CHAPTER 5

STUDY 4: UNPACKING ACQUISITION BEHAVIOR: HOW ADVISORS PROPEL DECISION MAKERS’ DEAL-DRIVEN ORIENTATION

Abstract

Acquisitions frequently don’t live up to their promises. Previous research has primarily delved into the structural elements influencing postacquisition performance. We complement prior explanations by exploring the interrelation between advisors and decision makers during the preacquisition process. Building on a unique dataset of six in-depth case studies, we investigate how several firm level, contextual, and personal factors influence acquisition behavior, and how the resulting dynamics affect acquisition performance. Through this we contribute in three ways. First, we unpack acquisition behavior by showing how advisors use arguments based on the forenamed factors to persuade decision makers to pursue an acquisition. Second, we explore how advisors interact with decision makers to propel their deal-driven orientation, their desire to acquire, while preserving their ignorance and even promoting information asymmetries. Through this we expose a dual role of advisors, who seem to simultaneously generate and escalate momentum. Last, we assess the relationship between acquisition behavior and acquisition outcomes. Specifically, we illustrate how preacquisition processes form the basis for the realization and destruction of value in acquisitions.

Keywords: Acquisition Behavior; Deal-Driven Orientation; Information Asymmetry; Investment Bankers, Legal Advisors, and Consultants; Preacquisition Processes; Value Destruction.

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5.1 Introduction

“It is all about the fee. When companies are small, we try to combine them, and when they are big, we split them up. It’s brilliant. And after that we do that again and again. That is what we bankers do. [...] So it is all about making up a good story, to make a CEO do a deal.” (investment banker interviewed for this study).

In 2011 H.P. paid $11.7 billion to acquire Autonomy, implying an 80 percent premium, and earning the company’s bank advisors over $30 million in fees. Yet, this deal contributed to a significant loss of confidence among analysts and investors, with H.P. losing $12 billion in market value within 24 hours after the announcement of the acquisition (Sorkin, 2011). Correspondingly, H.P. had to take a haircut of $8.8 billion on the acquisition in November 2012, despite paying more than $135 million in fees to investment bankers for advice about acquisitions over a period of three years (Sorkin, 2011).

More generally, Mergers and Acquisitions (M&As; used interchangeably in this paper) tend to fail in 60 to 80 percent of the cases (Appelbaum et al., 2000; Bruner, 2003; Schuler & Jackson, 2001). M&As are thought to involve very complex processes fraught with risks causing firms not to attain expected or potential synergies (Capron & Pistre, 2002; Hitt et al., 2009b; Larsson & Finkelstein, 1999; Madhok & Tallman, 1998; Pablo et al., 1996; Seth, 1990). This failure to create value following M&As may among others be the result of several structural characteristics, such as differences in firm size (Kitching, 1967; Mittra, 2007), environmental uncertainty (Mayrhofer, 2004), and interorganizational relatedness and autonomy (Datta & Grant, 1990). Moreover, ineffective and non-expeditious post-merger integration processes have been shown to have detrimental effects on the creation of value through M&As (Epstein, 2004; Larsson & Finkelstein, 1999; Sirower, 1997). In addition, authors have also pointed at the significance of acquisition behavior, here referred to as all actions of stakeholders, involved in the acquisition process, preceding the decision to pursue a transaction, for successful value creation following acquisitions (Haleblian, Devers, McNamara, Carpenter & Davison, 2009).

