The Logic Underlying Post-Acquisition Change

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This article aims to broadly discuss forces that drive changes following cross-border acquisitions. Although authors have acknowledged that nationality is a major factor determining the direction of these changes, more recently some scholars have suggested that some changes might be driven by other forces, such as the *general conditions affecting host country industry*. Thus, our purpose is to understand how these forces interplay with each other and drive changes. In order to understand this question i.e. the logic underlying the post-acquisition issue, we examine a case of a Brazilian auto component manufacturer that was acquired by a French company. The analysis of the case demonstrates that changes introduced into the acquired company have mainly followed the acquiring company's principles and philosophy, but they have also been made in response to changing conditions in the local industry. In this sense, we suggest that *general conditions affecting host country industry* moderates the nationality factor, so for a better understanding of post-acquisition change, scholars should consider both forces simultaneously.

1 – Introduction

As the movement of cross-border acquisitions increases (UNCTAD, 2000), the transfer of organizational practices becomes a critical question. The transfer issue has actually been gaining increasing attention in the literature (Bhagat *et al*., 2002; Kostova and Roth, 2002; Brannen *et al*., 1999; Westney, 1999). A major point within this literature has been how culture has affected both the process as well as the result of the transfer of management practices between distinct cultural sets. The literature on post-acquisition changes in turn has followed this trend i.e. it has also revolved around the question of culture. Authors have tried for instance to match changes in acquired companies with the nationality of the acquiring company (Child *et al*., 2001; Lubatkin *et al*., 1998). Child *et al*. (2001) have actually named the primacy of nationality for post-acquisition changes as *transfer of national practice effect*.

Although Child *et al*. (2001) had focussed on relating the content of changes with the nationality of the acquirer, they have acknowledged that other factors may also determine the direction and the strength of post-acquisition changes. One of these effects – *general conditions affecting host country industry* – is in reality complementary to the first one. Such an effect opens room for analysing how shifts in the national and industrial environments of the acquired company have influenced post-acquisition changes. Thus, the logic underlying post-acquisition change can be better understood if both effects are taken into account. However, it is not enough to simply take into account the national and the industrial environments of the acquired company. It is also necessary to evaluate how these environments have developed. Only then can post-acquisition changes be fully analysed.

By examining the acquisition of a Brazilian auto components manufacturer by a French one, this article intends to discuss why both effects need to be looked at altogether. The basic argument is that neither of these effects can fully explain the logic underlying post-acquisition change. We contend that it is from the interplay between both factors that changes following the acquisition of this company should be analysed. Furthermore, we argue that this interplay has a dynamic character which is determined by the evolution of both the Brazilian institutional environment and of the auto industry. In sum, the direction and the strength to which changes are introduced depend, first, on an analysis that takes both effects into account and, secondly, on the form this combination may assume.

The article is structured as follows. In the next section, we look at the nationality factor in the literature on post-acquisition change. Subsequently, we discuss the issue of transfer of management practices and how scholars have criticised cultural views and claimed that MNCs that transfer management practices across borders need to look at institutional pressures originating from the country to which organisational practices are transferred. In the fourth section, we look at the recent shifts within the Brazilian institutional-economic environment, focussing on the transformation of the auto components sector and on the effects of FDI for the country as a whole. In the fifth section, we present the case. We then discuss this case from the theoretical arguments raised and finally we present some conclusions and outline suggestions for future research.

2 – Post-acquisition change: the nationality factor

Several studies have attempted to understand the logic underlying changes following cross-border acquisitions (Child *et al*., 2001; Lubatkin *et al*., 1998; Calori *et al*., 1994). A common assumption underlying these studies is that the administrative heritage[1] (Lubatkin *et al*., 1998) and the national culture (Child *et al*., 2001) of the acquiring company are, at least partially, major forces driving post-acquisition changes. In this sense, post-acquisition changes would in principle reflect the administrative heritage or the nationality of the acquiring company.

Control, which is an organizational practice strongly bound to culture, is, for instance, likely to follow the acquiring company's administrative heritage or to reflect the management style of the national culture of the acquirer. As Calori *et al*. (1994: 373) have argued, 'as far as international acquisitions are concerned, there are some national biases in the way buyers exercise both formal and informal control over the foreign acquired firms'. A survey carried out with British firms acquired by foreign ones has confirmed this, i.e., that changes in control are likely to vary according to the acquirer's national culture (Child *et al*., 2001).

The arguments put forward by these authors are anchored in the cultural and institutional approaches that have discussed at length the relationship between national culture and organizational practices or, more appropriately, the influence of the former on the latter. Drawing on these perspectives, Child *et al*. (2001) have named the primacy of nationality for post-acquisition change as *transfer of national practice effect*. The logic underlying such an effect is that 'the preferred management practices of acquiring companies will be shaped, at least in part, by the domestic national institutional context perspectives in which they are embedded' (p.44). The authors suggest that 'a *transfer of national practice effect* will be evident in the post-acquisition changes introduced by acquiring companies of different nationality'.

