Competence: A Dynamic Extension of the Existing Typology of Acquisition Motives

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Abstract

What is the reason for acquisitions? Till now, strategies related to the daily operations of the firm like increased sale, reduced cost or managerial ambitions have been the prevalent motive. However, a new dynamic motive, the competence explanation is emerging. The purpose of this paper is to develop the existing typology on acquisition motives with a combined approach of competence, resource-based and network theories. The new motive of acquisitions is to acquire firms that posses core competencies. The main purpose of the acquisition is to transfer and utilize unique knowledge from the new subsidiary in the multinational corporation.

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Introduction

What is the reason for acquisitions? In the existing typology of motives of acquisitions, the main explanation is to gain the advantages of being large. When firms are growing they might get the opportunity to reach economics of scale, or gain the profit of being in a monopoly position. The growth into new business areas reduces the risk from fluctuating sales, and as a side effect, it is possible to reduce the capital cost too. Furthermore, if the price of a target firm is low, this will encourage the acquisition compared to other entry modes. Finally, if the manager wants to be in front of an empire, there is no need for an economic gain at all, acquisition will take place because of the fulfilment of individual ambitions. In spite of the last mentioned, the economic gain, or the synergy effect is normally the driver of the acquisition phenomenon. If there is no extra gain from putting two firms together, other solutions as the market or a green-field establishment would be preferable. Using the synergy effect as the motive of acquisition, however, shifts the approach of the advantage of being large to a more focused view of the resources of the acquired firm. Now it is more important to acquire the right firm rather than just acquire firms. There must be unique elements in a certain target that the acquiring firm can use. The synergy effect gain rises from a more efficient use of the resources in the acquired firm.

In this paper the main point is that a new motive extends the existing typology. The acquisition is here a search for competence. In the literature competence is defined as unique resources that are hard to imitate and therefore create a sustained competitive advantage. This paper illustrates how a firm can obtain new competence by a takeover of another firm. This gives a more dynamic approach, because an effective integration of the new subsidiary can take years compared to the other motives, where the effect of being large is reachable in the short run. Furthermore, another important distinction is that transfers of knowledge go from the acquired unit to other parts of the corporation compared to the classical motives, where transfers of knowledge only come from the headquarter.

Another dimension of the competence approach is to pick out the right target and that depends on the acquiring firm's ability to identify and measure the competence in other firms. Often the only way to obtain this knowledge is through network relations between the two firms. The necessary relations are a result of a long-lasting trust-building between the two firms which comes from a mutual adjustment process rising from the daily business exchanges. The network theory is another and new way to understand the phenomenon of acquisitions. This approach also puts the acquisition process in a dynamic timetable, but here the view is backwards as well, because of the relations between the units before the takeover takes place. Finally, by using network theory, it is possible to bring in the relations between the firm and the environment, and the importance of the acquired firm's network for the acquiring firm.

The aim of this paper is, therefore, to make a short presentation of the existing typology, and in detail add the competence and the network approach, and in end see how this new approach affects the general view of the phenomenon.

Classical motives

Table 1 shows the classical motives of acquisitions[1]. Here, motives are legion and reflect the fact, that there is not one theory covering all aspects. The reason for acquisitions appears from such different theories as the neo-classical, capital market, institutional and the managerial behavioural approach[2]. The end goal of the acquisitions is quite different, and firms have used acquisitions for more than 100 years to fulfil different strategies, Chandler (90). The competence approach is a new trend in business strategies, and this suggested extension is perhaps the next step in the evolutionary development of the multinational corporation. The typology therefore reflects different ways to grow and to develop competitive instruments in different time-periods or in different industries. Much can be said about each theory, and the presentation here is short but with references to the existing literature.