Still, many variables that may possibly explain variance in acquisition performance have yet remained unidentified (King et al., 2004), especially when it comes down to the acquisition process itself. Most studies that do investigate the acquisition process focus on the postacquisition integration phase, even though many important decisions – i.e. those on organizational strategy, target selection, transaction rationale, and price – are taken during the preacquisition process, before a transaction is actually closed and signed.
Although prior literature has pointed at the significance of several processes (Graebner, 2004, 2009; Graebner & Eisenhardt, 2004; Jemison & Sitkin, 1986), such as partner selection, due diligence, and integration planning, these studies typically focus on the interaction between decision makers at acquiring and target firms, generally neglecting the role of advising parties like investment bankers, legal advisors, and consultants. Anecdotal evidence, however, such as the quote and example at the beginning of this paper, as well as statements in the popular press and business books exhibit clear indications that more attention for the intricacies accompanying the process preceding the striking of an acquisition is warranted (e.g., see ‘Barbarians at the gate: The Fall of RJR Nabisco’ by Bryan Burrough and John Helyar (2004), and ‘The Perfect Prey: The fall of ABN Amro’ by Jeroen Smit (2010)). Hence, there appears to be a pressing need to ‘unpack’ the black box of acquisition behavior (Haleblian et al. 2009), so that we can better understand why certain acquisitions are pursued and why many of them fail to create value. Correspondingly, we posit the following research question: ‘How does the interaction between decision makers and advisors influence acquisition behavior and how does this affect acquisition outcomes?’

We examine this question using a grounded theory-building approach, discussing six detailed case studies of four failing and two successful acquisitions. Based on a unique data set of over 80 interviews with CEOs, managers, investment bankers, legal advisors, and consultants, as well as archival data, we answer our research question and contribute to the literature in three ways. First, we respond to calls for unpacking acquisition behavior (e.g., Haleblian et al. 2009) by showing how advisors use firm level, contextual, and personal factors to persuade decision makers to conduct an acquisition. Second, we observe that the interaction between advisors and decision makers provokes various dynamics underlying the preacquisition process, including (1) the rise and fall of a decision maker’s deal-driven orientation, defined as his/her eagerness to do a transaction, and (2) attempts at selectively preserving information asymmetries among different parties. This clarifies why transactions are sometimes pursued seemingly out of the blue or fast, often coming with an overpaying acquirer. Last, by explaining the interaction among decision makers and advisors such as investment bankers, consultants, and legal counselors, we show how the latter influence the acquisition process and acquisition outcomes from the inside (Kesner et al., 1994; Sharma, 1997; Ven & Poole, 1995). As we expand on in the discussion, our findings expose the dual role of advisors, who seem to simultaneously generate and escalate momentum, and shed new light on the importance of preacquisition processes for the realization and destruction of value.
5.2 Theoretical Foundations

“Most of the banks involved in the dismantling of ABN Amro were in trouble. [...] Royal Bank of Scotland (RBS), had been brought to its knees. The Scots had already written off almost 16 billion pounds. Compared to a year before, RBS's share price had plunged 80 percent [...] Faith in Fred Goodwin (CEO of RBS) was also beginning to crumble. Here too, people were asking whether the takeover of ABN Amro hadn't been driven by pride. The head of RBS's supervisory board, Tom McKillop, had already declared that they had paid a too high a price. Goodwin termed it a purging experience. But the Scott still insisted that the takeover had been a strategically sound move.” (Smit, 2010: 415)

Mergers and acquisitions are important ways to gain access to new resources, enhance firm performance, and stay competitive in globalizing markets (Larsson & Finkelstein, 1999; Pfeffer & Salancik, 1978; Singh & Montgomery, 1987). Two different streams of research explaining the outcomes and effects of M&As can be distinguished. First, studies focusing on environmental and organizational variables affecting the formation and performance of acquisitions (Datta et al., 1992; Haleblian et al., 2009; King et al., 2004). Second, studies focusing on acquisition processes explaining the initiation, formation, integration, and demise of M&As (Graebner, 2004, 2009; Jemison & Sitkin, 1986). Work in the latter area has primarily focused on explaining the effects that postacquisition integration processes may have on the outcomes of M&As (e.g., Graebner, 2004, 2009; Haspeslagh & Jemison, 1991; Nahavandi & Malekzadeh, 1988). Yet, as we argued earlier, preacquisition processes, i.e. actions and decisions occurring before a transaction is finalized, can be equally or even more important when it comes to explaining acquisition outcomes.

