



Acquisition Integration Flexibility. Toward a Conceptual Framework

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ACQUISITION INTEGRATION FLEXIBILITY: A CONCEPTUAL FRAMEWORK

Conducting acquisitions constitutes an established strategy in dynamic markets (Zajac *et al.*, 2000; Vermeulen and Barkema, 2001; Heeley *et al.*, 2006). Acquisitions can both initiate and adjust to change in a firm's competitive environment (Keil *et al.*, 2013; Haleblan *et al.*, 2012) by providing an acquirer with access to new competencies or markets faster and at a lower cost than organic growth (Capron, 1999; Lee & Lieberman, 2010; Makri *et al.*, 2010; Calipha *et al.*, 2018). Still, acquisitions often fail to produce value to shareholders (King *et al.*, 2004), or even destroy value (Moeller *et al.*, 2005), and acquiring firm shareholders typically experience losses (Andrade *et al.*, 2001). While research suggests that extracting the full benefits of an acquisition generally requires careful planning for organizational integration between the involved firms (Brueller *et al.*, 2017; Graebner *et al.*, 2017; Haspeslagh and Jemison, 1991; Lubatkin *et al.*, 1998; Steigenberger, 2017), theory remains incomplete with how firms manage unpredicted events during integration.

While the difficulty of fully predicting events is foundational to integration research (Jemison and Sitkin, 1986), research has emphasized the benefits of integration planning to better foresee, avoid, and master integration challenges (Ahammad and Glaister, 2013). Arguably, the focus on planning has come at the expense of theorizing on how to manage inevitable adjustments during integration. For example, research shows that internal employee anxiety and stress evolve in ways difficult to predict (Schweiger and DeNisi, 1991; Dackert *et al.*, 2003). Further, integration can lead to tensions between cultures that are inherently hard to decipher (Stahl and Voigt, 2008) and give rise to hard to predict in-group and out-group biases associated with political behavior (Jetten *et al.*, 2002; van Leeuwen *et al.*, 2003). At the same time, external dynamism involves efforts intended to surprise acquirers including competitive reactions (King and Schriber, 2016), including unexpected losses of customers

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3 (Anderson *et al.*, 2001; Öberg *et al.*, 2007; Rogan and Greve, 2014) and employees (Brown *et*
4 *al.*, 2003), or both (Kato and Schoenberg, 2014). Further, integration takes several years to
5 complete, making initial planning increasingly difficult and demanding of managerial
6 attention at the expense of consideration of the external environment (Birkinshaw *et al.*, 2000;
7 Cording, Christmann and King, 2008; Larsson and Finkelstein, 1999). Alongside the ability to
8 foresee events, we propose the ability to adjust to unforeseen events during integration is an
9 underappreciated explanation in research for acquisition performance.
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18 In light of the limited structured attention to how firms detect and mitigate the effects
19 of dynamism during integration on acquisition performance, we develop the role of
20 integration flexibility as a mediator of acquisition performance and demonstrate how this
21 capability varies across firms. We build our framework on a dynamic capabilities perspective
22 (Eisenhardt and Martin, 2000) and acquisition research with an emphasis on the role of
23 managers at various hierarchical levels (Larsson and Finkelstein, 1999; Cording *et al.*, 2008).
24 Our basic argument is consistent with the realization that managers display bounded
25 rationality (Cyert and March, 1963; Birkinshaw *et al.*, 2000), and recognition that the impact
26 of dynamism is mediated by organizational flexibility (cf. Hedberg *et al.*, 1976; Helfat and
27 Peteraf, 2009). We expect integration flexibility develops gradually and depends on an
28 acquirer's organizational characteristics, deal characteristics, and the nature of internal and
29 external change during integration.
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44 Multiple contributions result from the paper. First, we develop the concept of
45 integration flexibility. Specifically, we build on and extend related research (e.g., Junni *et al.*,
46 2015) to develop this concept as an organization's ability to make appropriate adjustments to
47 ongoing integration in relation to changing conditions. Second, we relate our observations to
48 different acquisition phases or times managers and organizations can develop, assess, and
49 apply integration flexibility. This implies an ability to adapt acquisition integration to
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3 dynamic conditions requires a process perspective (Jemison and Sitkin, 1986; Steigenberger,
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5 2017). Third, our study adds a dimension to typical research considerations focused on the
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7 planning stage to consider implementation. As a result, our study emphasizes the need in
8
9 acquisition research to also pay attention to acquirer capabilities for integration. Fourth, our
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11 paper strengthens the tie between dynamic capability and acquisition research. Specifically,
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13 prior research has established capabilities allow important variation in routine behavior
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15 (Heimeriks *et al.*, 2012), and we elaborate the role of flexibility in variation. In the following
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17 sections, we develop a framework and related propositions for characteristics associated with
18
19 integration flexibility.
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22 **Benefits from Integration Flexibility**