Table 1: Different motives of acquisitions

Motive	Result	Theory
Minimize Cost	Large scale reduces different kinds of cost.	Economics of scale
Minimize Cost	Hierarchical solutions reduces governance cost	Transactions cost
Market Shares	Create or extend sales opportunity	Growth
Market Power	Above-normal profit	Monopoly
Minimize Risk	Minimizing fluctuations in revenues.	Diversification
Minimize Financial Cost	Reduced capital cost and utilizing of tax shield.	Debt/equity
Speculative	Acquisition’s price is lower than correct market price.	Undervaluation
Managerial Ambitions	Maximizing managers wealth	Empire-Building
2+2 = 5	More efficient use of pooled complementary resources	Synergy

Economics of Scale

Merging two firms is an opportunity to produce in large scale and thereby diminish the per unit cost by a more efficient use of resources. The reduced cost motive is common in horizontal acquisitions where the takeover in the same line of business increases the production capacity directly. Physically the acquisition leads to the access of extra and sometimes unused production facilities, and the purpose of the investment is to reduce the overhead cost per unit, Dettmer (63). Vertical integration may result in the reduction of transport costs between steps in the production. General cost reductions could be the financial or the marketing cost, Hughes, Mueller and Singh (80). Here the approach relates to obtaining efficiency in administration, because the trouble dealing with large quantities often is no greater than dealing with small quantities, Florence (53).

Acquisitions can be a tool to reduce over-capacity in an industrial sector, Goldberg (83), and often the gain rises from the rationalization especially in replicated working hours. Scale economics also relates to a better

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[1] Most of the theories are concerned with mergers too, and in most of the literature the view is of mergers, or merger and acquisitions as well. This is a methodological problem, because there are major differences in the two approaches. However, the view of this paper will be the acquisition, because it is more suitable to the new approach.

[2] For other typologies see: Dettmer (63), Jervis (71), Steiner (75), Cooke (86), Trautwein (90), Walter and Barney (90), Weston, Chung and Hoag (90), Haspeslagh and Jemison (91), Sørensen (91), Chakrabarti, Hauschildt and Süverkrüp (94).

use of knowledge such as a full utilization of specialized and indivisible resources. It makes economical sense to use specialized individuals, technology, machines or information to their full capacity. Using these indivisible resources for other purposes are not profitable, because there is a possibility of using less expensive resources instead, Florence (53), Itami (87). Further, larger management teams are better to allocate resources and determine strategies for the whole corporation, Penrose (59). However, large organizations do not always face decreasing costs. Having too many employees leads to waste in work hours or output and can be so heavy that the demand saturates and each incremental unit of output requires higher selling expenses. Also, huge firms can run into complex managerial problems, because large production series may demand highly qualified, and expensive, management or production-specialists, Penrose (59). The question is how economics of scale relates especially to acquisitions compared to other ways of growth like the green-field establishment. The gain from rationalization is obvious, but the link to producing in large scale seems to be less obvious. However, firms use this strategy in hard competitive industries, where the fight for the market demands quick growth in market shares obtained by the lowest price. The American oil-industry in the late 19^{th} century is a famous example here, Chandler (90)

Transaction Cost

The transaction cost approach relates to the vertical integration, for example the acquisition of a supplier, who possesses a critical resource. Acquisitions reduce the cost related to governance structures, suppliers' monopolistic gains and risk premiums and finally the cost related to the negotiation of contracts, Williamson (75), Hart (95). Second, even if suppliers are reliable, they may not be able to deliver the necessary flow of input, and this is especially important when talking about critical resources, Jervis (71). An example is firms with very high grow rates, where the production depends on semi-manufactured items, that may run into difficulties because of lags in the delivery from the supplying industries. On the other hand, after the takeover, the firm will still be facing an agency problem but now of an intra-organizational character. The question is, whether these costs are less than the inter-organizational transaction cost. Anyway, if it is possible to measure the cost of the scenarios, the vertical integration could be reasonable.