Acquisition behavior can be the result of a firm’s need to create value, but it may also arise from managerial self-interest, environmental factors, and firm characteristics (Haleblian et al., 2009). Because acquisitions are highly complex processes, decision makers are likely to seek for outside advice (Russo & Perrini, 2006). Advising parties are known to affect the preacquisition decision making process in three ways. First, they aim to solve information asymmetries during due diligence and act as information catalysts for their clients, seeking for complete and high-quality information available on a target, by looking into its current and future financial conditions, all the publicly available information (e.g., S&P rating, market reports) and their own experience and analysis (Mizruchi & Stearns, 2001). For example, legal advisors are important during the due diligence process, because they structure the opportunities for realizing cost synergies as they focus on the challenges of renegotiating
contracts that make it possible to reduce transaction costs (Dyer, 1997) and increase organizational autonomy (Pfeffer, 1972b). By providing clients with this information, advising parties present themselves as knowledgeable, but they also act as gatekeepers in choosing which information to present.

Second, next to helping managers with due diligence, advisors also help with the estimation of potential synergies, which often form the basis for the valuation, and are used as input for the negotiation of the price and premium paid. Finally, by liaising with external parties, organizations can absorb a firm’s legitimacy and better cope with the high external pressures that come with the actions undertaken by companies (Normann, 1991). More specifically, bank advisors or consultancy reports with information on the valuation and potential synergies can persuade funding banks, investors, and shareholders to lend, invest or vote in favor of a transaction. At the same time, however, just like hubris and narcissism have been acknowledged as drivers for a manager’s acquisitive behavior (Chatterjee & Hambrick, 2007; Roll, 1986), advisors also have an incentive it comes to pursuing a transaction, in that they receive large sums of money from acquisitions. Therefore, some authors stress that it is worthwhile to keep bank advisors at bay during the acquisition process (Graebner, 2009; Sharma, 1997).

In general, the preacquisition process can be divided into four separate processes: the screening and selection of partners, conversations with counter-parties during the due diligence process, agreeing in principle and legalizing documents during the negotiations, and the planning of integration (Graebner, 2009). While several studies have explored how these processes interact (e.g., Angwin, 2001; 2004; Bruner, 2005; Epstein, 2004; Sirower, 1997), it is unclear how the momentum that is required for the decision to pursue a transaction is generated. Through taking a more integrated and dynamic perspective, the interrelation between these different acquisition processes can be explained and it can be examined how they in combination affect acquisition outcomes (Graebner, 2004; Pablo, 1994).

When selecting a partner, previous work suggests that it is important to become well-informed about its businesses, since information asymmetries (Akerlof, 1970) can result in adverse selection (Balakrishnan & Koza, 1993) and agency problems (Eisenhardt, 1989a; Sharma, 1997). Likewise, external advisors are likely to play an important role in these processes. Consequently, they may also play a part in the destruction of value through acquisitions, as they do not begin their work with the hope of learning that a target firm is unworthy of being acquired by their clients (Garbuio, King & Lovallo, 2011). Hence, by analyzing the roles and actions of both decision makers and advisors, and by exploring how
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their interaction influences acquisition behavior (Haleblian et al., 2009), we can identify important factors influencing the preacquisition process and acquisition outcomes.

5.3 Methods

5.3.1 Research design and setting

The acquisition process is best studied through a case study methodology, which makes it possible to identify each process as it unfolds over time (Eisenhardt, 1989b). Specifically, our research question allows us to adopt a broad perspective on the acquisition process and build different cases to understand how they relate and impact the outcome of a transaction. Consequently, we can respond flexibly to new discoveries during the data collection process and gain a deeper understanding of our cases (Eisenhardt, 1989b; Suddaby, 2006).

