# Building Acquisition Management Capability to Improve Firm Performance in Acquisitions:
## An ASEAN Context

Mohamad Oki Ramadhana, Graduate School of Management, Universitas Indonesia, Indonesia

Sri Moertiningsih Adioetomo, Graduate School of Management, Universitas Indonesia, Indonesia

Biakman Irbansyah, Graduate School of Management, Universitas Indonesia, Indonesia

Yanki Hartijasti, Graduate School of Management,, Universitas Indonesia, Indonesia

## ABSTRACT

In the past two decades, the number of cross-border mergers and acquisitions in ASEAN has progressively expanded as the region has become a desired economic market for trade and investment. Therefore, this study aimed to identify the factors contributing to the success of acquisitions by corporations. It investigates the role of acquisition management capability with strategic integration and acquisition. The non-probability sampling strategy was used to collect information from 51 firms. With a five-point Likert scale, a systematic questionnaire was designed to test the latent variables by employing confirmatory factor analysis. The quantitative method of structural equation modeling was used in the analysis. The results show that the structural model had a goodness of fit index value that indicates all three latent variables and independent variables were valid. The findings indicate that acquisition management capability has a central role in advancing the overall integration of the acquiring firm in the ASEAN context.

## KEYWORDS

Acquisition Learning Process, Acquisition Management Capability, Acquisition Performance, Corporate Entrepreneurship

## INTRODUCTION

### Merger and Acquisition in ASEAN

In terms of growth, the ASEAN economies as a whole have been very impressive. For example, the region has been identified as one of the world's fastest growing. Interestingly, six of these countries, namely Indonesia (ranked 16), Thailand (ranked 24), the Philippines (ranked 33), Singapore (ranked 36), Malaysia (ranked 37), and Vietnam (ranked 42), were among the top 50 countries in the world in terms of GDP growth in 2020, while the remaining four countries were ranked between 70 and 136. (World Bank, 2021). Furthermore, each country determines its own macroeconomic policies, which appear to be identical in certain aspects. While the central banks of Indonesia, Malaysia, and Singapore cut their policy rates, the central banks of the Philippines, Thailand, and Vietnam kept their

current low policy rates. This has ramifications for enterprises involved in mergers and acquisitions, as continuous economic development and low interest rates mean that corporations will be able to finance agreements with inexpensive loans.

Seo (2020) stated that from 2010 to 2015, ASEAN's average growth rate was 5.4 percent, whereas the global average was 3.0 percent. ASEAN has become a desirable economic market for trade and investment due to its comparatively high average growth rate. Global FDI inflows grew from 1.6 percent in 2000 to 11.5 percent in 2018, an increase of more than tenfold over the same period. AFTA transforms the ASEAN economy by removing trade obstacles and establishing a strong regional market. In fifteen years, AFTA, as a gradual liberalization trade deal, has successfully decreased intra-ASEAN import tariffs by 5%. Therefore, over the last two decades, the number of cross-border mergers and acquisitions (M&As) in ASEAN has steadily increased (Yokitaki and Kashijuku, 2016).

A study by Metwalli and Tang (2009) on acquisition deal in Southeast Asia in a long period between 1990-2007 shows that Malaysia has the highest number of deals from 5 to 1285 deals; followed by Singapore from 13 to 1,103 deals; Thailand from 0 to 527 deals; Indonesia from 0 to 188 deals; and the Philippines from 1 to 176 deals. Kingkaew (2019) mentioned that between 2014 and 2017, net cross-border M&A sales in ASEAN increased by 124 percent to USD 16.7 billion, helping the region attract more foreign direct investment (FDI). This has increased by more than five times since the beginning of the era, when it was only USD 5.6 billion. The majority of the transactions (60%) took place in Singapore; Indonesia and Malaysia were the second and third largest M&A markets, respectively. The growth in cross-border M&A sales was attributed to a considerable increase in asset acquisitions by developed-country MNEs, which increased from -$4.2 billion in 2016 to $9.7 billion in 2017, as well as an increase in the average deal value. Despite the growing number of cross-border mergers and acquisitions in ASEAN, a large proportion of M&As fail to complete.

## Merger and Acquisition Research Gap

In the dynamic environment, like ASEAN, companies might be motivated to be defensive, growing internally by direct investment (Dalton and Dalton, 2006), or to be offensive, engaging externally by mergers and acquisitions ("M&A") or alliances in order to expand their competitiveness in larger market (Criado et al., 2014). While M&A has become a compelling strategy for corporate growth, at the same time, however, Butler et al. (2012) found that most of M&A transactions failed to achieve higher return.

This failure may be caused by the experience-capability development relationship of M&A transactions. Recent study by Schriber and Degischer (2020) and Schijven et al. (2021) found that the accumulation of acquisitions experience will provides learning effects to increased willingness to conduct further acquisitions (King et al., 2020). The concept of acquisitions experience accumulation is still limited in describing determining factor of M&A capability in the complex puzzle of organizational capability building for M&A transactions (Schijven et al., 2021). While, most M&A studies argued that the experience-capability development relationship is important to ensure successful M&A transaction and firm performance (Schriber and Degischer 2020). Since such integration focus on efficiency and effectiveness of processes that supporting the accumulating, codification and sharing of knowledge from different stakeholders that needs mediating variable such as alliance capability (Indrawan et al, 2018). Therefore, an interaction effect of a way that corporate entrepreneurship positively moderates the relationship of the acquisition learning process on capability development is important to be studied, especially in the ASEAN context.