Growth

The most common motive of acquisitions in practice is growth, because this is an easily measured goal, and therefore often chosen as the main strategy, Starbuck (65). Growth becomes a goal for its own sake and relates to the advantages of being large. Many firms truly believe that if they are large enough, they will posses a sustained competitive advantage by building an effective position in the market, an effective barrier against threats. Growth becomes a benchmark for progress, and growth is easy and quickly to obtain through acquisitions compared to green field establishments. Further, announced growth rates, such as 10 % per year, that might be difficult to reach by internal growth, stresses the acquisition process. To keep up with this goal, the amount of acquisitions must rise by acquiring larger and larger firms, or more of smaller firms, Penrose (59). By asking managers for the reasons for their firm's acquisitions, the primary answer will be; growth. However, the economic literature rarely treats this approach. An explanation could be that growth as a motive is only explainable to the strategy leading to acquisition, not as a motive for the specific takeover. The growth motive often covers the fact that the firm wants access to new markets. By acquisitions the firm uses the acquired firm's sales organization and its knowledge of the market. The goodwill relations are also important so the acquired firm can be a platform for further sales, Hallen and Wiedersheim-Paul (82). Furthermore, the full capitalization of an invention sometimes needs quick access to main markets, and here it is preferable to acquire market channels by taking over the right firm., Marris and Mueller (80). In addition, acquisitions will secure growth without rising competition in an industry with no capacity for an extra demand, Gort (69), Wernerfelt (84). Following the customers is another motive. Especially when customers internationalize, the firm must follow this internationalization to meet their old customers on their foreign local market. This situation is important if customers happen to be other professional organizations, who demands a complete service, such as technological solutions adapted to local needs, Starbuck (65). Following the competitor is another argument. In a sector where rivals are making acquisitions, the firm must follow this strategy in an attempt to prevent rivals from building a dominant market position, Hay and Liu (98). Firms operating in saturated markets can only secure continual growth through the entrance of new markets. Often competitors occupy these markets too, and the only entry mode is through an acquisition.

Monopoly

In the end, the firm may attempt to be a market leader through acquisitions of their competitors. If the acquisition is large enough, the firms obtain a monopoly gain in terms of above-normal profit. Monopsony gain with lower prices on resources may be a result of a vertical integration. A firm with market power establishes barriers to entry for competitors and that extends the period of making profit, Hughes, Mueller and Singh (80), Trautwein (90). The monopoly position also improves the bargaining position of the firm, Gilbert and Newbery (92). On the other hand, there is a limit of growth, especially in form of the anti-trust legislation.

Diversification

Another motive for acquisition within the same industry is to reduce some of the uncertainty that derives from competition, Pfeffer and Salancik (78). In the theory of diversification the risk-adverse firm has an opportunity to minimize risk by expanding activities to different lines of business and thereby equalize the fluctuations in revenues. In the 1960s and the 1970s this motive of acquisition was very popular in practice and in theory, but now it has become less important. The reason for this is that most of the conglomerate acquisitions failed and ended up with losses for the acquiring firm[3]. Furthermore, theories show that for the shareholders it is much better to reach the market-portfolio through their investments than through the companies they own, Lewellen (71)[4]. Weston and Mansinghka (71) give several reasons for diversification. First to avoid sales and profit instability, next to elude unfavourable growth development and to avoid adverse competitive shifts. Further arguments are technological obsolescence and to decrease uncertainties associated with their industries. Finally, the motivation of a vertical acquisition of a supplier can be risk-reducing. An example is in the natural resource industries where demand and supply are unstable and integration can mitigate the cost associated with fluctuation in prices.

Pitts (76) gives three reasons for diversifications. The most important is the situation where the failure of one business area threatens the whole corporation. Second, the diversified company has the opportunity to

[3] The reason could be, as Chandler (90) suggests, the separation between CEO and the middle managers, who are responsible for the daily operations of the firm. Top managers, therefore, have a poor knowledge of technologies, markets and organizational norms in the different lines of business, although their task is to define strategies and allocate resources.

[4] The Sharpe-Litner portfolio theory proves this statement. Another financial model, the call-option pricing model is also against diversification, because it induces a wealth transfer from stockholders to bondholders, Amihud and Lee (81).

reallocate scarce resources to the most dynamic areas. Finally, there is a better opportunity to commercialize more broadly of technological innovations.

To minimize the uncertainty in the environment is also important here, Pfeffer and Salancik (78), and the acquisition of a unit that knows the rules of the market is preferable. No industry is totally independent of the fluctuations in the economy, but some lines of business are not as cyclical as others. Further, different growth rates exist within the same industry, Salter and Weinhold (79).