Although these authors had ascribed a relevant role to the national culture for comprehending post-acquisition change, they acknowledged that two other effects are also likely to affect post-acquisition changes: the *acquisition effect* and the *general conditions affecting host country industry*. The former 'is characteristic of acquisitions *per se* rather than reflecting any particular foreign approach to management and organisation' whereas the latter has to do with 'the influence of new management ideas, the economic cycle of boom and recession, or the general institutional environment'. This last effect 'is not specific to acquisitions since it bears upon all firms with equal potential' (p.47).

Child *et al*. (2001:90) have focussed principally on post-acquisition changes that reflect the nationality of the acquiring company. Thus, changes resulting from these *general conditions affecting host country industry* effect, i.e. common changes that 'probably reflected general trends among companies in response to competitive pressures and to the evolution of management thinking', have not been addressed in detail by the authors although they do acknowledge that such effect may be important. However, an analysis of such effect may be useful in order to better understand the logic underlying post-acquisition change. It thus appears relevant to investigate the influence of such effect, not individually, but complementarily to the first one, *transfer of national practice effect*.

We suggest that *transfer of national practice effect* and *general conditions affecting host country industry* should be seen conjointly because changes following cross-border acquisitions may be the result of a combination of both effects. The extent to which changes reflect the nationality of the acquiring company depends on the influence of the *general conditions affecting host country industry* effect. Put differently, the *transfer of national practice effect* is moderated by the *general conditions affecting host country industry* effect. As Child *et al*. (2001) have claimed, 'the institutional environment of the host country may oblige acquiring firms to modify their preferred practices to suit the regulatory provisions, skills, and educational levels, and other institutionally formed features of that country' (p.44).

Rather than simply searching to correlate the content of post-acquisition changes and the acquirer's nationality, our main concern is to understand the interplay between the *transfer of national practices effect* and the *general conditions affecting host country industry* effect. In doing so, we expect to advance the debate about post-acquisition change by pointing out how shifts in the institutional environment and in a particular industry may also drive changes following cross-border acquisitions. In order to articulate these two effects, we briefly review the literature on transfer of management practices, which has undergone a radical transformation in these last years. Authors have shown that other factors, besides the cultural one, are likely to determine the process as well as the result of such a transfer (Westney, 1993; Rosenzweig and Singh, 1991; Kostova and Roth, 2002).

3 – The transfer of organisational practices across borders

The literature on transfer of organisational practices across distinct cultural settings has broadly focussed on three major topics. First, authors have looked at the broad relevance of the cultural factor to the transfer of management practices issue. Secondly, authors have sought to understand how the cultural factor interferes in the transfer of management practices process. Finally, authors have searched to understand the interaction between both host and home institutional environments and its impact on the result of the transfer.

With respect to the relevance of the cultural factor to the transfer issue, authors have claimed that organisational practices are not easily transferred from the one in which they have emerged into a different cultural environment. Since organisational theory and practices are not culture free, they cannot be transferred between countries with different cultural assumptions. For example, the headquarters of corporations may develop sophisticated systems of thinking and strategic attitudes and use advanced technologies that are not easily transferable to developing countries (Buckley and Casson, 1991). Human resource management practices, for instance, are especially unlikely to be transferred in their totality (Tayeb, 1998; Gill and Wong, 1998).

Regarding the role of the cultural factor for the transfer of organizational practices process, Bhagat *et al*. (2002) have argued that 'differences in cultural patterns and cognitive style moderate the effectiveness of such transfers'. They have highlighted the importance of individualism *versus* collectivism for understanding multinational's and global organizations ability to effectively transfer and absorb knowledge across borders. Lillrank (1995), in turn, has claimed that ideas emanating from Japan have to travel along an 'idea line', so the 'distance' is not only geographical, but also mental. To reduce losses, new ideas and practices need to be abstracted and packaged before being transferred.

Concerning the interaction between home and host environments, scholars have seemed to be more interested in comprehending the recontextualisation of management practices. According to this view, 'the meanings and assumptions attached to techniques and procedures in one context are stripped away, negotiated, and transformed in a new context' (Brannen *et al*., 1999). In other words, management practices are modified in order to suit the local condition (Tayeb, 1998). Westney (1999) has argued that the recontextualisation is actually an assumption common to different theoretical perspectives.