As prementioned above, in order to achieve successful merger and acquisition, the experience-capability may have an important role. However, the experience-capability development relationship of M&A transactions is yet need to be studied. Most M&A studies either focus on pre-acquisition phase (Barick and Kapil, 2018), or post-acquisition phase (Haspeslagh and Jemison, 1991; Koi-Akrofi, 2016), or both end phases (Chatterjee and Brueller, 2015). Study on the whole process of acquisition is important to identify challenges and opportunities for making better integration in the long path

process. The research uncovers the whole process of acquisition in continuous manner from pre-, to mid-, to post-acquisition phase as "path creation for the next stage" (Wang et al., 2016). Therefore, investigation of the antecedents of the integrative process gives important insight in management capability for business expansion.

Acquisition for business expansion has become an essential corporate strategy for quick competitive move in the market (Trichterborn et al., 2016). Often times corporate entrepreneurship, the first antecedent of this research, takes initiative and becomes the driver for many companies with strategic intent to gain larger market share, engaging in strategic renewal when needed (Vermeulen, 2005), willing to take risk (Garvin and Levesque, 2006), as well as enriching resources and capabilities in this acquisition process (Makadok, 2001). All of those four dimensions of corporate entrepreneurship enable firms to expect achieving better performance in larger market domestically and even internationally (Ireland et al, 2009; Kreiser et al., 2021).

On the other hand, acquisition engagement is exposed with unfamiliar tasks, and knotty integration effort with uncertainty on the outcome (Holland and Salama, 2010). Managing acquisition relying on the past wisdom can bring acquisition to failure. A critical factor to achieve acquisition success is to put in place an acquisition learning process, in directing the right adaptability, motivating collective effort to developing new skills and values, as well as making reconfiguration on the integration of resources, capabilities, and routines between the two firms (King et al., 2020; Dhir et al., 2021). The productivity of learning process of the acquired firm depends on three factors; first, the degree of absorptive capacity in identifying and assimilating knowledge to generate superior competence (Zahra and George, 2002); second, knowledge sharing to obtain new knowledge assets and capabilities (such as technology configuration from the acquired firm); third, knowledge articulation by which all employees can share each other knowledge in order to leverage the most relevant knowledge. This learning process is especially intensified in the mid-acquisition phase to achieve better acquisition integration (King et al., 2020). The corporate entrepreneurship and acquisition learning process serve as the antecedents for facilitating acquisition management to bring about the completion to the post acquisition phase (Dhir et al., 2021).

Leveraging organization resources, capabilities and the systems are crucial to generate firm's capability to achieve competitive advantage (Čirjevskis, 2019). In this research, the concept of acquisition management capability is proposed to serve as a directive factor for successful acquisition engagement (Jeong, 2021). Acquisition management capability, supported by corporate entrepreneurship and acquisition learning process, becomes the central driver of the whole process of acquisition from pre-, to mid-, to post-acquisition phases.

Das and Kapil (2012) found in their study on corporate strategy in acquisition that firms' main concern is to achieve higher profitability and long-term growth, as most companies are practically motivated to sustain business growth. On acquisition performance, researchers commonly adopt objective measures (accounting data) and or subjective measures (assessment by the relevant managers) (Singh et al., 2016). This research investigates the subjective measure of performance of the acquiring companies. Hence, the overall theoretical framework is that corporate entrepreneurship and acquisition learning process influence acquisition management capability, to give impact to acquisition performance (Dhir et al., 2021; Kreiser et al., 2021).

Based on the foregoing explanation, this research establishes a theoretical foundation in two areas of study: dynamic capabilities and merger and acquisition (Čirjevskis, 2019). These two foundations result in two research gaps: first, acquisition management capability, which has never been studied as a combination of acquisition management and capability (Schijven et al., 2021); and second, the middle acquisition phase, which is still a research gap or "limited study", when compared to many studies on pre- and post-acquisitions. Furthermore, three theoretical foundations, entrepreneurship, organizational behavior, and organizational learning, generate three precursors to acquisition management capability, namely corporate entrepreneurship, organizational culture, and the acquisition

learning process. Finally, strategic integration and acquisition performance are the consequences or outcomes of acquisition management capability is not studied yet.

This research aims to solve that gap by investigating what factors might contribute to the success of acquisition in the ASEAN region. Therefore, the study proposed a model of acquisition management capability with strategic integration and acquisition performance which highlight the merger and acquisition in the context of ASEAN, On such active engagement in acquisition in this region, this study intends to explore large corporations' acquisitions, and to identify critical success factors contributing to their overall acquisition integration from pre- to post-acquisition which phases were theoretically constructed by Appelbaum et al. (2000), but such thorough study on managing the whole acquisition phases has not been empirically undertaken.

## LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

### Acquisition Management Capability

The driver for acquisition integration throughout the three stages is proposed in the notion of acquisition management capability, which is built in this research by synthesizing two streams of research; first, dynamic capability view which suggests firm's ability to integrate, build and reconfigure organizational resources and competences in responding to changing external environment (Teece et al., 1997; Čirjevskis, 2019; Čirjevskis, 2021); and second, firm's acquisition management involving corporate renewal seeking for corporate growth (Haspeslagh and Jemison, 1991). Those two notions, acquisition management and capability, were not directly combined in the previous studies. This research proposes the notion of acquisition management capability, as organizational ability in generating integration throughout the acquisition process.

The dimensions of acquisition management capability in this study consists of four dimensions of capability; first, capability in the pre-acquisition decision phase to identify the target firm; assessing how the acquiring firm could strengthen the target firm's capabilities and performance, and how it can better serve the market (Faulkner et al., 2012). The second dimension is the deal making capability to negotiate the terms and potential value of the acquisition of the target firm (Faulkner et al., 2012). The third dimension is the capability in the mid-acquisition reconfiguration phase to reconfigure the assets and routine of the acquired target into the combined firms, and to selectively divest unused asset (Capron and Anand, 2007). Lastly, capability in the post-acquisition integration phase to generate post-acquisition advantage which is referred to as the ability to ensure high quality of integration solutions to the newly acquired or combined entity to be readily competitive in the larger market (Riviezzo, 2013). This acquisition management capability is the backbone of the acquiring firm's engagement in the acquisition.

