

# **Regaining autonomy in post-acquisition:**

Resource Orchestration and Identity Resurgence at Automobili Lamborghini

## **Integration and autonomy dynamics in the post-acquisition process**

Prior research on acquisition implementation has emphasized the challenge of balancing integration and autonomy (Graebner 2004). However, recent work has also emphasized the need to better distinguish integration and autonomy as two distinct dimensions of post-acquisition implementation (Zaheer, Castañer et al. 2013). Moreover, there have been repeated calls to better understand what is really going on during the post-acquisition implementation process, contingent on the type of post-acquisition mode (Graebner, Heimeriks et al. 2017).

The typology of post-acquisition modes presented by Haspelagh and Jemison (1991) focuses on the managerial actions and the transfer of capabilities between the acquiring parent and the acquired target through mechanisms of resource sharing, functional skills transfer, and general management capability. Alongside this strategic task of transferring capabilities to create value, the degree of organizational autonomy granted to the target reflects a concern for protecting the target's strategic capabilities which have motivated the acquisition in the first place. Acquisitions in which the strategic purpose is the exploitation of tacit and socially complex knowledge embedded in the target's organization are symbiotic acquisitions that require both a high degree of integration and a high degree of autonomy in order to succeed. A key recommendation for managing symbiotic acquisitions is thus to delay the integration process, providing an opportunity for mutual learning and the establishment of trust between the two organizations before integration occurs (Graebner 2004). Yet, the implicit result from this sequential approach advocated by the existing literature is that, even in cases of symbiotic acquisition, full integration will eventually occur and lead to the amalgamation of the target into the parent company.

Moreover, although prior research on the subsequent performance of acquired firms is increasing, most prior post-acquisition studies have focused on the effects on the acquiring firms (Barden 2012). For example, prior work on the influences of acquisitions on innovation suggests that acquisitions can have both positive and negative influences on the performance of the acquiring firm (Capron 1999, Ahuja 2001, Halebian 2009). On the other hand, some work has looked into the recombination of resources for technological innovation by the acquired firm (Capron and Pistre 2002, Sears and Hoetker 2014) and the degree of autonomy in R&D by the acquired firm (Schweizer 2005).

Yet, underlying most of this work on the transfer of capabilities between acquired and acquiring firms, especially work focusing on symbiotic acquisitions, is the assumption that the acquired target is actually performing well. Indeed, prior works shows that acquirers are generally unable to successfully restructure severely distressed firms and that the acquisition of deeply troubled targets decreased acquirers' long term accounting and market returns (Halebian 2009). In turn, the acquisition of a distressed firm usually follows a logic of absorbing the key assets or capabilities into the acquiring firm and speedily divesting the rest, thereby highlighting speed of integration as a key driver of M&A transaction success (Angwin 2004, Homburg and Bucerius 2006, Bauer and Matzler 2014).

A process perspective on acquisitions has been advocated for a long time, starting with studies of the antecedents and the deal making itself (Jemison and Sitkin 1986). Birkinshaw

(2000) distinguishes between the task integration, based on transfers of capabilities and resource sharing, and the human integration which ultimately generate a shared identity among the employees from both companies. Yet, some authors have argued that despite the wealth of post-acquisition literature there is little systematic coverage of the temporal dynamics and the changes that take place in the post-acquisition period (e.g. Angwin and Meadows 2015, Steigenberger 2017). Detailed process research, anchored in a resource-based view of integration (Cording, Christmann et al. 2008), may help to better conceptualize the temporal dynamics of target integration and target autonomy during successive stages of post-acquisition (Graebner, Heimeriks et al. 2017).

If a symbiotic acquisition is a transitory state before integration leading to absorption, then how do the integration and autonomy dynamics interact over time? How can a poor performance target ever regain autonomy and escape amalgamation?