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24 Research has emphasized the complexity of acquisitions and that it is very difficult to
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26 predict integration (Vester, 2002), and we propose integration flexibility constitutes an
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28 important yet underestimated organizational capability. Generally, organizational flexibility
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30 involves the ability to adjust an organization to novel circumstances, involving the
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32 development of alternative strategies and attending to external change for maintaining
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34 strategic fit of an organization with its environment (Brozovic, 2018). In the context of
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36 acquisitions, we define integration flexibility as the capability to adapt planned and ongoing
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38 integration efforts to new conditions. Adaptation includes reducing or increasing the degree of
39
40 integration, or shifting the aim of integration to benefit from other value sources than initially
41
42 planned. The associated capability is largely tied to managers along the hierarchy who
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44 initiate, control, and adjust integration in both acquirer and target (Graebner, 2004; Cording *et*
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46 *al.*, 2008; Lamont *et al.*, 2018), and this likely impacts acquisition performance in several
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48 associated ways.
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52 First, in acquisitions, synergy potential relates to increased competitiveness from
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54 integration between the involved firms, but anticipated synergies can disappear because of
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3 contextual change (Rouzies *et al.*, 2018). Without adjustment, integration likely suffers for
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5 several reasons. First, integration creates costs and, if not matched with associated benefits,
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7 performance will fall. Second, insufficiently adjusted integration will leave potential value
8
9 unrealized when conditions and synergies shift. Third, continued implementation of initial
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11 plans rendered obsolete by change will lead to reduced rather than improved performance. For
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13 example, the pursuit of cost reductions can leave an organization unable to cope with novel
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15 environmental conditions (Shaver, 2006).
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18 Our starting point is that important drivers of acquisition flexibility are already
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20 discussed in acquisition research; however, they have not yet been combined in a discussion
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22 about how acquiring firms are able to adjust to unexpected events. Rather than evolving in a
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24 haphazard way, we argue that important variables from acquisition research can be structured
25
26 logically to explain integration flexibility. Research generally agrees acquisitions evolve
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28 depending the acquirer, the target, and the integration process (Haspeslagh and Jemison,
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30 1991; Bauer and Matzler, 2014), and we argue acquirer and target firm characteristics and
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32 integration management connects the most important factors addressed so far in acquisition
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34 research contributing to integration flexibility.
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38 Therefore, we discuss three key factors taking center stage in acquisition research that
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40 combine and contribute to integration flexibility. First, integration flexibility depends on
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42 acquiring firm characteristics (Wright and Snell, 1998) that develop path-dependently and
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44 influenced by managerial choices and the situations to which the firm is exposed. Second, the
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46 effect of integration flexibility is affected by the context. Research consistently demonstrates
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48 a variety of contingencies affect acquisition performance, including the amount of acquirer-
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50 target similarity (relatedness) as a determinant of integration (e.g., Capron, 1999) and relative
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52 size (e.g., Graebner, 2004). As a result, we argue that deal characteristics modify the impact
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54 of integration flexibility. Third, integration research places great emphasis on the role of
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3 integration management (Cording *et al.*, 2008), and the ability for integration flexibility
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5 associated with the resources applied to manage the integration process. Overall, the
6
7 antecedents to integration flexibility explain the ability of acquiring firms to adjust ongoing
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9 integration processes that we develop in more detail below.