### Corporate Entrepreneurship

The antecedents or boosters of acquisition management capability in this study are corporate entrepreneurship and acquisition learning process. The first antecedent, the corporate entrepreneurship, is the initiator from of the top executive to spot opportunity in the external market for corporate growth (Jeong, 2021; Kreiser et al., 2021).

This study in corporate entrepreneurship involvement in acquisition investigates its dimensions in strategic intent, risk-taking, strategic renewal, as well as resources and capabilities development. Risk taking, the first dimension, is indicated by Eisenmann (2002) as when a firm does nothing and goes to business as usual, resulting in risk of opportunity foregone in the growing economy in the region. However, engaging in cross-border acquisition has high rate of failure, though it has also high reward, as found by the study on Chinese firms' M&A by Chen and Wang (2012).

Strategic renewal, the second dimension, has been a popular topic in the corporate world, but it is rarely defined (Agarwal and Helfat, 2009). Strategic renewal is different from strategic change

(direct adaptability in the current condition) as it involves altering the process in organization for long term impact, with substantial newness within the organization, and having revitalization on unproductive factors (Wright et al., s, 2001). Strategic renewal also redefines its product portfolio and alter the way the company competes in the market. The acquisition helps the company to exchange its core elements or DNA with the acquired company, such as best practices in human resources and marketing, and even the new technology from the acquired firm adopted by the acquired company.

Strategic intent, the third dimension, is a commitment for having a better future direction (Hamel and Prahalad, 1989). The objectives could be broadening its market with better competitive positioning, improving profitability, or industry diversification for diffusing economic risks.

Resources and capabilities development in the context of corporate entrepreneurship, as the last dimension, has a direct role to shape the process of acquisition. Makadok (2001) proposes a concept of resource and capability building mechanism, as "resource-picking", in terms of new resources and operating capabilities to advance functional.

## Acquisition Learning Process

The second antecedent of acquisition management capability is acquisition learning process (King et al., 2020; Dhir et al., 2021). Acquisition involves many unfamiliar issues faced by the acquirer and the target firm. Organizational learning is an important enabler for the acquirer to improve understanding on the business condition of the target, its resources and capabilities and market segment; while at the same time, the target firm might be assisted in engaging learning process, especially to improving management process, acquiring new skills for better performance (Jeong, 2021).

This research investigates three dimensions of acquisition learning process. First, absorptive capacity in learning productivity, as the ability of a firm to identify, assimilate, improve routine, and apply new knowledge for superior competences (Zahra and George, 2002; Duchek, 2013). Second, knowledge sharing among working partners by utilizing new sets of "knowledge-based resources" from the acquired firm to the acquirer, and vice versa (Martinkenaite, 2012). Third, externalization of knowledge, as an attempt to convert tacit knowledge to become new explicit knowledge (such as in best practices). Hence, corporate entrepreneurship and acquisition learning process are the antecedents to enhance acquisition management capability which is expected to improve business performance (Jeong, 2021; Kreiser et al., 2021).

## Acquisition Performance

In the context of high risk in acquisition, corporate executives expect substantial financial gain and long-term growth (Das and Kapil, 2012). In this regard, the subsequent outcome of acquisition management capability is acquisition performance, which is defined as the perceived outcome in acquisition engagement, whether it is value enhancement or value destruction for the acquiring firm (Das and Kapil, 2012). As acquisition outcome tends to be gradual, this study investigates the subjective measurement focusing on integration effectiveness (Bauer and Matzler, 2014). Prior research shows that subjective measures often do correlate with objective measures (Zollo and Meier, 2008). This research uses three subjective measures; first, integration process performance as the degree to which the targeted level of integration between the two organization has been achieved across all of its task dimensions such as distribution, overall cost efficiency, and stability of the profit margin; second, synergy realization on the overall strategic objectives (Zollo and Meier, 2008); and finally, financial performance perceived by the acquiring firm after integration completion (Schoenberg, 2006).

## Hypotheses Development

This study developed a conceptual model to describe an interaction effect of corporate entrepreneurship and the relationship of the acquisition learning process on capability development. The study modelled a mediating effect of the acquisition management capability towards acquisition performance (Figure 1). The logic of the conceptual model above is that firms engaging in acquisition strategy needs to

**Figure 1. Acquisition learning process on capability development conceptual model**
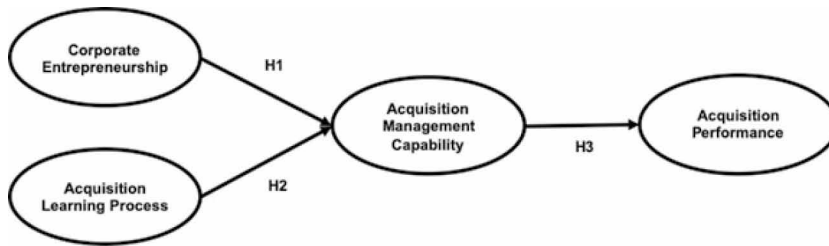


have effective acquisition management capability to carry out acquisition implementation. A poorly executed acquisition is risky, while at the same time firms should ensure creating a workable strategic integration to achieve a successful acquisition (Mitchell and Capron, 2002). The quest for acquisition is highly relevant in the current context as it is expected that firms in the ASEAN region need to accelerate their growth and scale by acquisitions, domestically or cross-border, otherwise they could become the victim of acquisition. The research proposition is that acquisition management capability is central for firms achieving successful acquisition. Relationships among the variables are discussed in the hypotheses below.