In the end what matters is what gives the highest NPV. When the firm reaches a satisfactory position within the area of specialization and the firm has the resources needed for expansion, they might find the opportunities for expanding into new areas more promising than further expansion in its existing areas, Penrose (59)

Financial Synergy

The main explanation for acquisitions in the capital market school is the gain that the company's shareholders get in form of a higher value of their shares. The basis of most of the surveys controlling the effect of acquisitions, is the change in the stock-price and the creation of gains to the shareholders. However, this says more of the effect than the motive of acquisitions. Then, the capital market approach also contains gains from financial synergy. It arises from changes in the debt/equity ratio, resulting in less cost of capital or a better utilization of a tax shield. The cost of capital is a question of the size of the organization. By merging two firms it is possible to minimize the risk of bankruptcy by sharing capital. Lenders' policies also influence the cost of capital and large companies sometimes have to pay less for borrowing capital. Furthermore, risk-adverse investors may prefer to make loans to large diversified firms rather than to small, specialized firms, Steiner (75). Raising the debt rate also creates financial synergy through the exploitation of the tax shield. This strategy is efficient as long as the value from reduced tax is higher than the cost of financial distress, Brealey and Myers (88). The new company with a lower bankruptcy risk could induce lenders to establish a higher limit of lending. This will exceed the sum of the original limit for the two individual firms and may result in a better exploitation of the tax shield, Lewellen (71). However, firms can raise their debt rate by obtaining loans through the market. Acquisitions will only outperform the market solution when there are some unused debt opportunities that the acquiring firm can utilize directly. Further, the acquiring firm does not have to convince lenders of the usefulness of the loan when raising debt through acquisition.

Undervaluation

Barney's (86b) theory of 'undervaluation', where imperfections in the strategic factor markets[5] create variations in 'the price of the firm', is also an important approach. The imperfections regarding acquisitions emerge from different expectations to the net present value of the assets in the target firm. A firm that counts on a higher value of the utilization of assets than the market price dictate can obtain a gain from this gap. The opposite situation also exists. Here the buyer is too optimistic and therefore pays an overcharge in relation to the market price. This theory refers to Roll's (86) hubris. Furthermore the winner of an 'auction' of the acquired firm, could be exposed to winner's curse!

Private information is another factor that relates to the undervaluation of a firm. If the acquiring company possesses private information and the market does not, the company has a possibility to buy the firm

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[5] A market where the resources necessary to implement a strategy are acquired, Barney (86b), p. 1231.

at a price lower than the real market -price[6], Barney (88). At the end of the day it all depends on how firms measure assets, and theoretically they will choose the solution that will give them the highest net present value. In the real world other strategies might be more important and then the firm makes the decision of acquiring a specific target, then negotiations of the price starts, or raids start at the share markets. Then the only thing that can stop the takeover is the price, and it is up to the acquiring firm to decide what the right price would be according to their measurement that relies on private information. Finally, economic disturbances is another factor that creates discrepancies in valuation of the target firms because predictions of future income streams and risks are now more uncertain. An example of a common economic shock could be a rapid change in technology and knowledge, Gort (69). Another example is a depressed market for shares, where a speculative stress effect sets a general now and here market price that is lower than the real net present value. This may lead to acquisition because of the price. Here speculation relates to acquisition, but only heavy shifts in expectations will lead to the bying of blocks of shares, Hughes, Mueller and Singh (80)