### **Method and case overview**

Given the strong call in the literature for detailed process theorizing, we follow a qualitative approach. Moreover, most of the literature focuses on timeframes of two to five years after the acquisition event. However, to really observe the dynamics of interest, detailed longitudinal data must be collected over a longer timescale. Hence, we chose a single case design (Yin 2014) and selected an extreme case (Eisenhardt and Graebner 2007), Automobili Lamborghini, which does not easily fit most PMI typologies: the acquisition by a large group of a small, distressed company, which is then turned around very successfully through strategic integration; yet, eventually manages to regain significant autonomy and escape amalgamation.

Muira, Countach, Diablo: these are iconic names of « super sports cars ». However, the Automobili Lamborghini company behind these bulls' names was far from a cash-cow business. During a 35-year period spanning from its founding in 1963 to 1998, the company went bankrupt once, was briefly turned around twice, and ended up being sold five times. Yet, since last being acquired by Audi in 1999 the company has grown a twenty-fold.

Working with Lamborghini since 2010, we have been collecting empirical data to better understand the post-acquisition process underlying its extreme and sustainable turnaround. We designed a qualitative, multilevel, dyadic, and longitudinal research to theorize this strategic renewal process. Specifically, we focused a large part of our data collection on the development of the Aventador, their “halo” model which clearly marks a bifurcation in the post-acquisition integration with Audi. Figure 1 shows the evolution of sales, employees, R&D employees, number of patents, and the development and launch of car models over an 18-year period from the year of the acquisition in 1999 to 2017.

### ***Insert Figure 1***

We first contacted Automobili Lamborghini in November 2010. At that time, the Gallardo model was at mid-lifecycle and had been a great success. The company had just finished the development of their next super-sports car, the Aventador. During our first visit, the production line was still being setup, with the start of production and the commercialization of the new model scheduled for early 2011. Our first idea when contacting Lamborghini was to conduct a research project on their innovative capabilities following the acquisition. We wanted to explore the recent development phase (2007 – 2010) of the Aventador which Lamborghini wanted to be “*the ultimate super sports car of the future*”. Their vision was to push the technological

boundaries on several components and to redefine the rules of this niche segment. Our initial design was thus based on embedded case studies of their development of radical innovations for several sub-systems and components of the car. As shown in figure 2, we focused on the development of the carbon fiber monocoque, independent shift-rod gearbox, push-rod suspension, lifting system, super capacitor for stop-and-start of the V12 engine, carbon ceramic disk brakes, and ceramic coating for thermal protection of the aesthetical tailpipe. However, as the qualitative inquiry progressed (and the market success of Aventador became apparent in real time), the issues of integration and autonomy very quickly became prevalent in the empirical data. It became apparent that the development of the Aventador represented a clear bifurcation in post-acquisition trajectory. Hence, we adjusted our research design to better understand the integration and autonomy dynamics in the post-acquisition process.

### *Insert Figure 2*

#### **Data**

Our qualitative process theorizing is based on primary data collected through 68 semi-structured interviews with 42 informants. All these interviews were recorded and transcribed verbatim and we took extensive notes. We conducted 42 interviews with 25 informants from Lamborghini across functions (purchasing, manufacturing, quality, finance, marketing, sales, R&D, HR, design) and across multiple levels (engineers, project managers, heads of functional areas, and board directors; including the two CEOs for 1999-2004 and 2005-2016). Several informants had tenure at Lamborghini since the mid-1990s and most of them had joined around 2001, just after the acquisition. We conducted 4 interviews with 4 executive directors of Audi who had successively followed the acquisition over the 18-year period and had been seating on the board of Lamborghini. We also conducted 22 interviews with 17 informants from the partner companies across Europe (one US based) with whom Lamborghini had developed the selected radical innovations, as indicated in figure 2. Our analysis is also based on extensive secondary data covering two decades of annual reports, press releases, industry reports, newspaper and magazine articles, patent data, as well as social media communications and videos posted by the company since 2012.