When competition becomes more complex with high uncertainty, especially in the dawn of an open market such as ASEAN Economic Community (Yokitaki and Kashijuku, 2016), top executives might seek to strengthen their internal source of competitiveness by acquiring other companies, as well as expanding their market for better positioning (Farinos, et al, 2011). The entrepreneurial orientation needs to leverage acquisition management capability to transform the acquired firm into high performance (Anand and Singh, 1997), by integrating the best resources and capabilities; starting at the pre-acquisition phase from identifying targets, negotiating deals, and laying the foundation for managing the long process of integration in the new firm (Doukas and Zhang, 2021).

The corporate entrepreneurship initiative moves further to direct the middle phase of acquisition, motivating to foster positive relationship among members of the two firms, encouraging to reconfigure resources and capabilities of all units in the acquired firm (Karim and Mitchell, 2000). Lastly, at the post acquisition phase, the corporate entrepreneurship brings the firm to deepen the acquisition process to enhance the integration advantage to serve customers in the larger market (Riviezzo, 2013). Based on the above argumentation, a hypothesis is proposed as follows:

**H1:** Corporate entrepreneurship positively affects the firm's acquisition management capability.

In the acquisition process, uncertainty on the organization factors emerges. Meanwhile people involved in the acquisition process have to learn and engage in designing integration, to achieve better performance (Appelbaum et al., 2000). Hence, acquisition learning process is another critical factor to support acquisition management capability, helping such firm to "learn, accumulate and leverage acquisition know-how" (Trichterborn et al., 2016). Acquisition learning process involves every member in the organization, having responsibility to identify, accumulate and leverage new acquisition know-how especially for the quest of the right mix of resources and capabilities, for broadening the scope of acquisition management capability. Further, Chatterjee and Brueller (2015) offer a crucial insight in that the acquirers are better with concrete learning about the target firm compared with other acquirers practicing trial and error. Based on the above argumentation, a hypothesis is proposed:

**H2:** Acquisition learning process positively affects the firm's acquisition management capability.

Managing well the whole acquisition process, or what Nogeste (2010) also refers to as "M&A program management", is key to generating value to support business performance(Kreiser et al., 2021) . Acquisition management capability is critically important for integrating two companies in the whole process to ensure superior profitability and sustain business growth.

On performance measurement, Zollo and Meier (2008) find that firm's performance on acquisition is a multifaceted construct, with no specific measure is able to represent other measures. Also, acquisition is a relatively long process with variation of results on the way towards post-acquisition stage. Zollo and Meier (2008) propose measuring acquisition performance with the notion of "horses for courses" or different measure for different purpose. Short-term financial performance is the interest of investors in the capital market. Long-term performance is the interest of the company itself, being measured comprehensively in the three dimensions of measurement, namely, the level of success of integration process to create value to customers ("task"); improving cost efficiency and increase in revenue ("transaction"); and the performance of the combined firm relative to competitors ("firm itself"). Based on the above argumentation, a hypothesis is proposed as follows:

**H3:** Acquisition management capability positively affects the firm's acquisition performance.

## METHODOLOGY

### Study Location and Respondent

The unit of analysis was the corporation within the five ASEAN countries having engaged in acquisition transaction, with a minimum market capitalization or total asset of US$1 billion. Based on the data from Bloomberg as of 22 September 2017, when this research started, there were 388 listed companies with market capitalization of each at least US$1 billion across Indonesia, Singapore, Malaysia, Thailand and the Philippines, which are active countries in acquisitions (Metwalli and Tang, 2009). Other ASEAN countries are not observed, such as Vietnam, Myanmar and Brunei which have no significant activities in acquisitions.

Respondents in this research are only companies engaging in acquisition as acquiring firm, each of which is represented by one respondent from the top management team, who have been involved in acquisition transactions. The key informant as respondent is important source to study the experience-capability development relationship of M&A, by considering key informant bias and common method bias (Kumar et al, 1993; Podsakoff et al, 2003).

### Sampling

This research focused on the population of those firms having completed at least one acquisition transaction during 2010 - 2015, obtained from market intelligence. Based on interviews with the Head of Merger and Acquisition of a major global investment bank as expert in this field, from 388 listed companies in 5 ASEAN countries as reported by Bloomberg, 219 companies in the ASEAN region were identified as the population of this study. These 219 companies are large companies which have engaged in acquisition with market capitalization more than $1bn in that period. The size of acquiring company affects strongly acquisition performance, because larger size usually has managerial and financial resources enabling them to engage in complex acquisition situations than smaller firms (Doukas and Zhang, 2021).

The sampling method in this research was non-probability sampling. Since, the final sample was 51 corporations from 219 companies which were obtained from the corporations that were accessible to researchers and were willing to participate in this research based on the population. The obtained sampling for the study which is focused on companies' performance after acquisition, especially cross-border, is often considered politically sensitive and often being associated with hostile take-

over (Cunningham, 2000). For that reason, many corporations were reluctant to have their acquisition moves being open to the public or studied.

The period between 2010 and 2015 is chosen for the following considerations. First, acquisition activities, especially in Asia, were started to peak up at the post 2007 global financial crisis (Kingkaew, 2019; Seo, 2020) . Second, this research covers events from pre-, to mid-, to post-acquisition process and thus a longer period of research is required to ensure respondents having sufficient experience and knowledge about the whole acquisition process.

## Questionnaire Design

A structured questionnaire was developed to measure the latent variables of confirmatory factor analysis (CFA) with a five-points Likert scale. The question for each indicator of first order CFA was self developed based on the literature review. The questionnaire was tested for data validity by based on the loading factor value and AVE (Average Validity Extracted) of each indicator. The data obtained from each indicator from the first order CFA also tested for reliability based on the values of CR (Composite Reliability) and Cronbach's Alpha.