Empire-building

Managers can have private or personal reasons for their behaviour and make investments, which from an economic point of view may seem irrational, but for the individual can be of high value. The other classical theories take their point of origin in maximizing the value of the shareholders, where this theory focuses on the managers' own utility. The empire-building theory explains this situation of the management wanting growth for personal reasons and acquisitions match this situation. Most important is the wage explanation; the salary paid out to managers is a function of the size of the company, Mueller (69). Motives like power and prestige are also essential; Ravenscraft and Scherer (87) and managers from large companies have an easier way to positions in committees and boards, Pfeffer and Salancik (78). Finally, managers engage in conglomerate mergers to decrease their employment risk, which is largely undiversificable. The risk consists of losing their job, professional reputation etc. The risk associated with managers' income closely relates to the firm's risk, Gort (69), Amihud and Lev (81)[7]. Another factor creating incentives to acquisitions is free cash flow, meaning cash flows more than required to fund all projects that have a positive net present value discounted at the relevant cost of capital. This cash flow belongs to the shareholders, but is used for investment instead and managers cause their firms to grow beyond the optimal size. A solution to this problem is issuing debt in exchange for stock, so contracts forces the managers to pay out future cash flows, Jensen (86). The managers' time horizons relate to their tenure and are therefore shorter than the shareholders' time horizons. Managers will not have an interest in cash flows that cover the period after the end of their term of office, Jensen and Meckling (76). Managers who are specialists in a certain business area will make investment in this particular area, so the success of the acquisition will rely on their individual competence. This will raise their earnings and defeat rivals who are better at running other kinds of business in the corporation, Högholm (94), Schleifer and Vishny (89). Finally we get to the situation where there is no reason at all except that the company gets the right offer at the right time, and then decides to take over the other company. Next, acquisitions could be routine so that the company always chooses this strategy instead of comparing the specific takeover with other alternatives. Finally, acquisitions could be the result of using 'rules of thumbs' or 'having the right feeling', reasons that rarely belong to the theoretical explanations.

[6] Often acquisitions take place at a price much higher than the shares dictate. The only reason must be that the acquiring firm may estimate a gain from expectations relying on private information. Another example could be the acquisitions of shares in a hostile take over, where the bid is higher than the market price, to make the private investors sell.

[7] A new survey does not support this view, Lane, Cannella and Lubatkin (98)

After all, this review of the empire-building theory shows that the more exotic explanations of acquisitions are very popular in the economic literature, and in contrast, theorists hardly ever mention the more simple and relevant motives such as growth and market -shares.

Synergy

None of the above mentioned reasons for acquisitions are preferable if there is no synergy effect in merging the two firms. If the value of the two firms is not higher than the value of the two individuals and independent firm, other ways to growth are preferable. By the synergy motive the importance of the resources in the acquired firm is in focus. By pooling complementary resources it is possible to reach a 2+2=5 effect, Teece (87), Richardson (72). This gives an intangible approach to the acquisition process. Introducing new ways of handling administrative procedures may result in a better use of existing resources, Penrose (59). In the classical synergy approach, the acquiring firm improves the performance in the acquired firm by transferring resources and knowledge to the new subsidiary. The transfer is therefore only going one way, from the headquarter to the new subsidiary. Most common is the transfer of managerial resources. The main approach here is the differential efficiency theory where the purpose is to improve the management in the acquired firm by bringing it up to the same level as in the acquiring firm, Weston, Chung and Hoag (90). Lack of managerial resources can be a bottleneck in a corporation causing unused operational resources. Opening the bottleneck by transferring new managers or introducing other management strategies creates synergy, Sanchez (99). The inefficient management theory relates closely to this approach. The basis assumption in this theory is the constantly poorly managing in some firms. The market price for shares will therefore decline relatively to the shares of other companies in the same line of business or to the market as a whole. The market for corporate control characterizes this mechanism securing acquisitions, Manne (65)[8].

Reaching synergy gives a more long-run perspective compared to the before-mentioned motives. This is due to the problems concerning integration of intangible resources, transfers of tacit knowledge, cultural disagreements etc.. The gains of acquisition due to market or scale are easier to reach in the short run. For example the connections to new customers already exist. Second, the possibility of producing larger quantities starts immediately. Further, the motives such as reaching financial synergy, personal ambitions, or the monetary gain from an undervalued target are again easy to reach immediately. The use of synergy as an explanation therefore introduces the dynamic approach. Further, the focus shifts to how to use resources in a better way. Therefore the synergy approach connects to the extension of the typology of acquisitions' motives because of its dynamically resource-based elements.