The recontextualisation or hybridization idea is important because it has called to attention a critical aspect of the transfer: the opposition between distinct forces. Different authors have suggested that the transfer of management practices from one cultural set to another is influenced by opposing forces: pressure to conform to local conditions *versus* pressure for internal consistency (Rosenzweig and Singh, 1991); the range of competing isomorphic pulls (Westney, 1993); the confrontation between distinct sets of isomorphic pressures (Kostova and Roth, 2002).

Westney (1993:67) for instance has criticised the cultural approach that focuses on the adoption of parent companies' patterns by subsidiaries. The focus on the imposition of parent companies' patterns on the subsidiary organisation and on local resistance to such imposition is equivocal. According to Westney, 'this question of standardisation *versus* local tailoring of MNE organisation can be better understood as the result of a larger range of potentially competing isomorphic pulls. The MNC organisation is the source of strong isomorphic pulls towards similarity across the organisational structures and processes of subsidiaries; these pulls are not altogether a matter of conscious choice or imposition'. A large number of MNCs in the local organisational field, for example, delineate local patterns that are 'those institutionalised in the MNC subsidiaries, rather than those institutionalised in purely local firms'.

Rosenzweig and Singh (1991:347) argue that MNCs may be subjected to pressure, varying from subsidiary to subsidiary, to conform to local conditions (isomorphism with local environment) and pressure for internal consistency (intrafirm consistency). 'Therefore, on the one hand, the similarity of a MNE to the other firms in the host country may be positively related, for instance, to the presence of legal imperatives or to tolerance of uncertainty in the parent company. On the other hand, the similarity of an MNE subsidiary to the MNE headquarters will be positively related to the prominence of parent-country expatriates in the subsidiary'. The authors observe that national boundaries are of varying importance for different elements of organisational structure and process and that subsidiaries of MNEs can act as conduits that introduce changes to the host country's environment.

Kostova and Roth (2002) claim that MNCs confront a multitude of different and possibly conflicting institutional pressures. They refer to this situation as 'institutional duality'. Each foreign subsidiary is confronted with two distinct sets of isomorphic pressures and a need to maintain legitimacy within both the host country and the MNC. Their research has provided empirical evidence for the factors influencing MNC subsidiaries' responses to institutional duality. For instance, implementation was positively affected by the favorability of the cognitive institutional profile of a host country whereas the level of internalization was found to be affected by the relational context. They have concluded that only a small portion of the foreign subsidiaries of an MNC in their sample reported high levels of both implementation and internalisation.

Even though national culture has been pictured as a major factor determining management practices, hence affecting both the transfer process and the result of this transfer, it is also influenced by other forces. The views displayed above have clearly posited that the local environment may also play a major role. Given the relevance of the local institutional environment for understanding post-acquisition changes, we intend to describe some recent shifts in the Brazilian economic and institutional environment, focussing specifically on two issues: shifts in the auto components sector and the effect of FDI within the Brazilian economic context.

4 – The Brazilian environment shift

After almost fifteen years of stagnation, foreign direct investment (FDI) inflows toward Brazil have increased again as a consequence of: (i) the extension of Brazil's privatisation program; (ii) a broad process of mergers and acquisitions; (iii) programmes of rationalisation, re-organisation, re-structuring, and modernisation of the already existing MNCs in Brazil. From 1990 to 1999, the volume of FDI increased from $ 0.7 billion to $ 31 billions annually. Brazil was the single largest host country in Latin America, with 40 per cent of all inflows into the region. The FDI inflows into Brazil in 1997 were distributed as follows: MNCs already established in Brazil (40 per cent), privatisation (30-35 per cent), M&A (15-20 per cent), and new TNCs (5-10 per cent) (Laplane and Sarti, 1999; CEPAL, 1998; Bonelli, 1998; UNCTAD, 1999, 1997).

Part of FDI has been used in the acquisition of private assets. This increase in acquisitions is due to the fact that many local companies were forced to divest their assets because they did not have the necessary technology and capital to compete in a more open market. As a result, existing foreign companies acquired these assets in order to expand their presence in the Brazilian market. Also, new companies enjoyed this opportunity to enter the Brazilian market (CEPAL, 1998). The scale of these acquisitions seems to have varied by sector. In the case of the auto components sector, there were 81 transactions, 68 per cent involving foreign companies. Thus, the market share of foreign companies in this sector increased from 53 per cent in 1990, to 74 per cent in 1997. (KPMG, 2001; Rodrigues, 1999; Siffert and Silva, 1999; CEPAL, 1998).

Within the auto components sector, acquisitions were the result of the extensive re-structuring this sector went through during the 1990s. Government-instituted policies aimed to stimulate an increase in investment and production in the auto industry. The import tariff on auto components was reduced from 60 per cent in 1990 to 18 per cent in 1995. In addition, the local content requirement was reduced from 95 per cent in 1990 to around 60 per cent in 1995. As a result, there was a substantial increase in imports of auto components. Between 1994 and 1998 imports increased by more than 100 per cent whereas exports increased by only 40 per cent.