Based on the conceptual model and the literature review, there are four latent variables which are Second Order CFA; namely, Corporate Entrepreneurship (CE), Acquisition Learning Process (ALP), Acquisition Management Capability (AC), and Acquisition Performance (AP). Corporate Entrepreneurship (CE) was measured by four dimensions, namely Strategic Intent (STI), Strategic Renewal (STR), Risk Taking (RIS), and Resources and Capabilities Development (RES). Acquisition Learning Process (ALP) latent variable was a Second Order CFA measured by four dimensions or First Order CFA namely: Articulation (ART), Sharing (SHA), and Absorptive Capacity (ABS). Acquisition Management Capability (AMC) was a Second Order CFA measured by four dimensions or First Order CFA namely: Capability to Identify (IDE), Deal Making Capability (DMC), Acquisition Reconfiguration Capability (ARC), and Post-Acquisition Capability (PAC). Acquisition Performance (AP) was Second Order CFA measured by three dimensions or First Order CFA, namely Integration Process Performance (INP), Synergy Realization Performance (SYP), and Overall Financial Performance (FIP).

## Data Analysis

The analysis was based on quantitative method using Structural Equation Modeling (SEM). A sample of 51 data collected through the survey were analyzed by using LISREL 8.8 and SPSS 23 software. Taking into account the sample size of 51 analytical units and a rule of thumb related to the sample size, analysis of the measurement model is carried out through parceling (Rhemtulla, 2016). The measurement model analysis in this study consisted of several steps (Hair et al., 2013. First, overall model fit test was taken. Second, validity and reliability test is analyzed. Third, the Latent Variable Score (LVS) of the latent variables in the research model are calculated. Fourth, the measurement model was transformed into a simplified measurement model through the concept of parceling using LVS.

In multivariate analysis, SEM tests and estimates the causal relationship that occurs between the research variables simultaneously. Then, SEM uses the test results and estimates to test the research hypotheses. The estimate of the research model uses two steps approach offered by Anderson and Gerbing (1984). First, the measurement model analysis evaluates the validity and reliability of the measurement of the research model. The validity of the measurement model was by Confirmatory Factor Analysis (CFA). In this research, the criteria for good validity is chosen as SFL ≥ 0.50. Reliability was evaluated from the value of construct reliability (CR) and Variance Extracted (VE). A construct had good reliability if the value falls in CR ≥ 0.70 and the value of VE ≥ 0.50 (Hair et al, 2007). Second, structural model analysis evaluates the relationship significant between latent variables.

Table 1. Results of statistical test of research model

| Relationship between Variables | t-Value* | Coefficient | Significance | Hypotheses Test |
|---|---|---|---|---|
| Corporate Entrepreneurship (CE) positively affects Acquisition Management Capability (AMC) | 4.08 | 0.55 | Positively Significant | H1 accepted; data supports model |
| Acquisition Learning Process (ALP) positively affects Acquisition Management Capability (AMC) | 2.47 | 0.32 | Positively Significant | H2 accepted; data supports model |
| Acquisition Management Capability (AMC) positively affects Acquisition Performance (AP). | 9.99 | 0.82 | Positively Significant | H3 accepted; data supports model |
| GOFI: RMSEA ($\leq$0.08**) = 0.0; NNFI ($\geq$0.90**) = 1.03; CFI ($\geq$0.90**) = 1.00; IFI ($\geq$0.90**) = 1.01; RFI ($\geq$0.90**) = 1.00; SRMR ($\leq$0.05**) = 0.06; GFI ($\geq$0.90**) = 0.91; NCS ($\chi^2$/df) = 0 | | | | |

Note: * t-value ≥ 1.96 → Significant; ** Criteria for good fit

## RESULTS AND DISCUSSION

### Model Fit Test

The structural equation model in this study employs the maximum likelihood estimation method. The link between dependent and independent latent variables can be investigated using the SEM approach. After establishing a good model, the link between variables is investigated in order to demonstrate the validity of the theory that underpins it. The correlation which connect two latent variables is shown by t-value and path coefficient by a statistical test (Table 1).

The chi-square value is with a value of 0.0, indicating that the model is good, according to the model fit test findings. In the initial model test, all criteria such as RMSEA, CMIN/DF, CFI, and Chi-square fall into the fit category, according to Table 1. The model had a Goodness of Fit Index (GOFI) value that shows a fit between data and the model for the structural model. Even though there is one GOFI (SRMR) that does not show a good result, all other seven GOFI show good results. There are three correlations was tested, and the t-value of those three correlations show that they were positively significant. Thus, the results indicate that overall model fit of the structural model is good. All three latent variables and independent variables were valid, and none of the variables removed from the model.

### The Relationship Between of Corporate Entrepreneurship, the Acquisition Learning Process, Acquisition Management Capability, and Acquisition Performance

The structural model of the experience-capability development relationship of M&A transactions in the ASEAN context shows significant correlation between variables as shown in Table 1. The tested structural model shows that the three research hypotheses were all accepted (Table 1). At first, the statistical result of the hypothesis H1 shows a positive and significant relationship of corporate entrepreneurship to acquisition management capability, with t-value of 4.08 (>1.96) and standard coefficient of 0.55. The finding on H1 supports study by Farinos et al. (2011) that acquisition is an

initiative by a corporate entrepreneur, as it demonstrates several dimensions such as risk taking, organizational renewal as well as strategic intent to win competition). The entrepreneurial orientation strengthens capability in managing acquisition, giving more certainty of the success of acquisition (Jeong, 2021; Kreiser et al., 2021). The model pointed out that corporate entrepreneurship had been an important orientation for their corporate growth driven by opportunity-seeking behavior, resulting to opening the way for acquisition management capability to create new value for customers in the larger market (Kreiser et al., 2021).