10 11 *Acquirer Characteristics*

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13 The ability of acquiring firms to adjust ongoing integration processes following an acquisition
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15 is contingent on prior decisions and experiences. The ability to adjust to unexpected events is
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17 recognized especially in the dynamic capabilities perspective (Teece, Pisano and Shuen,
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19 1997) as a means of explaining firm performance in environments of varying degrees of
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21 dynamism (Danneels, 2011) including acquisitions (Heimeriks *et al.*, 2012). Although this
22
23 broad research spans various approaches, we join the view that dynamic capabilities consist of
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25 collective, skill-based and purposeful organizational efforts of various complexity, repetition
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27 (Eisenhardt and Martin, 2000) and managerial intervention (Teece, 2012). Importantly, while
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29 distinct from luck (Winter, 2003), capabilities allow firms to “vary in how well they can
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31 perform an activity” (Helfat and Winter, 2011: 1244). It is the aim of capabilities research to
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33 identify what constitutes strategically important capabilities. In the context of knowledge
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35 transfer in acquisitions, Junni and colleagues (2015) propose sensing, resource fluidity, and
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37 collective commitment support this ability, and we argue this extends integration more
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39 broadly. In the following subsections, we develop how acquisition research provides several
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41 arguments overlapping with dynamic capabilities and integration flexibility.

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46 *Acquisition Experience.* Acquisition experience contributes to an organizational ability
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48 that provides a portfolio of responses to circumstances that recognizes changing conditions
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50 and adapts initial plans. Research supports that acquisition experience enables drawing
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52 conclusions from prior deals to improve performance of subsequent transactions (Zollo and
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54 Singh, 2004). For example, experience can attenuate negative effects of superstitious learning
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(Zollo, 2009) to enable developing a variety of potential solutions (Haunschild and Sullivan, 2002). However, research also points to the risk of misapplying prior, similar experiences in new contexts (Ellis *et al.*, 2011; Heimeriks *et al.*, 2012). In other words, firms with too narrow experience may display lower performance in subsequent acquisitions. Simply, this ability is more likely in organizations with relevant experience in acquisition integration, as experienced acquirers can extract, accumulate, and create knowledge (Echajari and Thomas, 2015). Thus, we propose:

Proposition 1: Broader acquisition experience is positively associated with integration flexibility.

Resource slack. Organizational change typically requires preparation and costly alterations alongside ongoing operations that make slack important to flexibility. Slack compromises human, financial, or other resources not fully utilized in the daily operations of a firm that are associated with adaptation (Bourgeois, 1981; Singh, 1986). Research suggests that slack enables absorbing adjustment to internal and external change (Chattopadhyay *et al.*, 2001; Damanpour, 1991). As a result, slack enables pursuing new, untested activities that are associated with adjusting to change (Danneels, 2002). This is consistent with slack being beneficial during disruptions (Wan and Yiu, 2009), and acquisitions are disruptive. Integration is also costly and greater slack available places fewer restrictions on adjusting integration plans. Shaver (2006) elaborates this point eloquently by arguing that acquisitions pursuing strict cost reduction risk reducing slack to make a firm vulnerable to sudden environmental shifts. As a result, we propose:

Proposition 2: Slack resources (e.g., financial) are positively associated with integration flexibility.

Middle Manager Involvement. The degree to which decision-making is centralized or dispersed differs between firms, and we posit this is related to integration flexibility. The formal and informal organizational impact on decision-making in firms is recognized both

generally and in relation to dynamic capabilities to relate to their ability to adjust to external dynamism (Danneels, 2011; Kay, 2010), and we argue this in turn sets important boundaries for integration flexibility. While the role of middle managers is largely unexamined in acquisition research (Meglio and Risberg, 2010), it is recognized that middle managers face difficult circumstances during an acquisition (Meyer and Altenborg, 2008) at the same time they are critical to its success (Larsson and Finkelstein, 1999). Middle managers are closer to the challenges facing an organization and display less lock-in, but they also often have less authority to direct change (Nohria and Berkley, 1994; Sayles and Stewart, 1995). The more responsibility and authority a firm delegates to middle management the faster the firm can react and implement change (King *et al.*, 2001; Stensaker *et al.*, 2008). This suggests that greater middle management involvement can make a firm more flexible, and we propose:

Proposition 3: More middle management involvement in an acquiring firm is positively associated with integration flexibility.

Acquirer Dynamism Experience. Firm experience shapes the capabilities that develop, and firms in some industries face conditions more favorable for developing skills related to flexibility. While some sources of external dynamism are common to several markets, such as financial crises, other sources differ between industries. For instance, immature and fragmented markets often lack product standards and greater rivalry (Porter, 1980). Firms in such industries are more likely to experience dynamism associated with conditions needed to develop routines for managing change (Helfat and Peteraf, 2009). Therefore, firms operating in a dynamic industry is more likely to have managers with relevant experience in how to adapt to changing conditions. As a result, firms in dynamic industries will likely be able to extend their experience to change integration plans, when compared to managers from stable or more mature industries (cf. Spender, 1989). This is important since the success of alterations in integration plans likely depends on the inherent responsiveness of an acquiring

