
Research Paper

Externally Sourcing Research through Acquisition: Should it Supplement or Substitute for Internal Research?

KAREN RUCKMAN

Simon Fraser University, Burnaby, BC, Canada

ABSTRACT A technology motivated acquirer can use a target's technology to supplement or substitute for its own internal research. The impact of the extent of integration on post-acquisition performance is further complicated by the effects of pre-acquisition research relatedness between the target and acquirer. This study determines the integration and research relatedness of acquisitions in the US biopharmaceutical industry during the 1990s and then examines their impact on profitability. The results indicate that related research that supplements (or is integrated into) internal research increases post-acquisition profits as does unrelated research which substitutes for (or is kept separate from) internal research.

KEY WORDS: Acquisitions, research and development, resource-based view, performance, pharmaceuticals, technology sourcing

1. Introduction

Acquisition activity in the 1990s has been valued at trillions of dollars and has affected tens of thousands of firms (Gupta and Gerchak, 2002). However, most mergers and acquisitions (M&As) have not been successful and have failed to achieve their objectives (Agrawal and Jaffe, 2000). To make matters worse, the existing M&A literature has not consistently identified variables that impact acquisition performance (King *et al.*, 2004). Clearly, this topic needs more detailed investigations to determine the conditions under which acquisitions prove successful.

Acquisitions, especially in high-tech sectors, are a direct route to accessing new capabilities and can be used as a method to quickly build market position (Schweizer, 2005). Bower (2001) confirms that one of the five predominant motivations for acquisitions

Correspondence Address: Karen Ruckman, Simon Fraser University, 8888 University Drive, Burnaby, BC, Canada V5A 1S6. Email: ruckman@sfu.ca

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