Competence: The Extension of the Classical Approach

The major distinction using the competence approach in describing the phenomenon of acquisitions compared to the classical approach is the localization and the transfers of resources. The acquired firm and its resources are the points of interest rather than the resources in the acquiring firm. The purpose of the acquisition is the takeover of unique resources, and transferring them *back* to the headquarter or to other subsidiaries in the corporation. This can be in terms of transfers of best practices, diffusion of knowledge or the use of unique

[8] Fama (80) does not believe in the market for corporate control. In companies with diffuse ownership managers are better disciplined through managerial labour markets, both internal and external, where governance structures stimulate the ongoing efficiency, and the market of outside takeovers should be the last resort, because it is

resources in a complementary pooling with other resources elsewhere in the corporation. The question is when a firm has a status as a competence-based unit, and when an acquiring firm can make a profitable use of new resources.

For several years there has been a theoretical discussion of giving a precise definition of what 'competence' is. The competence-theories take a macro-oriented view whereas analysis takes its basis from picking out certain firms in a certain industry and concluding that these firms are indeed superior because they posses certain capabilities that give them a *sustained competitive advantage.* To obtain this, following Prahalad and Hamel (90), Hamel (94), Eriksen and Foss (97), the competence must be unique and hard to imitate. Next, the competence is only located in one firm, or else the use of it must be superior. Finally, the competence must make a disproportionate contribution to customer-perceived value, and provide an entrée to new markets.

The resource-based theory, as the name indicates, takes its basis in the resources and the use of them. This tradition starts with Penrose's (59) description of the resources and the administrative co-ordination of these and how they effect the growth of the firm. Important here was the idea of competitive advantage rising from this perspective, further how growth (such as acquisitions) links to resources. So creation of competence comes from possession of unique resources and managerial and organizational ways to use them efficiently. Firms in the same industry compete with fundamental different bundles of resources and use different strategies in spite of coherence with product and market. This creates a variation of firms, where some of them possess competence that gives them a competitive advantage, Rumelt (84). This emphasizes the point that if a firm wants to acquire competence only specific firms fulfil this goal, compared to acquisition of production facility, market-shares etc..

The essential problem in the competence approach is to identify the competence in a specific firm. Capabilities are not the specific product, like Coca-Cola, but underlying structures that lead to competitive positions, in this example image and an effective distribution system. Therefore competence can be a part of every unit of an organization. Sanchez and Heene (96), see firms as hierarchical systems, where competence exists at different levels, such as an operational, tangible and intangible asset's level and of the governance managerial levels. Capabilities differ in the levels but have to be complementary to produce a competitive offer for the customers.

The basis of the competence is often a composition of resources that is the result of a historic and evolutionary accumulation of knowledge, experience and, skills and strategic assets, Nelson and Winter (82), Dierickx and Cool (89), which again is a consequence of a row of strategic choices and fulfilment of goals, Rumelt (84). Firms are therefore specific social inventions, reflecting the uniqueness, the skills and experience and behaviour of those who work there. Factors that lead to a rare culture that forms both the present and the future development of competencies, Barney (86a). Wernerfelt (84) combines unique resources and acquisition by explaining that mergers and acquisitions give access to obtaining competence from the 'outside' by buying assets that otherwise are non-marketable. Wernerfelt (84) pp. 175 defines four factors when estimating the value of a specific target, according to the acquiring investment strategies, and which motives and strategic goals that the firm must fulfill.

a) *What resources has a given target,*
b) *which of those can the firm effectively take advantage of,*
c) *what the cost of doing so will be* and

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expensive. Marris and Mueller (80) support this argument by saying that the incentive or at least the threat of a takeover is a permanent and effective monitor on management.

d) what the firm could pay for them.

Acquiring a firm is more than buying a set of physical assets as most of the value relates to resources embedded in the company. Every firm has resources, what matters here is the quality of them. Next, the target may posses unique resources, but this is not to say that the acquiring firm can make use of it. The competence might not fit in the acquiring firm's strategy or the needed transfers of resources might be too difficult. What the acquiring firm really needs is the private information of the resources as Barney (88) describes it. The question is how the acquiring firm obtains this information which leads to the approach described in the next chapter.

