smaller team. As teams become larger, it may be more difficult for members to voice their opinions about important issues (e.g., company policies and procedures). Consequently, some members may feel that they have no say on the team, something that would detract from a climate of fairness.

With respect to team diversity, there’s little doubt that having a diverse membership can pay some long-term dividends. But a high level of team-member diversity (e.g., based on gender, ethnicity, or other demographic factors) may create a variety of communication problems. As a result, it may be more difficult for the team to make decisions based on a shared set of accurate information, another key element of team fairness.

On the other hand, the values of the team members themselves may play a key role in creating a sense of fairness on the team. Specifically, when team members embrace a collective orientation (i.e., they believe that team interests outweigh individual desires), it may have a positive impact on both the fairness climate of the team and the extent to which team members agree about it. Indeed, the more a collective perspective exists among team members, the more likely it is that procedures will be used that stress team goals over individual ones (e.g., that the opinions of all
Copyright of Academy of Management Executive is the property of Academy of Management. The copyright in an individual article may be maintained by the author in certain cases. Content may not be copied or emailed to multiple sites or posted to a listserv without the copyright holder’s express written permission. However, users may print, download, or email articles for individual use.