Furthermore, there were some important changes in the world auto industry regarding the pattern of supply. The current model involves the transfer of some production and engineering activities from carmakers to suppliers and the subsequent reduction of the number of first-tier suppliers i.e. the creation of an élite of suppliers. In order to respond to pressure from carmakers regarding productivity gain, first-tier suppliers need to have world-scale activity, to be efficient in areas such as technology and logistics, and to possess R&D programmes as well as the capacity to invest in new plants in order to keep up with carmakers. Moreover, they are required to work with other suppliers and to be responsible for assembling their parts so that they can supply carmakers with integrated parts.

As a consequence of the intensification of competition from imported products and of the strategy of reduction of the number of suppliers by carmakers, it became much more difficult for small Brazilian companies that did not possess technology or that were not developing cost reduction or quality improvement programmes to survive. Even if local content requirements were reduced, it became more and more clear that the proximity of the manufacturers was necessary in order to reduce costs, so the presence of large auto component manufacturers in Brazil became a critical issue for carmakers. As a result, several manufacturers came to Brazil looking for companies to target for possible acquisition.

The Brazilian auto components sector was composed of, among others, several national companies with a presence limited to the local market. Small- and medium-sized companies that did not invest in managerial or operational modernisation were among the most affected by the new requirements in terms of price, quality, and technology. Some of them did not survive, while others were absorbed by foreign companies already installed in Brazil or by those entering the market. Some medium- sized companies continued to exist either as second-tier suppliers or by shifting towards the aftermarket. Overall, in less than one decade, the whole auto component sector underwent a thorough re-structuring that affected both large and small, national and international companies.

The increasing participation of foreign companies within this sector raised the question of the role foreign capital has had in the Brazilian economic environment. The increase of FDI inflows toward Brazil may have some negative impacts. Cross-border acquisitions in particular may have serious impacts in the short-term. First, there is a concern about adverse effects if they substantially reduce the number of competitors in a domestic market, because local companies, especially small ones, may encounter difficulties in competing with multinationals. Secondly, some economic sectors have adopted global sourcing that results in the substitution of local suppliers with foreign ones. Thirdly, FDI through M&As does not generate employment and, in fact, may lead to lay-offs (UNCTAD, 2000, 1999; CEPAL, 1998; Laplane and Sarti, 1999; Stallings, 1990).

FDI inflows may, however, have positive implications for the economic environment. Foreign companies are expected to have a decisive role in the improvement of Brazilian exports, as investments in competitiveness improvement may lead to a rise in manufactured product exports. Thus foreign investment may favourably affect industry competitiveness through product updating, modernisation of production processes and management methods. As Bonelli (1998:6) points out, 'since the generation and diffusion of technological capabilites and skills is largely concentrated on TNCs, their role in enhancing those aspects of competitiveness in developing countries is undisputed'.

Cross-border acquisitions in particular may also yield economic benefits: if links between acquired firms and suppliers are retained and strengthened, cross-border acquisitions may prevent viable assets of local firms from disappearing and generate employment over time. The technology brought in may stimulate technical efficiency and technical change in local firms, suppliers, clients, and competitors by providing assistance, by acting as role models or by intensifying competition. Similarly, improved skills and new organisational practices and management techniques can yield competitive benefits for firms as well as help sustain employment as economic and technological conditions change (UNCTAD, 2000).

Even though views about the effects of FDI for improving competitiveness seem to be widely supported, such effects are more recent. Moreira (1999) explained that, before the trade liberalisation, the only way to overcome the barriers in Brazil was to set up business in the country. The Brazilian market was not extensive, but attracted by this protected market, companies operated with non-competitive scales. Moreover, to meet the local content requirements, foreign companies excessively diversified their production and had a high degree of vertical integration which prevented them from benefiting from specialisation. The result was that foreign companies had elevated costs and products that were technologically outdated. In other words, the high level of protection enjoyed by both Brazilian and foreign companies ended up allowing them to operate with low levels of competitiveness.

From the trade liberalisation onwards, the low level of competitiveness of Brazilian companies became apparent. The opening of the Brazilian market stimulated the improvement of productivity and efficiency through the import of more modern capital goods and through the search for better and cheaper inputs in the external markets. As a consequence, the foreign subsidiaries needed to improve their performances according to international standards (Moreira, 1999; CEPAL, 1998). This is illustrated by changes that occurred in the capital and technological intensive sectors that were the most protected during the import-substitution regime and that had a higher participation of foreign companies. The concentration of foreign companies in this sector, Moreira (1999) argues, was due to their competitive advantage in having access to technology and capital. This access, which was underused during the import-substitution regime, had to be optimised, otherwise these companies were likely to have had difficulty surviving.