Yet, building cases based on acquisition processes comes with several challenges. First, it appears difficult to gain access to the stakeholders involved in these processes, as important decision makers generally involve top managers with busy schedules who are not willing to share their experiences. Second, preacquisition processes are highly confidential and insiders are not willing to share their sometimes grueling experiences and discuss their own mistakes. Similarly, other insiders, such as advisors, are not keen to share their knowledge and experience, as the relationship with their clients is of great importance. Third, parties have often signed legally binding confidentiality agreements which makes sharing classified information difficult and challenging. More specifically, the risk of sharing price-sensitive information may prevent informants from explaining the real rationale behind transactions as it may not be without consequences. Last, irrational factors such as narcissism and hubris seem to play an important role in the acquisition process (Chatterjee & Hambrick, 2007; Roll, 1986), so that inquiries into this topic require a rare combination of skills from researchers, possibly explaining the lacuna in our understanding of the preacquisition process and its relationship with acquisition outcomes.

As we initially started off with the idea to study the acquisition process in general, the data collected is part of a larger sample, allowing us to gather a unique dataset, and tackle the previously identified challenges. Hence, our data collection followed a two-stage approach for building our research framework. In the first stage, we performed over thirty interviews with managers and advisors that were very experienced with M&As in the Netherlands according to the league tables in the period between 2007 – 2011. This provided us with a unique list of individuals who had been involved in multiple transactions during the 5-year period. By using
highly knowledgeable and experienced actors on purpose, we intended to reduce biases in our data (Eisenhardt & Graebner, 2007), and increase the chance of gaining new insights. These interviewees gave us the impression that managers and advisors were willing to talk on a general level, but less willing to discuss specific transactions. Yet, when we asked our interviewees for specified examples we knew they were involved in, they were often willing to share their knowledge and experience. In the second stage, we performed a preliminary selection of cases based on the criterion that we should be able to find enough background information in Zephyr, SDC, and other business publications about the acquisition and the advisors involved. We then identified important stakeholders, who were of interest to our case analysis and contacted them for an interview. We used the specified examples provided by the interviewees to build six cases on particular acquisitions, with a high variation in transaction value and outcomes, so as to avoid bias and adhere to theoretical sampling guidelines (Glaser & Strauss, 1967; Suddaby, 2006). Moreover, we made sure to gain access to all the key parties involved in a given acquisition process, as this allowed for within- and cross-case comparisons as well as the building of generalizable theory on acquisition behavior and its outcomes.

5.3.2 Sample

Applying our criteria, we selected six cases comprising transactions that occurred between 2007 and 2011 and that vary in size, industry, and process, as summarized in Table 5.1. Four transactions took place between publicly listed firms and two between private firms. All acquisitions were conducted by large multinationals, five of which had their headquarters in The Netherlands. The target firms were also large internationally operating firms, four of which had their headquarters in the Netherlands and two in the United Kingdom. The sample is evenly divided among firms from the service and manufacturing industries, and most transactions focused on extending market share, involving horizontal acquisitions, except for one, which was aimed at extending a firm’s product portfolio. The value of the various transactions ranged between €500 million and almost €72 billion. All transactions, except for one, started with talks between the CEOs or other members of the board of directors or supervisory board, while Blue (pseudonym) first made an unsolicited offer for Orange (pseudonym), but later proceeded with more friendly discussions. In five of the cases, bank advisors played a prominent role. While in one case, a consultancy firm was in charge of the transaction team. Moreover, legal advisors were involved in all of the transactions. While most of our informants were very open in discussing the deals, we promised not to mention
them by name and use pseudonyms for the cases in our study.