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3 firm (Volberda, 1996). Further, firms unable to adjust to environmental dynamism are likely
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5 to be outcompeted making remaining firms more likely to possess flexibility to accommodate
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7 industry dynamism. Therefore, we propose:

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9 *Proposition 4:* Acquiring firm experience of industry dynamism is positively
10 associated with integration flexibility.
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12 *Deal Characteristics*

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14 Research is consistent in pointing to the combination between acquirer and target as central to
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16 explain how acquisitions evolve. Often described in terms of 'fit', how the target relates to the
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18 acquirer sets important conditions for value potentials (Bauer and Matzler, 2014). While not
19
20 acknowledged as such, we argue that several factors found in prior research also have
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22 important implications for integration flexibility. Put differently, the same acquirer can
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24 experience very different levels of flexibility in relation to two different targets. Put
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26 differently, acquisitions differ, and target firms contextualize and modify available integration
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28 flexibility.
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32 *Target Firm Size.* While there is a risk that smaller targets are neglected (Calipha *et al.*,
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34 2010), smaller targets are more easily integrated (Cording *et al.*, 2008). Given a similar level
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36 of integration, a larger target will require more effort to integrate (Pablo, 1994) as size
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38 correlates with increased rigidity and inertia (Hannan and Freeman, 1984). For example, the
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40 number of contacts that are possible between separately identifiable units grows exponentially
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42 as size increases linearly. The larger the total number of connections necessary for a desired
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44 level of integration drives greater disruption to the operations of both firms. Additionally,
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46 larger peer-groups of target and acquirer employees might trigger conflict (Homburg and
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48 Bucerius, 2006). Further, firm size affects legal constraints, as government oversight and
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50 regulations, such as employee protection increase with firm size. Overall, larger targets will
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52 receive more managerial attention than the smaller counterparts (Slangen, 2006), and we
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54 propose:
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3 *Proposition 5: A target firm's size lowers acquirer integration flexibility.*

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5 *Degree of integration.* The degree of relatedness between an acquiring and target firm
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7 influences the degree of integration with related acquisitions typically requiring greater
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9 integration (Haspeslagh and Jemison, 1991; Pablo, 1994). We argue that the lower the
10
11 intended integration level, the higher the integration flexibility. Primarily, less integration
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13 requires lower resource commitment, including managerial and financial resources. Greater
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15 integration contributes to managers having an internal focus that reduces perception of
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17 external cues (Cording *et al.*, 2008) that can signal a need to adjust integration. Additionally,
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19 greater integration between combining firms increases the costs of reversing decisions and
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21 organizational links. As a result, greater integration carries a higher cost to respond to
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23 dynamic change, and we propose:
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26 *Proposition 6: Lower levels of integration positively influence integration flexibility.*

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28 *Physical Distance.* Geographic distance has a persistent effect in selecting acquisition
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30 targets, and one explanation is the amount of information needed for integration is easier for
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32 more proximate target firms (Chakrabarti and Mitchell, 2013; Coval and Moskowitz, 1999).
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34 Greater distance also increases the opportunity for misunderstanding due to regional, cultural
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36 or institutional differences (Ahammad *et al.*, 2016). For example, one of the rules applied by
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38 Cisco, an active acquirer, involves selecting geographically close targets, as Cisco's CEO is
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40 attributed to having the attitude that he did not want to have to board a plane to solve
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42 problems with an acquisition (Bunnell, 2000: 68). This argument is strengthened in cases
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44 where distance involves cultural or national borders (Bauer *et al.*, 2018; Kling *et al.*, 2014).
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46 Less physical distance between an acquirer and target *also* facilitate knowledge flow from
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48 increased interaction between employees (Rosenkopf and Almedia, 2003), while increased
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50 distance is associated with higher transaction costs (McCarthy and Aalbers, 2016). Greater
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52 communication and face-to-face meetings over time are also associated with improved
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3 identification and trust (Lewicki and Bunker, 1995). The combined effect is that geographic
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5 proximity increases the amount of interactions, information exchanged and trust between
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7 combining firm employees that will likely facilitate change during integration. Thus, we
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9 propose:

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11 *Proposition 7:* Greater physical distance between an acquirer and target negatively
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13 impacts integration flexibility.
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15 *Integration management*