The benefits of FDI thus appear to depend to a large extent on the competition policy regime adopted by the host country. In general, the more competitive and outward-oriented policy, the more dynamic is the upgrading process. A highly protected regime discourages technological upgrading, isolating the economy from international trends. The transfer of capital to the host country is then not necessarily accompanied by other benefits, such as a transfer of improved

technology and knowledge. These transfers will depend on whether or not the acquired firm operates in a competitive market (UNCTAD, 1999).
In order to discuss how these recent transformations in the auto components sector have moderated the *transfer of national practice effect*, we will now present the case of a Brazilian family-owned company acquired by a French multinational. This case is in reality part of a larger research project which aimed at investigating changes in the organisational practices of Brazilian companies following their acquisition by foreign companies. Five interviews were done, two being with managers from the acquired company and three with managers from the acquiring company. Two out of these three people were expatriates and the other one originated from another Brazilian subsidiary. Interviews, which lasted between one and two hours, were subsequently transcripted.

5 – The Alpha case

Alpha, an auto parts manufacturer, was established in the 1950s with the aim of supplying the emerging Brazilian automotive industry. Carmakers that had set up operations in Brazil were looking for suppliers. During the first decades Alpha grew considerably and came to supply all four carmakers implanted in Brazil. Nevertheless, at some point, due to financial constraints, Alpha's owners had decided to concentrate their efforts on a particular buyer, Beta, which represented around 65 per cent of its turnover. Alpha had grown along with this buyer, as it was its supplier since the very beginning of its entry in Brazil.

In 1981, the founder left the company, and the two other shareholders remained. A few years later, Mr. V. joined Alpha as a shareholder. Mr. V. would gradually assume the management of Alpha, so when Alpha was divested, it was Mr. V. who effectively managed the company. The other two people continued to participate, but did not participate in the management of the company. Since Mr. V. was the main manager of the company, the management style of Alpha reflected this.

In the 1990s, the automotive industry went through a thorough transformation, both at the Brazilian and world levels. Within a much more competitive context, suppliers and carmakers were, for example, required to conjointly develop new auto components. This required technologically updated manufacturing processes and machinery as well as substantial funds for further expansion and investment. Alpha did not possess either resource, nor was it prepared to face the new context. Realising that Alpha would no longer be able to continue operating profitably, Mr. V. decided to divest it in April 1997. The acquirer, henceforth called Gamma, was a French world leader auto component manufacturer, established in Brazil for a long time (but not in the sector in which Alpha operated).

Shortly after the acquisition, several managers, from different units of Alpha, were gradually appointed by Gamma to replace Alpha's managerial staff. Three expatriates were appointed. A Frenchman became the General Manager of Alpha. Alongside him, a French-Portuguese was appointed to be the Administrative-Financial Director of Alpha. This manager brought three other people from France to help him to implement changes in these areas. Finally, another Frenchman, who had previously worked in Brazil for another company, was appointed to be the Technical Director of Alpha. Besides these expatriates, a manager originating from another subsidiary of

Gamma in Brazil was appointed as the HR Manager of Alpha. These people have been responsible for integrating Alpha into Gamma's structure and also for implementing changes.

It was also agreed that Mr. V. would stay on as an internal consultant for eighteen more months. Since Alpha was essentially concentrated on this person, it would be risky to let him go immediately after the acquisition. His permanence was justified by three main reasons: his contact with the client, in particular Beta; his knowledge about the product and about the company; and the respect employees had toward him. A certain period of time would therefore be needed until he could transmit his knowledge to Gamma, so a contract for a limited period was signed between the two parts. He did not have any executive power

As soon as the deal was closed, Gamma sent a controller from one of its Brazilian subsidiaries to Alpha. Gamma's first priority was to organise the finances. Some months later, the French-Portuguese expatriate replaced this manager. According to him, contrarily to Alpha, where accountancy existed to accomplish the law, at Gamma finance management gained a much more relevant role. The budget system was changed completely. There was a general budget for the whole company at Alpha whereas, at Gamma, each department has its own budget.

Following these transformations, there was thus a substantial increase in the number of reports to be filed. While the previous owner controlled the firm through very simple concepts (the best indicator of performance was cash availability), Gamma had a very detailed Financial-Administrative Manual specifying rules for all financial aspects of the company. This change had deep consequences for some manager's work. People were spending 20 per cent more of their time filling in these reports. The sales manager, for example, who used to spend most of his time visiting clients, had to dedicate a considerable part of his time to filling in reports after the acquisition.