Figure 2 shows that Strategic Intent is the most important dimension of the observed variable Corporate Entrepreneurship with the highest factor loading of 0.92. (Hamel and Prahalad, 1989). Hamel and Prahalad (1989) consider strategic intent as an "active and rational management process to focus the entire organization on the essence of winning". "Winning" an acquisition is an effort by the whole firm, not only select individuals within the firm. Rui and Yip (2008), in their research, use strategic intent perspective to explain how Chinese emerging multinational corporations use cross-border acquisitions to achieve their strategic goals, which may include entering new markets, acquiring strategic capabilities to fulfill the firm's competitive gaps, expanding resource base, implementing strategic transformation within the firm, and ultimately winning to become a global leader (Rui and Yip, 2008), which can be achieved by engaging in acquisition, either domestic or cross-border. The statistical results also show that allocating resources in line with the firm's future direction and goals is the most contributing factor to Strategic Intent (Makadok, 2001).

The statistical result of H2 also shows a positive and significant relationship of acquisition learning process to acquisition management capability, with t-value of 2.47 and standard coefficient of 0.32. The finding is supported by Trichterborn et al. (2016) and Dhir et al. (2021) that acquisition learning process is required to help a firm to adopt, accumulate and leverage acquisition know-how. It supports the firm's acquisition management capability, to direct integration with different issues of uncertainty emerging at the initial stage, mid stage and post-acquisition stage (Chatterjee and Brueller, 2015; King et al., 2020; Dhir et al., 2021).

In addition, Figure 2 show that Absorptive Capacity is the most contributing dimension of the observed variable Acquisition Learning Process with the highest factor loading of 0.90. The ability of a firm to identify, assimilate, transform and apply new knowledge (Zahra and George, 2002; Duchek, 2013). Absorptive capacity is measured by four indicators, and the most contributing indicator is that the ability to use new knowledge in practice, as the firm encourages employees to use new knowledged obtained from acquisition for the subsequent transaction (Martinkenaite, 2012).

Furthermore, the finding also supports the study by Hutzschenreuter et al. (2014) that the quality of learning in the context of acquisition depends on the level of organizational absorptive capacity and knowledge sharing, being more critical than the quantity of experience (Schijven et al., 2021). Hitt et al. (2009) enlighten further that the acquiring firm should prepare "two absorbing hands" in the acquisition learning, with an eye on taking advantage of "complementary capabilities". First, the acquiring firm should learn valuable capabilities (being tacit knowledge) from the target firm, then capture, absorb and integrate them fully in the organization of the acquiring firm. Second, the acquiring firm learns about the composition of the capabilities of target firm, transferring its own best capabilities being lacking in the target firm, then creating joint effort, and integrating fully in the target firm. In essence, learning acquisition process is required on the two sides of the coin of capabilities, the acquiring and the target firm. From the research interview with Indonesian C-level executives, the firms with frequent acquisitions are becoming savvy when their learning process are organized and document the experiences so that it can be used to create new capability.

The testing of hypothesis H3 shows a positive and significant relationship of acquisition management capability (AMC) to acquisition performance (AP), with t-value of 9.99 and standard coefficient of 0.82. The finding is supported by Capron and Anand (2007) who theoretically use the notion of "acquisition-based dynamic capabilities" to give positive impact on acquisition performance, while covering only on two phases of the integration process; pre-acquisition phase covering selection

Figure 2. Path analysis of the experience-capability development relationship of M&A transactions Model
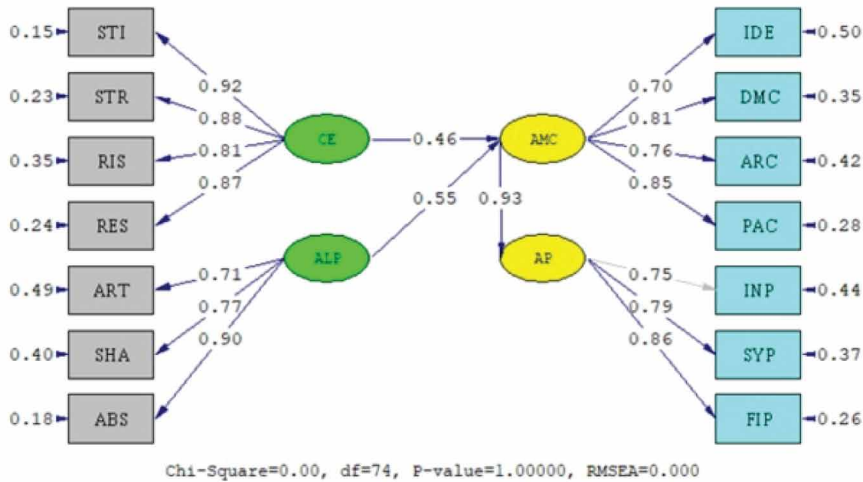


and identification; and mid-acquisition phases involving reconfiguration abilities. The concept is strengthen by Das and Kapil, (2012) and Kreiser et al. (2021) who reported that the form of acquisition management capability are operative to support empirically the whole process acquisition including the post-acquisition process for ensuring full integration advantage.

The model suggests that Post Acquisition Capability is proven to be the most contributing factor to the Acquisition Management Capability, and among its three indicators, the economies of scale achieved from the acquisition is the most important indicator (Schoenberg, 2006; Zollo and Meier, 2008). This is an important factor for the overall performance as it indicates how well a firm is able to manage its assets and activities post acquisition for generating revenue and profit, which needs to be increasing return to scale, and increasing scale of production, not resulting to downsizing or negative financial performance (Patel and Shah, 2016).

In addition, Overall Financial Performance is the most contributing factor to Acquisition Performance with loading factor of 0.86 (Schoenberg, 2006; Zollo and Meier, 2008). Any acquisition has to make sense financially, and whether the original financial performance expectations of the acquiring firm have been met after the integration is completed (King et al., 2021).