Table 5.1: Overview of cases – Study 4

<table>
<thead>
<tr>
<th>Acquirer, Price</th>
<th>Target and profile</th>
<th>Deal rationale according to the CEO of the acquiring firm</th>
<th>Informants</th>
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<tbody>
<tr>
<td>Water 5 Billion Euros Fire Dairy</td>
<td>&quot;Acquiring Fire fits perfectly in the strategy of our organization. The acquisition creates a strong global player with a large range of products.&quot;</td>
<td>Acquirer: 3 informants Target: 2 informants</td>
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<tr>
<td>Jumper 550 Million Euros Rocket</td>
<td>&quot;The acquisition of Rocket expands our market share with over 80 stores and gives us the opportunity to become a large national player.&quot;</td>
<td>Acquirer: 3 informants Target: 2 informants</td>
<td></td>
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<tr>
<td>Nick 11 Billion Euros Adida Paint and Pharmaceutical Manufacturer</td>
<td>&quot;By acquiring Adida, we create a leading and global coatings company with an extensive geographic presence with access to fast-growing markets in Asia-Pacific, particularly China and Latin America. Through this combination, we will be able to realize significant synergies and create value for our shareholders.&quot;</td>
<td>Acquirer: 5 informants Target: 1 informant</td>
<td></td>
</tr>
<tr>
<td>Bosox 3.4 Billion Euros Yankee Staffing, HR Services and Recruitment</td>
<td>&quot;With this acquisition we create an industry champion of global size and scale. As both organizations we are complementary and have a perfect strategic fit with a significant market share and product portfolio.&quot;</td>
<td>Acquirer: 9 informants Target: 7 informants</td>
<td></td>
</tr>
<tr>
<td>Thunder 1 Billion Euros Lightning Dredging and Maritime Infrastructure Contractor</td>
<td>&quot;The acquisition of Lightning fits perfectly in our growth strategy, we now add a new product division to our company and create a maritime player of global scale. We have close competence and they are complementary to our activities, which creates many opportunities for synergies between both companies.&quot;</td>
<td>Acquirer 2 informants Target: 3 informants</td>
<td></td>
</tr>
<tr>
<td>Blue 70 billion Euros Orange Financial Service Agency</td>
<td>“This acquisition enables us to access many new markets, and improve our current market positions. Which delivers benefits to our shareholders, customers, and employees.”</td>
<td>Acquirer: 3 informants Target: 8 informants</td>
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</table>

Note: these quotes came from the interviews or from the press releases that were issued with the announcement of the transaction
5.3.3 Data collection

To build our cases, we used three different types of data sources. We were given a unique view into the acquisition process through: (1) interviews with managers, bank advisors, legal advisors, and consultants involved in different acquisition processes; (2) follow-up e-mails and phone calls; and (3) archival data, including company websites, business publications, and deal transcripts. The primary data sources consisted of over 51 semi-structured interviews with 47 different individual respondents, performed over a period of 14 months. To create a broad sample, we also used a snowball sampling technique whereby people introduced us to other individuals who had been actively involved in one of the six transactions (Graebner, 2009). Often, we used the information gathered during conversations with advising parties to go back to the firms and ask further clarifying questions to less senior but important informants from the target or acquiring companies. The range of interviewees varied from 5 to 16 informants per case, typically involving discussions with either one of the (former) CEOs, members of the board of directors, supervisory board members, and corporate development team and strategic planning team members.

The interviews were conducted on site in the Netherlands and the United Kingdom. They were audio-taped and typically lasted 90 minutes, ranging from 45 minutes to over two hours. Each of the interviews began with background information and open-ended questions about the informants' experience with the acquisitions in which they had been involved, followed by more focused questions about the cases that we selected. Often, we began accordingly: “over the last few years, several large transactions have been conducted. Were you also involved in one or more of those?” After which we asked interviewees to define their roles and explain how they were involved in the transaction. Consecutively, more focused questions were asked about the selected cases, with the aim of creating a chronology of the acquisition process, so that we could gain new insights and obtain a detailed account of what had occurred from the first contact until the moment at which we held the interview (Hermanowicz, 2002). Examples of questions include: “How did the acquisition process start?”; “When was the initial contact made?”; “What was the rationale for the acquisition?”; “Could you describe the preacquisition process?”; “Could you describe the due diligence process?”; “Could you explain which synergies were expected?” and “How do you see the outcome of the acquisition?” Acquiring and target company informants were asked: “What was the role of advising parties during the acquisition process?” Advising parties were asked: “How did your client manage his/her firm during the acquisition process?”