There was also a complete redesign of Alpha's structure, which had been very simple and essentially centralised around Mr. V. and some other key people. Departments were changed, created, or extinguished. Departments were re-structured, some gaining more relevance within the new structure set up by Gamma. Changes have hence followed this upgrading or downgrading. Human Resources, which had been part of the financial area, became a department in itself. The technical area was divided into two departments: engineering and process. In spite of these transformations, Gamma was keen on not widening the distance between the direction of the company and the lowest level.

Another important change was the sharp reduction (20 per cent) in the number of employees. It would be mistaken, however, to attribute this diminution solely to the re-design of Alpha's structure. Other reasons may explain the reduction in the number of employees. First, the economic slowdown played a major role in this reduction. Second, some managers were not able to adapt to the organisational culture of Gamma. Finally, there were many dismissals were done as the result of a very discrepant income policy existing within the previous company. Since salaries cannot be legally reduced in Brazil, the only remaining alternative for Gamma was to dismiss people.

Decision-making has considerably changed toward a more collective and decentralised form. At Alpha, Mr. V. had been the only director of the company, and had refused to share the directorship with other managers. By contrast, at Gamma, there is a Direction Committee that unites all directors, so decisions are made collectively by all directors. The decision-making process is much slower, as reaching an agreement takes much longer than when decisions were made individually. Another consequence of this more collective approach to decision-making was the increase in the number of meetings. As an interviewee pointed out: ‘since there was a decentralisation, meetings have naturally become more necessary’.

Planning became a more formal and longer-term process than before. Before, decisions on investments had depended basically on cash. In contrast to Alpha, in Gamma’s culture, there is an annual budget and five-year planning. Some employees from Alpha commented that they were not used to such a long-term view of planning. In addition to this, Gamma has a much lower tolerance concerning achievement of established goals.

At the HRM level, there was a substantial shift in terms of training policy. Instead of favouring workers from the financial area, who sometimes received financial help to pay for their university studies, at Gamma, only employees who are taking courses directly related to their jobs receive this help. In addition, there is a greater focus on foreign language courses. Also, shop floor employees, who previously received little attention in terms of training, have become favoured. In contrast, to Alpha, Gamma giver more training to shop-floor workers, since the objective of Gamma is to have multi-competent employees.

Yet within the Human Resources area, the income policy has changed. Mr. V. used to decide himself about promotions and salary increases. Also there was a favouring policy, i.e., people who were appreciated by Mr. V. would have a better salary than others. There was even a strange inconsistency: financial managers had a much higher income than production managers, which from Gamma’s point of view was unacceptable because production is the most essential function within an industry. Therefore, it was expected that in the long term salaries would be equalised.

Alpha has substantially changed its communication mechanisms and practices, having adopted Gamma’s more formal style instead of its previous informal style. While Mr. V. preferred the oral communication, Gamma has some standards concerning internal communication. In addition, Mr. V. believed that technical people should not have access to some information, such as the turnover of the company. Essentially, written communication has gained more importance. At the same time, it is a more open communication. There is a daily meeting aimed at informing people about different issues so that information can be spread throughout the company.

In terms of P&D, although the trend is for products to be developed at a world level, since some cars are made exclusively for the Brazilian market, local auto components manufacturers are forced to have a minimal P&D structure so that products can be adapted to local conditions. Gamma also has a more formal product development procedure following its Five-Axes system. Further automation was also expected because Gamma’s ratio of employees’ income/turnover cannot be over 20 per cent, and it had been around 40 per cent at Alpha. With respect to production, Gamma has designed a completely different production line aimed at being more logical and rational.

There were also changes in terms of quality. Whereas Alpha focused on correction, Gamma was directed to prevention. Instead of controlling and checking quality during and after the production process, Gamma attempted to prevent output production problems from the beginning of its production process, which meant involving suppliers' production systems. This particular change was triggered when the Alpha quality area was incorporated into the procurement area. As the procurement manager explained, he became a 60 percent 'quality man' and a 40 per cent 'procurement man'.

In addition to these internal changes, changes extended to suppliers and buyers as well. First, relationships with suppliers evolved from being more informal to being more formal. Price, cost, and quality were negotiated on a more formalised basis. Price, for example, is defined by a Price Committee, so the freedom to negotiate price with buyers has been reduced. Secondly, there was a substantial reduction in the number of suppliers, from 105 to 80. In addition, the number of 'Class A' suppliers increased from nine to 32 per cent[2].

As Gamma adopted more rigorous quality control of suppliers' output, suppliers were required to change some of their management practices. For example, the Alpha procurement manager carried out an audit of suppliers systems in order to pave the way for potential changes in their production systems. This involved, amongst other things, a closer involvement in suppliers internal routines, in particular quality procedures. Gamma provided technical support to the suppliers.