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17 Acquisition research consistently points to the importance of how integration is managed for
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19 explaining acquisition performance (e.g., Capron, 1999; Cording, *et al.*, 2008). Several
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21 decisions regarding how integration is managed are distinct from the acquiring firm
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23 organization and target. Very different acquirers can decide to focus on similar issues, and
24
25 vice versa (Ellis and Lamont, 2004). The implication is that integration processes, or the focus
26
27 of attention and resources are assigned to integration offer important insights into how
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29 acquisitions evolve. Although integration research covers a wide range of topics, below we
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31 focus on those most clearly connecting to integration flexibility during integration.
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35 *Environment Scanning.* One condition for successful integration flexibility involves
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37 detecting changes to enable adjustment. Environmental scanning takes effort, as decision-
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39 makers have an uncertain view of their competitive environment (Porac and Thomas 1990)
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41 and cognitive limitations contribute to routinized behavior (Cyert and March, 1963).
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43 However, effort offers rewards, as firms that dedicate employees to environmental scanning
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45 have an increased chance to both detect and correctly interpret environment shifts (Elenkov,
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47 1997). Still, it is often difficult to maintain environmental scanning during acquisition
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49 integration.
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53 The time consuming nature of integration leads managers to focus internally at the
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55 expense of environmental scanning (Cording *et al.*, 2008). A tendency to focus internally is
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3 likely compounded by managers viewing internal acquisition risks as easier to manage than
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5 external risks (Elango *et al.*, 2013), contributing to managers overlooking externally driven
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7 needs to change (Graetz and Smith, 2010). Overall, we anticipate environmental scanning is
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9 more important during acquisition integration, as integration is among the best of times to
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11 attack competitors that are otherwise distracted (Meyer, 2008). Therefore, we propose:

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13 *Proposition 8:* Environment scanning positively correlates integration flexibility.

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15 *Integration Team Diversity.* Research suggests that transition teams enable integration
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17 flexibility (Meglio *et al.*, 2015). One important aspect of integration flexibility involves
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19 having an integration team with varied expertise. The ability to successfully bring in
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21 additional resources and adjust plans is contingent on the ability to correctly “read” internal
22
23 and external events and interpret the consequences (Shaver, 2006). The ability to interpret
24
25 complex processes relates to familiarity, and different training and career paths develop
26
27 unique perspectives between organizational functions that influences the salience of
28
29 information (Sorensen, 1999). The implication is that managers with a production background
30
31 tend to emphasize issues relating to production, at the expense of information or cues
32
33 perceived as more relevant to other functions that could be more important to acquisition
34
35 success. During acquisition integration, adaptation depends on different managerial skills and
36
37 experience, including familiarity with a target firm (Graebner, 2004; Krishnan *et al.*, 1997).
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39 This does not mean a team has needed capacity, but expertise to recognize what is needed and
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41 when. For example, consultants can provide needed expertise and meet temporary increases in
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43 demand for specialized personnel (Feldman and Spratt, 1999). Therefore, we propose:

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48 *Proposition 9:* An integration team’s diversity positively correlates with integration
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50 flexibility.

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52 *Management Capacity.* Implementing changes during integration increases manager
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54 workload and absorbs their attention (Kavanagh and Ashkanasy, 2006). Successful acquirers
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2 often maintain additional employees than expected for a final end state to avoid a negative
3 impact on operations (Meyer, 2008). Research recognizes that acquisitions limit the ability of
4 managers to coordinate diverse activities (Zhou, 2011), and, when overwhelmed by demands,
5 managers likely go with what they know leading to locally rational decision making that
6 negatively effects overall performance (Laamanen and Keil, 2008). Acquisition integration
7 requires non-routine decisions and limited information that drives managerial sensemaking at
8 the same time managers provide guidance to employees (e.g., Maitlis, 2005). A firm's ability
9 to engage employees likely depends on managers being able to address increased demands
10 during integration. Overall, greater management capacity will ease integration by enabling
11 flexibility in its implementation, so we propose:

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24 *Proposition 10:* Managerial capacity positively correlates with integration flexibility.