Some questions were similar to those asked in Graebner’s (2009: 440) study on the
role of trust during acquisitions by entrepreneurial start-ups, including: “Could you describe the negotiation process?” and “What happened after the acquisition was closed?” Further clarifying questions focused on learning who were involved in which process, and what each individual’s role entailed. The questions did not focus on the arguments used by the advisors. Yet, these often emerged during the discussions. Additionally, we interviewed several individuals with extensive acquisition experience, such as prominent legal advisors and investment bankers, asking them questions geared towards the informant’s expertise, bringing our full sample to over 80 interviews. All the interviews were transcribed ad verbatim and sent to the interviewees for comments and feedback to ensure reliability.

In Table 5.2 a chronology of the different preacquisition processes is presented for each of the six cases. Based on how informants perceived the outcomes of an acquisition, we draw a distinction between two more successful and four failed acquisitions and present the quotes given by our informants and our interpretation. Following Graebner (2009), we distinguish four different processes for each case during which acquirer, target and advisor interact. First of all, the idea for an acquisition was brought up by management or sometimes pitched by bank advisors or consultants, and a partner was selected. We explain how the initiative for the acquisition was taken and why the acquirer and target selected each other. Second, we discuss the due diligence process which provides information that often serves as the basis for the acquirer to decide to pursue a transaction and estimate synergies, or not. Third, we discuss the negotiation process for each of our cases, involving discussions on value, price and remedies. Finally, we elaborate on how integration was planned, and how that related to the outcome of each transaction.
Table 5.2: Chronology of acquisition processes – Study 4

<table>
<thead>
<tr>
<th>Case</th>
<th>Partner selection</th>
<th>Due diligence</th>
<th>Negotiation</th>
<th>Integration planning and outcome</th>
</tr>
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<tbody>
<tr>
<td>Water –</td>
<td>“Our consultant wrote a strategic vision on how we could grow, acquiring Fire would create the most value.”</td>
<td>“The consultant asked us really specific questions on our revenues and cost structure of our different products and entities. In this way they had a good idea about the potential cost synergies and value drivers.”</td>
<td>“The chairman of the supervisory board sat together with their CEO and the consultancy firm. They focused on getting to know each other’s needs and wants. Later, the consultant presented different valuations and payment scenarios to the board. Eventually, we agreed and let them finalize the negotiations.”</td>
<td>“X, [the consultancy firm] provided us with a very structured strategic implementation plan, which they presented to the board and other managers [...] By discussing it with different teams, they helped us to find out together how we could create most value for the firm and make the acquisition work. They really focused on getting to know each other by first creating a personal relationship between the new board members. Moreover, they focused on communicating really clearly about the steps and deadlines in the implementation plan. Because of this, the day we combined, we also knew whom to contact, for example, from the customer support or IT service desk.”</td>
</tr>
<tr>
<td>Fire</td>
<td>(Board member Water)</td>
<td>(Strategy director Fire)</td>
<td>(Supervisory board member Water)</td>
<td>(Board member Water)</td>
</tr>
<tr>
<td>Jumper –</td>
<td>“We selected Rocket because it came available on the market and their owner wanted to sell them”</td>
<td>“During the due diligence we specifically looked at the potential value drivers and potential cost synergies. Because we had the impression that Jumper wanted to expand further in the future we wanted to do a good and thorough job.”</td>
<td>“The negotiation really benefited from the extensive report our bank advisor wrote. In this way we could negotiate a fair price.”</td>
<td>“We specifically asked our advisor to look into all the financial ratios. Moreover, we wanted them to make a financial integration plan for the stores (80) we acquired. After the acquisition we just had to follow this plan and we consequently realized a lot of value.” (CEO Jumper)</td>
</tr>
<tr>
<td>Rocket</td>
<td>(CEO Jumper)</td>
<td>(Financial advisor Jumper).</td>
<td>(Board member Jumper)</td>
<td>(CEO Jumper)</td>
</tr>
</tbody>
</table>

Outcome: realized synergies and created serendipitous value
- Negotiations did not focus on going for every penny
- Integration plan from consultant that focused on how and where value could be created