The acquisition had effects on the buyer side as well. Since the very beginning, Mr. V. warned the new Director of Alpha that it was necessary to be extremely careful with the relationship with Beta, its principal buyer, because otherwise Alpha could lose market-share. First, the technology provided by Gamma to Alpha enabled the latter to develop new products and also to raise the quality standard of existing products. Secondly, conflicts between Gamma and Beta became much more frequent. Beta was used to requiring flexibility from its suppliers in terms of auto components development. Although Alpha had limited resources, it was considered a very flexible and agile firm, thus meeting Beta's requirements. However, after the take-over, Alpha was unable to respond as quickly as Beta was used to and consequently some delays were suffered. In fact, since Alpha was compelled to follow Gamma's procedures regarding the development of new products it became much slower in terms of meeting Beta's needs. At the same time, Alpha was trying to develop further relationships with other carmakers.

Hence, on the one hand, Gamma considered it to be crucial to preserve the relationships with Beta. This would involve developing new auto components according to the time schedule set by Beta, which was usually shorter than Alpha expected. On the other hand, Alpha could skip some procedures recommended by Gamma and deliver new auto components that would not meet the quality level required. In this case, if there was a problem regarding product quality the responsibility would be Alpha's.

6 – Understanding the logic underlying post-acquisition change

It was seen that the impact of FDI on the local environment is not a completely clear-cut matter. On the one hand, if the FDI enters the country through cross-border acquisitions, it is likely that changes introduced, if any, should reflect, at least partially, the nationality of the acquiring company (Child *et al*., 2001; Calori *et al*., 1998; Lubatkin *et al*., 1994). On the other hand, if FDI is being driven to a rather competitive and outward-oriented country, it is expected that technology as well as new organisational management practices and techniques should be brought in. There remains, however, the question of the logic underlying these changes.

The challenge is thus to put forward an approach that permits an analysis of post-acquisition changes that consider the influence of both the acquirer's nationality and other factors as well, such as competitive pressures. The analysis of the case has shown that acquisition was on the whole an important catalyst for bringing about changes. However, whereas the direction of these changes might has been driven by the acquiring company's policies, the strength of these changes might has been determined by shifts within both the Brazilian environment and the auto sector (at both national and world levels).

In our case study, the administrative heritage of the acquiring company is therefore the most powerful factor and the one that influences changes most extensive and deeply. On the whole, this factor could explain most of the changes. Changes in the organisational structure, control, decision-making, planning and communications have certainly followed the acquiring company's administrative heritage. Expatriates brought in may be a sign of Gamma's concern with introducing changes according to the company's principles (Rosenzweig and Singh, 1991).

Some other changes seemed to have reflected Gamma's administrative heritage, but their strength has been influenced by the local conditions or by the acquired company's administrative heritage. Changes at HR practices illustrate the interplay among these distinct factors. Changes at income policy, for example, have been made following the acquiring company's practices, but influenced by Alpha's administrative heritage. The training policy, in turn, may have been modified in order to attend to the national and world shifts in the auto component sector.]

Concerning changes in R&D, production and suppliers, regardless of Gamma`s influence, they aimed fundamentally to improve the quality and safety of products and to increase the efficiency of the production process, hence to improve Alpha's competitiveness. So these changes were introduced within the logic that previous management practices would not be sufficient to guarantee the survival of Alpha in a different environment. Since Alpha was trying to develop further relationships with other carmakers and since there were changes in the world auto industry regarding the pattern of supply, being more competitive was a critical issue for the company.

The analysis of the direction and extent of these changes is complex because they cannot be attributed to a single factor. Therefore, to search to match changes made into Alpha according to Gamma's administrative heritage, hence its nationality, is insufficient for understanding the logic of post-acquisition changes. Other factors need be taken into account. However, more than attributing changes to either this or that factor, the question is to determine the logic that has driven these changes. Thus, changes responding to environmental pressures may or may not follow the acquiring company's administrative heritage. They will follow as long as they attend to the new requirements of the environment.

Given that, we contend that it is necessary to first analyse the evolution of the Brazilian institutional environment and the Brazilian auto industry sector and then to proceed to the analysis of post-acquisition change. Although some authors (Rosenzweig and Singh, 1991) had acknowledged the relevance of the local environment in the transfer of management practices, they have a static view of this environment. They do not consider, for example, that the environment changes, and that these changes affect the result of the transfer. So, we think that changes in the environment constitute a major force determining either the direction and/or the strength of changes following acquisitions. Due to its more dynamic feature, the concept of 'isomorphic pulls' raised by Westney (1993) seems to be an appropriate theoretical tool for analysing the relationship between changes in the environment and post-acquisition changes.