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26 *Integration Speed.* Speed is an important consideration for acquisition integration
27 (Bauer and Matzler, 2014; Cording *et al.*, 2008; Haspeslagh and Jemison, 1991). Research
28 generally advises faster integration to reduce employee uncertainty, give competitors less time
29 to respond, and realize performance improvement faster (Angwin, 2004; Homburg and
30 Bucerius, 2006). However, integration decisions once made can be difficult to reverse
31 (Leiblein *et al.*, 2002), and research recognizes that integrating a target firm too fast risks
32 destroying value (Angwin, 2004). For example, Uzelac and colleagues (2016) find that
33 intuitive decision making combined with fast human integration reduces acquisition
34 performance, and this may be partially attributed to increased turmoil. Additionally, the
35 complexity of acquisition integration often drives active experimentation to achieve goals
36 (Vester, 2002), and it is reasonable to expect this takes time. Therefore, we propose:

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50 *Proposition 11:* Faster integration is negatively associated with integration flexibility.

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53 *Acquisition Performance*

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3 While the benefits of integration flexibility likely remain insignificant in completely
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5 predictable or stable integration processes, we anticipate a positive impact under dynamic
6
7 conditions. Primarily, strategic complexity makes planning difficult at the same time that it
8
9 increases the need for planning (Kukalis, 1989). Acquisition integration is among the most
10
11 complex activities managers face, and the primary benefit of having an initial integration plan
12
13 is that it identifies what is important and provides a basis for adjustment. For example, initial
14
15 analysis will make assumptions about acquisition integration with respect to competitor
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17 reactions, employee turnover, and other metrics that can be observed and significant
18
19 deviations from expectations lead to the need to react (cf. Gates and Very, 2003; King and
20
21 Schriber, 2016).
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25 A related reason is that the process of implementation often focuses on additional
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27 planning (Stensaker *et al.*, 2008). The amount of information known about a target firm will
28
29 be limited during due diligence when initial integration plans are formed by an acquiring
30
31 firm's managers. The increased interaction between acquiring and target firm managers will
32
33 lead to the exchange of additional information that can lead to unexpected gains (Graebner,
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35 2004). A positive impact of integration flexibility also relates to explicit plans limiting
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37 managerial options for reaching desired goals (Eisenberg and Witten, 1987), or it leaves
38
39 ambiguity (Risberg, 2003). The combined implication is that integration flexibility can be an
40
41 important part of integration planning, and the impact will be larger when dynamism is high.
42
43 Therefore, we propose:
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47 *Proposition 12:* The positive impact from integration flexibility on acquisition
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49 performance is contingent on the level of internal and external dynamism a firm faces.

50 Discussion

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52 While acquisitions help firms adjust to market dynamism and changing conditions
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54 (Almor *et al.*, 2014), research largely assumes a stable environment for integration. However,
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3 integration typically takes several years to complete and we build on research demonstrating
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5 convincingly such changes are difficult to predict. As a result, we meet a need to develop how
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7 firms maintain flexibility during acquisition integration. Consistent with a dynamic
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9 capabilities perspective, we develop factors that influence a capability for integration
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11 flexibility and its subsequent influence on acquisition performance. As a result, integration
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13 flexibility represents an important organizational ability that enables altering integration plans
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15 to achieve positive outcomes. Further, integration flexibility likely varies between firms, and
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17 this variation begins to explain variance in acquisition performance. We summarize our
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19 hypotheses in a framework. Figure 1 depicts our view of integration flexibility as an
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21 organizational ability with its determinants and influence on acquisition performance, and we
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23 next outline its theoretical and practical implications.
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29 ----- Insert Figure 1 about here -----
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33 *Research Implications*

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35 We complement a planning perspective in acquisition research to show that integration
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37 flexibility can result in improved acquisition performance. Research has established the
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39 importance of target assessment and acquisition planning, and, when planning is insufficient
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41 or difficult, acquisition performance suffers (Ahammad and Glaister, 2013). More recently,
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43 attention on the need to attend to uncertainty during integration has grown (e.g., Junni *et al.*,
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45 2015). We develop and extend this logic by showing that integration flexibility needs to
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47 accommodate changing conditions that are often difficult or impossible to predict, and we
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49 outline the factors constituting this capability. This complements prior deal-based planning
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51 frameworks that emphasizes the need to assess a target firm to initiate relevant integration
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53 efforts (e.g. Haspeslagh and Jemison, 1991). A clear implication is that integration flexibility
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3 is likely to affect the variables commonly studied in acquisition research, and it could begin to
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5 explain inconsistent results in predicting acquisition performance (King *et al.*, 2004). Put
6
7 differently, integration flexibility stands out as a novel explanation for why acquisition
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9 performance varies.