The above findings show that the experience-capability development relationship of M&A transactions in the ASEAN context in post-acquisition phase the important relation to identify challenges and opportunities for companies in ASEAN to create a path in M&A transactions (Wang et al., 2016; Schijven et al., 2021). The important insight in management capability shows that companies with strategic intent will gain capabilities in this acquisition process (Makadok, 2001). Furthermore, accumulated experience from corporate entrepreneurship and acquisition learning process provides better performance to the success of acquisition in the ASEAN region. Hence, the identify Acquisition Management Capability plays as a critical success factor that mediating to their overall acquisition performance (integration) in ASEAN companies (Appelbaum et al., 2000).

## IMPLICATION

The research findings contribute to the practicality of firm's acquisition strategy and execution, particularly in the context of Indonesian large corporations such as the importance of using complementary approach in dealing with cultural differences in cross-border acquisition. This study

provides the investigation of acquisition behavior in large companies in emerging markets such as ASEAN countries, which has historically not been a major focus of study, particularly in Indonesia. Since most corporations prefer to grow organically or internally. However, the current geopolitical situation, with trade wars between China and the United States, as well as the start of AEC, has forced companies to adopt an inorganic growth strategy through acquisitions in order to compete. Furthermore, this strategy may be required to deal with the trade-off in global trade policy impact, which could result in economic chaos, particularly for companies involved in food production in ASEAN (Indrawan and Daryanto, 2020).

The study informs company strategic behavior based on the findings of a specific sample of large corporations in the ASEAN region. In which the companies' managerial and financial resources are capable of engaging in acquisition (Doukas and Zhang, 2021; Zollo et al., 2018). The capabilities bring the phenomenon of acquisition management capability as a new type of organizational capability required in today's world (Jeong, 2021). In practice, this study provides a comprehensive guidance of the entire acquisition process, particularly the mid-acquisition phase. The guidance would aid practitioners in gaining new insights into how to consistently integrate resources and capabilities by integrative mechanism in order to be effective in serving the market (Zollo et al., 2018). Furthermore, it describes how critical strategic integration that triggered by dynamic capabilities is for firms in order to ensure that a competitive advantage exists in the combined firm in the event of an acquisition (Čirjevskis, 2019). It should be noted that the concept of the mid-acquisition phase has not been thoroughly researched thus far (Amiryany et al., 2012).

Furthermore, with increasing competition and disruption from international trade wars, firms in any industry must pursue different strategic moves if their resources allow. For example, firms that engage in external growth through merger and acquisition can improve their strategic capabilities in order to remain competitive (Adeleke et al., 2019). However, if the firm is new to merger and acquisition, the first step is to implement an organization learning process to build acquisition management capability, allowing the firm to anticipate what important challenges will be faced during the pre-, mid-, and post-acquisition phases (King et al., 2020; Dhir et al., 2021).

## LIMITATION

There are several limitations in this study specifically related to samples, respondents, period of study, and data collection process:

1. Period of this study is limited to the years of 2010-2015. This may not give the whole picture of the findings as it does not take into account the impact of business cycles. Every firm has their business cycles. For example, different timing on firm's relative competitive posture in the market competitive cycle may result in different findings on the acquisition result, especially as it does not cover a longer period of study such as in longitudinal study.
2. This study has relatively small sample size. Even though size of the sample covers the majority of the population and uses the right estimation method, a relatively smaller size of sample may result in significant statistical error, compared to a more sizeable sample. This may result in bias on the findings.
3. This empirical study is limited only in the context of ASEAN countries, and may have limitation to be generalized to other regions.
4. The sample of this study only covers on large corporations' initiative, regardless of their capital or funding position in their acquisition. They may have different cost of capital in order to fund the acquisition, and hence it may affect the acquisition performance.
5. Respondents may have inconsistencies in responding to the questionnaires given long and complex M&A process. They may not have multiple insights on the whole process, and respond superficially on the questionnaires.

## FUTURE SCOPE OF THE STUDY

In light of the above limitations, few recommendations for future research are as follows: First, to further engage in study on acquisitions with broader aspect of acquisition management capability, not only the three antecedents identified in this research. This may include: first, the impact of top management team composition between single gender and gender diversity on the success of acquisition integration; second, the ethical perspective in acquisition such as the acquirer's caring as well as dealing with employees' job security; third, the role of "dominant logic" in acquisition success from the theory by Prahalad and Bettis (1986), such as commitment for fast rolling integration effort to reap profit; fourth, the extent of information adequacy in the pre-acquisition decision impacting on the middle- and post-acquisition phase.

Second, to further study on acquisition management capability with qualitative method, such as case study, to further enrich the findings. Third, to further research acquisition management capability with longitudinal study covering the whole range of acquisition process from pre-, mid, and post-acquisition integration phases, in an economic cycle such as 7 to 10 years period. Fourth, to further study acquisition management capability in small and medium enterprises to capture other aspects specific to the size of the firm which may affect its acquisition management capability such as access to capital and fast growth stage nature of the business. Lastly, to further study acquisition management capability in a more developed countries which naturally have a much lower cost of capital than in most of countries in ASEAN, which may affect the firm's capability to perform in acquisitions.

Finally, future research should concentrate on medium-sized businesses, particularly those that are performing well. In this context, different business types and their typical contracts that may influence the decision to perform a merger or acquisition may be worth investigating. Different types of businesses and their typical contracts are common practices in ASEAN's medium-sized businesses, particularly in the agriculture sector (Indrawan et al., 2020). Furthermore, the current Internet of Things trend may have an impact on mergers and acquisitions in medium-sized businesses, particularly in ASEAN.