Although FDI inflows have increased lately, their presence in Brazil is not recent. In some sectors, there was a massive participation of foreign capital. In this sense, it would be a reasonable assumption to expect that this influenced the Brazilian organisational context, in other words the institutionalised patterns in the Brazilian organisational field had not been determined exclusively by local firms. However, data collected from the acquired companies show that Brazilian and foreign companies had distinct practices from each other. Why did firms acting in the same context have distinct practices? Why had Brazilian companies not been affected by 'isomorphic pulls' despite the previous presence of foreign capital in the country?

Until the early 1990s, Brazilian companies operated in a relative closed market where competitiveness was not a major issue. Hence, Brazilian companies did not need to modernise their management practices, and foreign practices, despite their presence in the Brazilian organisational environment, were not sources of strong isomorphic pulls. But after trade liberalisation and shifts in the auto sector, both at the national and international levels, concepts like competitiveness and quality, which were ignored in the past, became fundamental. Therefore, foreign companies took on a major role, and their practices became a true source of 'isomorphic pulls'.

It is from this context that post-acquisition changes should thus be examined. Gamma introduced changes that, more than reflecting its administrative heritage, aimed to make Alpha more competitive. This would have required of any acquiring company, regardless of its nationality, the implementation of changes within Alpha's management practices, as they had demonstrated they were no longer appropriate. Thus, in the same way that a highly protected regime may discourage technology upgrading and the introduction of updated management practices, a more competitive environment may require the transfer of management practices and techniques, regardless of reflecting the acquirer's nationality.

As argued earlier, the recontextualisation idea is important because it brings to attention a crucial aspect of the transfer: opposing forces may affect the result of the transfer. These opposing forces are, however, not immutable. On the contrary, these forces are highly dynamic, so the recontextualisation of management practices from the acquiring company depends on how the local environment is institutionalised. Thus, the extent to which changes in the acquired company will reflect those from the acquiring company will depend on what management practices will be considered necessary. If they aim to make the company more competitive, they may, or may not, reflect the acquiring company's administrative heritage.

7 – Final considerations

The literature on post-acquisition changes has claimed that the nationality factor is a major force driving these changes. This literature is essentially based on two approaches – cultural and institutional – that have been developed since the beginning of the 1970s and that have searched to understand the relationship between organisational practices and national culture. These approaches have sought, among other things, to identify which management practices were more likely to be affected by cultural factors; to describe business systems from different cultures/nations; and to analyse the transfer of business practices or theories from one culture to another.

The literature on the transfer of management practices has also emphasised the role of the national culture in the process as well as in the result of the transfer. However, different authors have criticised this narrow view of the question alleging that, rather than an automatic transfer, there is a recontextualisation of management practices being transferred. The idea of recontextualisation opened room to a more complex understanding of the problem of the transfer. Essentially, recontextualisation brings to the fore the role to be played by the institutional environment to which management practices are to be transferred to.

The case presented in this paper nicely illustrates the recontextualisation issue. More importantly, it has allowed us to put together both the *transfer of national practice effect* and the *general conditions affecting host country industry* effect. More than simply putting them together, we claim that post-acquisition changes will be the result of the interplay of these two effects. In addition, the interplay of both factors has a dynamic character which has to do with the evolution of the institutional environment. In this sense, beyond looking at MNCs subjected to conflicting institutional pressures, we suggest that the degree of this conflict depends on how the institutional environment has evolved.

In the case of Brazil, although foreign capital had had an expressive share in some economic sectors, the transfer of technology, knowledge and management practices has been undermined by a closed market. However, from trade liberalisation onwards, and in parallel with a movement of transformation in the auto sector at the world level, the role of foreign capital has changed, hence the equation between isomorphism with local environment *versus* intrafirm consistency (Rosenzweig and Singh, 1991). The shift of this equation is what determines the recontextualisation of management practices. In bringing to the fore the issue of the institutional transformation, we hope to have opened room for a different view of the post-acquisition change issue. The direction and the strength to which combined *transfer of national practice* and *general conditions affecting host country industry* effects will determine changes in the acquired company will depend on the environment in which the acquired company is inserted into.

Like any research project, this investigation has a number of limitations which future research may be able to transcend. Although we have some indications that the *general conditions affecting host country industry* effect moderates the *transfer of national practice effect*, we cannot assert precisely the extent of this moderating effect. We think that a more comprehensive view of post-acquisition change will emerge if scholars working on changes following cross-border acquisitions consider both effects simultaneously.

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[11] Administrative heritage is a concept proposed by Bartlett and Ghoshal (1998). They say that, 'many forces shape a company's configuration of assets, distribution of responsibilities, dominant management style, and ingrained organisational values. But those that seemed most influential in the companies we studied were the impact of leadership on corporate norms and priorities, the influence of home country culture on underlying values and practices, and the powerful influence of organisational history' (p.46).

[2] A 'Class A' supplier holds na ISSO 9000 certificate.