10
11 Capabilities develop over time, and we outline different organizational factors that
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13 influence the development of integration flexibility. Specifically, we outline integration
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15 flexibility across broad categories and times related to acquirer and deal characteristics, and
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17 integration management. This complements a process perspective of acquisition research
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19 (Jemison and Sitkin, 1986), and, while acquisition research still often considers these issues
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21 separately (Bauer and Matzler, 2014), our framework integrates them. This places integration
22
23 flexibility as an intermediate ability in the acquisition process that influences acquisition
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25 performance (e.g., Cording *et al.*, 2008).

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28 Our framework adds a dimension to research on target selection that typically stresses
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30 financial viability and overpayment and benefits of different degrees of relatedness. For
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32 example, research suggests that acquirers are more likely recognize the benefit of
33
34 combinations in related acquisitions that can be difficult for others to anticipate (cf. Winter,
35
36 2000) compared to acquisitions in unrelated industries (Graebner, 2004). Complementing
37
38 such considerations, our framework provides needed research attention to integration
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40 flexibility. As this capability can differ between firms and each acquisition modifies the need
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42 for integration capability, we expand research on pre-acquisition assessment to consider a
43
44 new set of factors necessary for successfully integrating a particular target. These insights
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46 collectively constitute a step toward new theory that can begin to explain inconsistent
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48 research findings on acquisition performance (e.g. King *et al.*, 2004), and we attribute
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50 importance to them since acquisitions tend to occur in periods of industry restructuring where
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52 unexpected dynamism is typically high (Heeley *et al.*, 2006).
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3 Finally, we strengthen and elaborate a link between research on firm capabilities and
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5 acquisitions. Prior research has established a firm's integration capability depends on prior
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7 experience (Heimeriks *et al.*, 2012), and our framework expands it to consider conditions
8
9 associated with a specific acquisition. This suggests that needed integration flexibility is
10
11 partly contingent on acquiring firm characteristics or that integration capability is not subject
12
13 to short-term planning. As such, integration flexibility is part of the set of capabilities
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15 acquiring firms can develop over time that have also been shown to impact acquisition
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17 performance (cf. Laamanen and Keil, 2008).
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19 20 *Management Implications*

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22 Our framework also has important consequences for acquiring managers. First, acquirers need
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24 to consider the integration capability, as this influences the likelihood of success. While
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26 planning integration remains important, our study emphasizes integration flexibility predicts
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28 acquisition performance in more realistic circumstances than the majority of research that
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30 assumes stable and predictable integration circumstances. Second, we outline factors that
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32 acquiring firms can influence to increase integration flexibility at different times of the
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34 acquisition process. An important implication is this capability depends partly on conditions
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36 long before a focal transaction. In consequence, we suggest managers not only plan a focal
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38 acquisition, but they also set aside resources for building integration flexibility needed to
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40 complete subsequent acquisitions. Lastly, integration flexibility is a capability that influences
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42 acquisition performance. Put differently, acquiring managers should go beyond financial
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44 considerations to consider whether available integration flexibility can support acquiring and
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46 integrating a prospective target.
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49 50 *Limitations and Future Research*

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52 We acknowledge that our research has multiple limitations. A central boundary condition for
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54 the relevance of our ideas is that integration flexibility assumes dynamism and uncertainty.
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3 While severely hampered in dynamic environments, traditional integration planning will
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5 likely be preferable in stable environments. Further, dynamic capabilities are also costly to
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7 develop and maintain (Winter, 2003), and the costs of integration may outweigh its benefits.
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9 We also anticipate negative impacts from excess integration flexibility are possible. For
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11 example, research has identified power games that develop during integration processes
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13 hinder reaching acquisition goals (Meyer and Altenborg, 2007), and continued adjustment to
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15 integration may unnecessarily extend integration and forming a common organizational
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17 identity. As a result, the climate and motivation for adjusting integration plans will be
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19 important. This study is limited to topics and factors studied in prior acquisition research,
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21 however, also allows us to point to areas of more research. Ours is a first instep into
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23 integrating previously fragmented insights into the need and possibilities for adjusting
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25 integration to unexpected dynamism, flexibility in acquisition integration and associated
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27 relationships with acquisition performance remain an important avenue for future research. To
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29 illustrate, we have built on research arguing for more research on external scanning, but also
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31 internal scanning during integration to detect upcoming challenges should be of value for
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33 explaining integration flexibility.
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Figure 1. Framework of Integration Flexibility's Influence on Acquisition Performance