Network: The extension of the classical approach

A newer approach in characterizing the firm and its strategies is the network theory, which describes the corporation by its intra-organizational and environmental relationships. This approach includes the acquisition phenomenon because the reason for the takeover is to secure a certain position in a specific network. Acquiring a foreign firm does not only include its buildings, employees, machines, human capital and capabilities. It also includes connections to counterparts, customers, suppliers, research laboratories, universities and furthermore its competitors, alliance partners, joint ventures etc.. A motive of acquisitions could be a firm's favourable knowledge connections in the local environment plus the ability to adopt and utilize the know-how into a product with a global sales design. The question is; what is a network precisely? One answer given is that a network is a system of relationships between firms (actors) that are dependent on each other and whose co-ordination of activities is of great importance. This co-ordination is not the result of central planing or an organizational hierarchy, nor through the price-mechanism but through interaction between firms in a network, where the price is just one of several influencing factors, Johanson and Mattsson (88), Forsgren *et al*. (95). A firm can participate in different nets, such as a special product net, a national net, a research net, an intra-organisational net etc.. All these nets co-ordinate into one major overlapping network and changes in one net may have an influence in other nets by changes in relations between the actors, Mattsson (98). In the network theory a firm's strength characterizes its *position* in the market, a position that changes over time because relations between firms continually establish, maintain, develop or break. The role the firm has for other firms, its importance to other firms, and the strength of the relationship explains the strength of the position, Johanson and Mattsson (88). Relations to other firms secure access to important and critical *external* and mostly heterogeneous resources.

The relationship between firms is very important in the network theory especially in the explanation of acquisitions. Firms in a market are independent units that control resources, but no firms can survive without interaction with other firms. Interaction is essential both because of access to physical resources and to some extent also the access to intangible resources such as knowledge. A long-lasting relationship between two partners creates trust and makes it possible to participate in profitable exchanges. In the network approach, competitors are not always the enemy, and counterparts are rarely opportunistic. The result of a long-lasting and well-acting relationship often leads to an acquisition or a merger. Examples of this are not necessarily the case of exchanging goods and services, but also include exchanges of complex relations in form of alliances, joint ventures etc., Loasby (98). Here the relationship is not a main motive, but the connection results in trust, and the necessary knowledge about the target's capabilities, strategies, and network positions. Often firms wanting to make an acquisition, whatever the reason is, start (and end) their investigation of the market by their counterparts. The relations between the firm embed the knowledge needed for making the acquisition and the following successful integration. From the sellers point of view the relations are also essential. One example could be when owners, and especially one-man owned firms, contact its former and trustworthy counterparts, where the seller is aware of the firm's strategy thereby securing a continued business ethics in the former owner's spirit[9]. Trust is therefore another essential term in the network terminology. Complex relations take time to establish, for example, to know which persons have knowledge or influence in the network companies. Levels of confidence have to be built up, graduated from formal to personal relationships, and social exchanges between two firms are often essential in trust-building. This inter-firm relationship is a mutual orientation of two firms toward each other, and the interaction causes mutual knowledge and trust in each other. Repeated business exchanges create knowledge of each other's capabilities and by close co-ordination reduce exchange cost, Anderson, Johanson and Vahlne (97). Finally, a network is also an adoption process, where the parties adjust to each other by modifying product and processes, attitudes, knowledge and strategies. The result of an adoption process is a common language, contracting rules and standardization. Cost of building up these relationships, constrains the possibility to exchange and therefore the network becomes interdependent and stable structures, Johanson and Mattsson (88), Forsgren (89), Forsgren *et al*. (95). That it will often take years of costly activities before the actors have proved that they are trustworthy is important to consider. Due to acquisitions trust-building is, therefore, a two-edged sword because long-lasting relationship is often the basis for a certain acquisition, but at the same time it can impede the entrance of a newcomer. By a takeover the firm is obtaining access to the acquired firm's network, but are they able to make any changes without interrupting these network connections? Business relations are only stable to the degree where both actors consider the exchanges worthy. Furthermore, each business relation is unique and relies on tacit agreement, and the question is whether a third part can join this connection, Anderson, Johanson and Vahlne (97).