Outcome: realized synergies and created serendipitous value because Jumper had two integration plans:
- Financial integration plan that benefited them in knowing when and where to cut costs and invest.
- A logistical integration plan.
## Case Partner selection Due diligence Negotiation Integration planning and outcome

**Nick – Adida**

“Following the divestment of Y, we had almost €10 billion available, so we had to consider our strategic options [...] When our primary bank advisor contacted us with the proposition of acquiring Adida, we saw potential for value creation.” (Supervisory board member Nick)

“My team (Corporate development) always looks for potential partners and targets. Hence we had previously collected some prior information about Adida. In this way we also had some ideas about the blank spots and knew which questions we had to ask” (Strategy director Nick)

“When the process started we set up an acquisition team that consisted of the CEO and the chairman of the board, and our strategy director. Moreover, when important decisions had to be made we sat together with the supervisory board and often listened to presentations of that team or our investment bank advisor.” (Supervisory board member Nick)

“Because the process went too fast we did not have a clear strategy how to integrate Adida following the acquisition, we had some ideas but still left it stand alone for the first months following the deal to make a plan and discuss a strategy.” (Strategy director Nick)

“I think we could have paid less, but the acquisition team was persuaded by our bank advisor, I could not do anything.” (Supervisory board member Nick).

“The impairment on the division we added Adida to (€2.5 billion in total) is a reflection of the concerns for the market with less growth than we previously expected, based on a realistic assessment of how we see their future performance.” (CFO Nick; 4 years after the acquisition)

Outcome: the lack of integration planning and overpayment resulted in an impairment of €2.5 billion on the acquisition and less value creation.

**Bosox – Yankee**

“We wanted to grow and actually considered two options, we looked at the number 3 in the market and Yankee (number 5; Bosox was 4). We knew that number 3 was not for sale and would create a lot of antitrust issues. Consequently, we asked our corporate development team to work on a proposal to acquire Yankee.” (Board member Bosox)

“While we needed two more weeks, our due diligence was shortened by a sudden market rumor that we were in talks with one of our competitors. [...] the authorities obliged us to come with a press release after which our shareprice was frozen and we had to negotiate a deal over the weekend. (Board member Bosox)

“I met with X (Bosox’ CEO) and after he explained the rationale for acquiring us, I gave in. Consequently, we discussed three things we found essential for the success of the deal. First, people, who would become CEO and member of the board. I directly told him that I would step down, as I had just been CEO for 6 months and the product was not really my expertise. Second, price, we discussed that they

“It took a really long time to get approval from the European competition authorities, because we were not allowed to sit together and plan integration, it took over a year before we could start integrating in one of the markets we really wanted to enter. Although this allowed for more time for due diligence, it was just too long and decisions were not taken at Yankee.” (board member Bosox)

“The moment we got approval from the European trust authorities we started on the integration and after six months we moved into their headquarters, this went really well. [...] It took a longer time to integrate all the smaller branches, while that is eventually where the most synergies could be earned, this maybe took too long.” (CEO Yankee)

“The impairment (approx. €55 million) we now take is due
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<tr>
<td>Thunder – Lightning</td>
<td>“As we saw a lot of potential for cross-fertilization we were really keen on adding Lightning to our firm.” (CEO Thunder)</td>
<td>“Because we had a toehold, we had already looked into their value drivers and key performance indicators, still we had some gaps and we focused on filling them during due diligence.” (CEO Thunder)</td>
<td>“From the beginning two things were important. First, that we would stay stand alone as a business unit. Second, that we would be able to pursue our own strategy after the deal. [...] Although we negotiated long, we eventually ended up getting a fair price.” (Board member Lightning)</td>
<td>“We extensively discussed the objectives of the transaction. [...] In this way we found out that it was the objective to grow and create value by gaining access to each other’s clients. Because of this we also focused less on cost synergies” (Legal advisor).</td>
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“After we started looking into our options, we knew that Yankee did not have a standalone future. [...] When I was suddenly contacted by a friend at an investment bank, he told me that he heard rumors that Bosox was interested in acquiring us, I asked him to set up a meeting and hear their CEO’s ideas.” (CEO Yankee).