## CONCLUSION

From the empirical study, this research finds that acquisition management capability is the critical driving force to improve acquisition performance. A firm acquiring and integrating the acquired firm, in a path dependent process from pre- to mid- towards post-acquisition phase, requires well-managed process enabled by acquisition management capability. A set of organizational behaviors, particularly corporate entrepreneuship and acquisition learning process, are the foundation for corporate acquisition that contributes to the building of acquisition management capability in order to realize acquisition success.

The mid acquisition stage and the centrality of acquisition management capability have been the gap or under-studied in the past research on acquisition. There are many studies focusing on pre-acquisition stage, or the front-end of acquisition, and mostly investigating of financial matter as financing is the central concern for the shareholders and access for financing in taking acquisition (Mar and Mirvis, 2015). However, Capron and Anand (2007), emphasize broader assessment on the pre-acquisition stage, such as selection, valuation, premium, deal structure identification and anticipation of possible success or failure in integration and reconfiguration in the acquisition process. Acquisition reconfiguration capability, as a mid-acquisition phase, is key to having a better insight on the post-acquisition integration phase, which is critically important to have.

As a managerial implication, the acquisition management capability is a new strategic initiative to support the firm's growth. Historically acquisition has no significant major role for corporate growth in the ASEAN region, as corporations tend to prefer to grow organically. The insight of this research gives discernable steps out of the intricacy of acquisition, which can be the source of new strategic

initiative by firms in this region. Secondly, the phenomena of firm's acquisition management capability as it contributes to the practicality of firm's strategy and execution in acquisition engagement, particularly in the context of Indonesian large corporations embarking on acquisition strategy. Thirdly, Comprehensive picture on the whole process of acquisition, as the whole process of acquisition from pre- to mid- towards post acquisition shows path dependency need to be well understood for successful undertaking in acquisition. Though there are few limitations of this research with regards to its focus on large corporations in the ASEAN region which may not be generalized to smaller corporations, or in other regions. Companies may have different cost of capital in order to fund the acquisition, and hence it may affect the acquisition performance. Future research needs to cover medium sized corporations, particularly among the rising firms in business performance.

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## APPENDIX

**Table 2. Factor loading, construct reliability and variance extracted of the experience-capability development relationship of M&A transactions Model**

| Construct | Measurement | Factor Loading | Construct Reliability | Variance Extracted |
|---|---|---|---|---|
| Corporate Entrepreneurship | | | 0.93 | 0.61 |
| | Strategic Intent | 0.92 | | |
| | Strategic Renewal | 0.88 | | |
| | Risk Taking | 0.81 | | |
| | Resources and Capabilities Development | 0.87 | | |
| Acquisition Learning Process | | | 0.88 | 0.70 |
| | Articulation | 0.71 | | |
| | Sharing | 0.77 | | |
| | Absorptive Capacity | 0.90 | | |
| Acquisition Management Capability | | | 0.89 | 0.67 |
| | Capability to Identify | 0.70 | | |
| | Deal Making Capability | 0.81 | | |
| | Acquisition Reconfiguration Capability | 0.76 | | |
| | Post-Acquisition Capability | 0.85 | | |
| Acquisition Performance | | | 0.86 | 0.68 |
| | Integration Process Performance | 0.75 | | |
| | Synergy Realization Performance | 0.79 | | |
| | Overall Financial Performance | 0.86 | | |

*Mohamad Oki Ramadhana is a PhD at Graduate School of Management, Faculty of Economics and Business, Universitas Indonesia, Indonesia. Currently, he is a senior banker who is hold a position as President Director and Head of Investment Banking at HSBC Sekuritas Indonesia. Previously, he served as an executive at Morgan Stanley, Goldman Sachs, and Merrill Lynch in Indonesia. He obtained his bachelor of International Relation in University of Indonesia. His MBA was from University of Colorado, USA in Corporate Finance.*

*Sri Moertiningsih Adioetomo is a Professor of the Faculty of Economics and Business, University of Indonesia (FEBUI) who is an expert in the field of demography and economics of population. She graduated from the University of Indonesia with a Bachelor of Economics in 1972, and she obtained a Master of Science in Demography from Australia National University, Canberra in 1981, and earned a PhD Demography from the same program at Australia National University, Canberra. 1994. In December 2005, Sri Moertiningsih was appointed Professor of FEBUI in the field of Population Economics. Currently she is coordinating Lecture on Population Dynamics and The Opportunity for Business at the same Faculty.*

*Biakman Irbansyah is a lecturer in the Graduate School of Management, Faculty of Economics and Business, Universitas Indonesia, Indonesia for Strategic Management, Organizational Theory, Operations Management, Microeconomic of competitiveness, and Merger-Acquisition-Restructuring. He also serves as a faculty member of Institut Bisnis and Informatika Kesatuan (IBIK) in Bogor and Universitas Bakrie (UB) in Jakarta to teach Strategic Management, Business Communication, and International Marketing. He also serves as a senior executive in several companies. He obtained his degree in Agricultural Engineering from IPB University in 1988. Then he graduated from Master of Business Administration in Marketing at Georgia State University, Atlanta, USA in 1998. He received his Doctoral degree in Strategic Management from University of Indonesia in 2010.*

*Yanki Hartijasti is an Assistant Professor at Faculty of Economics and Business, Universitas Indonesia. She earned MBA degree from University of the Philippines. She also obtained Master of Science and Doctor in Industrial and Organizational Psychology from Universitas Indonesia. After gaining fifteen years of professional experiences in various industries as Human Resources practitioner, she then decided to take the plunge into the academic world. Since 2010, she has been invited to share her knowledge and disseminate her research findings as a visiting professor, keynote speaker, and panelist in Asia and Europe. She is also a member of peer-reviewed academic journal in different countries aligned with her research and publications which focus on leadership and organizational culture, human resource management, cyber behavior among multi-generational workforce, as well as sustainable tourism studies.*