In constructing our multi-level, longitudinal, dyadic dataset, we took care to control for retrospective bias through non-leading questions, triangulation, multiple interviews with some informants, and other rigor devices. We visited the company in Sant'Agata, Italy over 20 times and took extensive notes of our non-participant observations (meeting with suppliers, visits of factory, of R&D offices, of canteen, etc). We wrote a 400-pages case narrative which we distributed to our main informant at Lamborghini. Some of the authors did not participate in the data collection. This allows to maintain critical appraisal of the emerging findings.

#### **Analysis**

Our analysis followed the Gioia process theorizing approach (Gioia, Corley et al. 2013). We start with a temporal bracketing analysis (Langley 1999) which identified three stages in the post-acquisition process: “hygiene and survival” (informants’ terms), bifurcation, and new beginning. We coded for first order themes throughout the interviews. We then followed an abductive approach of looking in diverse literatures and going back to the data to better understand what was already covered in the literature and which novel interactions we could infer from our data. This instructed our axial coding to capture second-order concept. The usual concepts of resources sharing and managerial capabilities were obvious. Yet, the concepts of

construed external image, future desired images, and projected image found in the organizational identity literature also became very salient in the data. We then used our empirical data to check the existence and polarity of causal interactions among all the second order concepts. By combining the temporal bracketing and causal relationships, empirically grounded in our data, we were then able to construct a process model that captures the recursive dynamics between integration efforts, resource orchestration, and identity resurgence.

## Findings

During a first phase of “hygiene and survival”, Lamborghini got access to the resources and capabilities of the Audi VW group. The integration efforts by the top management team (TMT) of the parent company were quite clear and rigidly imposed (new product development process, purchasing processes, selection of suppliers, quality control, manufacturing, etc.). Lamborghini was able to access the aluminum expertise of Audi and some electronics components from the group suppliers which it could never get before. The Gallardo was the first car developed as a platform with the group – which then became the Audi R8 – and led to a broadening of the addressable market. Its huge success induced a very strong response by competitors such as Ferrari and McLaren. After this initial survival phase, the new CEO of Lamborghini started using several devices to test the brand in its market. Then by 2007, it was time to renew its ageing V12 product. When Audi indicated that this new car should continue on the success recipe of the Gallardo – a group platform with aluminum frame – the top management team of Lamborghini leveraged the renewed strength in its organizational identity to step out of the platform and to “*demonstrate what Lamborghini could do again*”. The centripetal forces of the integration processes were becoming very strong. Even if the initial intention was to protect the development capability of Lamborghini (especially in engine management), Lamborghini felt that their distinctiveness was eroding and that they had to renew their core competencies. The identity resurgence informed their strategic vision of what Lamborghini could become. The TMT presented this vision to the Audi board, and the CEO of the VW group, who finally granted autonomy to Lamborghini. However, Lamborghini did not have all the resources and capabilities required to deliver the technological vision of the Aventador. Thus, they selected specific suppliers with whom they developed the radical innovation and absorbed a lot of new competencies. In particular, Lamborghini was able to completely renew its competencies in carbon fiber and composite materials, which is now one of its sources of competitive advantage.

The case findings demonstrate a clear link between the identity resurgence and the future desired image. This future desired image in turn informs their strategic vision which is an input to the resource orchestration process. Moreover, while access to the parent resources and capabilities through integration efforts improved the performance of the company, it also reduced the distinctiveness of the construed external image that the TMT of Lamborghini perceived. This led to increased efforts to regain autonomy by leveraging past success, improved image, trust from the parent company, and their own internal resources and capabilities. By granting more autonomy to Lamborghini, Audi allowed them to work with suppliers outside those selected by the VW group and to develop radical innovations. This process improved the distinctiveness of Lamborghini resources and capabilities. However, over time, as these radical innovations were transferred to the parent company’s products, their distinctiveness also decreased, prompting Lamborghini to request more autonomy on other aspects of their business processes.