The network theory gives at least three new motives for acquisitions. In the 'traditional' explanations like synergy, market power etc., the motives relate to the inside of the acquired or in the acquiring firm. The network theory widens the perspective by including the relationship to the environment. The first motive for acquisition in the network theory is to establish or develop a certain position at a new market. Second, long-lasting familiar or personal relationship motivates an acquisition. Finally, which is the main point, the acquisition of a 'centre of competence', or a firm that can turn into such a centre. The latter gives a more broad view of the competence approach, because of the adding of elements from the network theories.

The network and the competence approach as a combined explanation

The acquisition of 'competence' is a new way to follow this dynamic strategy where the strategic role of the coming subsidiary is of the highest importance. The basic factor of the takeover is the previous relations of the two firms. This is due to the nature of competence-resources that can be very hard to recognize. The main motive for the acquiring firm is still to secure a future competitive position at a certain market (network). Therefore they take over a target which posses the needed unique and competitive resources (and network-connections). To make sure that the price is right and that it is possible to transfer and exploit the underlying capabilities the firm often chooses well-known targets.

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9 The situation where the wish for acquisitions comes from the seller is an overlooked explanation of the acquisition phenomenon. There are several incentives for selling a firm. Reasons could be a poor economy, a need of further capital or a need for generational change. In the latter the owner himself sometimes makes contact with the company, and often he has a network relation to the new owner, Mueller (69). Another situation is when managers are about to be ousted, they may prefer a merger with another company if they can ensure better positions for themselves in the newly formed company, Mueller (69). In practice, the incentive of the acquisition often comes from the seller, Ravenscraft and Scherer (87), or from a third part, such as banks or other private investment organizations, Lindvall (91).

The combined approach, therefore, gives a very long time-perspective, going from the first exchanges between the two firms up to the time of the decision of the takeover, where mutual trust-building is taking place. After the takeover there is another long time-period where integration takes place.

Table 2: The new motives of acquisitions

Motive	Result	Theory
Competitive advantage	Core-competencies secure a sustained competitive advantage	Competence
Resources	A unique pool of resources, and efficient management of these.	Resource-based
Position	Taking another position in a different network depending on trust and relations.	Network
Center of competence	Previous relations create the needed private information to pickout a target with competence. It is possible to transfer resources and make use of them in a profitable way	Combined Approach.

Conclusion

Why does firm A wants to buy firm B? There are different replies to this question. The answers are legion and include explanation such as reaching synergy effects by pooling resources or raising efficiency by replacing the management. Reduced cost is attainable through economics of scale and vertical integration can lead to a change in cost related to governance structures. The most natural explanation is the growth motive, where the strategic goal is the entrance at new market. Intensifying this growth results in monopoly position. Entering new lines of business through diversification neutralize the effect of fluctuations in earnings. Acquisitions motivated by financial motives reduce the capital cost and make an opportunity for a better utilization of different tax structures. Another financial approach relates to the price of the undervalued target because of imperfections in the market of information. Finally, the acquisition may cover an economic irrational point of view, because managers try to maximize own wealth by an empire-building strategy. Taking a basis in the network theory, the discussion in this paper tries to develop the existing taxonomy by introducing the dynamic approach of the relations to the environment as a factor in the acquisition phenomenon. The wish to establish or develop positions in a network can lead to a takeover. Long-lasting relationships between actors are an additional incentive to the phenomenon. In a search of competence acquisitions can take place, because the acquired firm possesses attractive competencies or network relations that gives an opportunity for knowledge diffusion back to the headquarter or other affiliates. The aim is to acquire core competencies that can secure sustained competitive advantages. Core competencies arise from a unique pool of resources combined with an efficient administrative, managerial and organizational structure.

It is possible to extend the existing typology of classical acquisition's motives with the competence approach, where the motive is to secure a sustained competitive position, the resource-based view, where unique resources and ways to handle them are the point of focus, and finally the network approach, where the firm wants to take new positions in the environment.

In a combination of the three approaches, previous relations between actors are important as a measurement of competencies.

The new approach is different from the classical approach because the focus is on the resources in the acquired firm. Further, in transfers of resources, knowledge goes from the acquired firm to the acquiring firm. Third, the approach includes the importance of the environment. Finally, The combination of the network and the competence theory gives a dynamic approach where both the past and the future are important factors in the acquisition process.

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