## **Discussion**

Our process model demonstrate the recursive dynamics between integration efforts, resource orchestration, organizational identity, and the regaining of autonomy during the post-acquisition process of a distressed company. While the post-acquisition literature emphasizes a sequential approach to symbiotic acquisition to protect the target's specific capabilities, the centripetal forces of the integration efforts seem to lead inescapably to the amalgamation of the acquired firm into the acquiring firm. It is worth noting that these dynamics can really become apparent only when a long timeframe (18 years in our case) is adopted.

Our process theorizing explains how an acquired company can regain autonomy by leveraging the interactions between its resource orchestration and the resurgence of its organizational identity. By regaining autonomy, the acquired firms can access resources and capabilities from external partners and renew its core competencies through absorptive capacity, hence renewing its distinctiveness. By granting more autonomy to the acquired firm, the acquiring firm may initially lose integration benefits but in the long term it may benefit from new capabilities absorbed from external partners by the acquired firm. However, the eventual recombination and transfer of these capabilities from the target into the parent innovations will in turn reduce their distinctiveness and lead to increased amalgamation.

This work contributes primarily to the post-acquisition literature and theorizes some of dynamics between integration, trust, and autonomy over the successive phases of an acquisition. Moreover, our analysis also contributes to a better understanding of the affective dimensions of organizational identity (Graebner, Heimeriks et al. 2017) and their causal interactions with resource orchestration, especially by highlighting the link between future desired image (Gioia, Schultz et al. 2000) and strategic vision (Sirmon, Hitt et al. 2011). Finally, with its focus on managerial agency, our process theorizing also contributes to the recent call to capture the underlying change mechanisms in action and what focal actors actually do to renew their competitive advantage (Vaara and Whittington 2012).

## TABLES and FIGURES

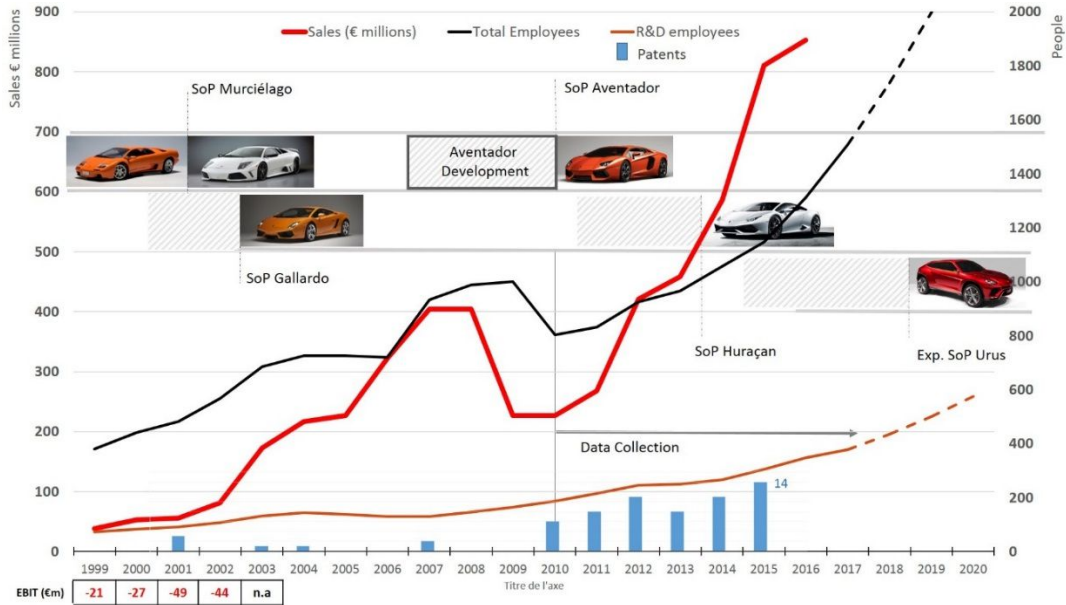


Figure 1: Sales, employees, R&D employees, patents, and models 1999 – 2017



Figure 2 : Aventador embedded case studies components and companies

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