“While the early negotiations really benefited us, the final negotiations were very stressful, the chairman of Bosox’ supervisory board was very hesitant at a certain moment, and I really had to push him to agree with the deal” (Bank advisor Bosox).

“Because of this we also focused less on cost synergies” (Legal advisor).

Outcome: no value creation, but value destruction, because:

- It took a long time before the integration could start, which negatively affected the outcome. This was due to the long period of research by the antitrust agencies. While Bosox used this period to do some more due diligence, plan integration and think about the new structure, the waiting period before the integration could start was too long.

“While the early negotiations really benefited us, the final negotiations were very stressful, the chairman of Bosox’ supervisory board was very hesitant at a certain moment, and I really had to push him to agree with the deal.” (Bank advisor Bosox).

“Because we had a toehold, we had already looked into their value drivers and key performance indicators, still we had some gaps and we focused on filling them during due diligence.” (CEO Thunder).

“The due diligence and negotiation took seven months in total. We really focused on getting the objective of the transaction clear and search for potential cross fertilization. Moreover, it offered a way to make a visiting schedule of our

“We extensively discussed the objectives of the transaction. [...] In this way we found out that it was the objective to grow and create value by gaining access to each other’s clients. Because of this we also focused less on cost synergies” (Legal advisor).

“Because I had been quite opposed to the acquisition before, and had discussed this with clients and in the media, we had to make an extensive communication and visiting plan after the announcement, to explain the deal. Eventually, we did lose a couple of clients because they did not like the new CEO. [...] Moreover, some of the employees were quite unhappy with the deal.” (CEO Lightning)

“We extensively discussed the objectives of the transaction. [...] In this way we found out that it was the objective to grow and create value by gaining access to each other’s clients. Because of this we also focused less on cost synergies” (Legal advisor).

“Because I had been quite opposed to the acquisition before, and had discussed this with clients and in the media, we had to make an extensive communication and visiting plan after the announcement, to explain the deal. Eventually, we did lose a couple of clients because they did not like the new CEO. [...] Moreover, some of the employees were quite unhappy with the deal.” (CEO Lightning)
## Chapter 5: Unpacking Acquisition Behavior

<table>
<thead>
<tr>
<th>Case</th>
<th>Partner selection</th>
<th>Due diligence</th>
<th>Negotiation</th>
<th>Integration planning and outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>(CEO Lightning)</td>
<td>most important clients for right after the announcement. [...] As most of them had previously chosen us because we were stand alone, I expected that a lot of explaining would be necessary.” (CEO Lightning)</td>
<td>moment, they really started pushing us into doing the deal, and even contacted Thunder whether they could be of service to them. After that I did not want to work with them anymore, still we needed them as they were also our biggest financier.” (CEO Lightning).</td>
<td>decisions, they were just in a flux and I think here we lost some important time and money.” (CEO Lightning).</td>
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<tr>
<td>Blue – Orange</td>
<td>“One of our major shareholders believed that we were underperforming. [...] consequently we looked into our strategic options and being acquired was one of them.” (Board member Orange)</td>
<td>“We did not have the time to do very thorough due diligence, so we mostly based our information on what was publicly available. [...] While we expected a lot of potential IT synergies, we did not have a very thorough idea about Orange’s IT system.” (Board member Blue)</td>
<td>“Although we knew that we were paying a bit too much, we just really wanted to buy them at all costs. [...] because our bid was mostly based on the information we received from our advisor we eventually ended up paying too much and creating fewer cost synergies.” (Board member Blue)</td>
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<tr>
<td>Blue – Orange</td>
<td>“Through acquiring Orange, we’d become an even larger financial institution and take a major competitor out of the market, this is why it was a great opportunity.” (Board member Blue).</td>
<td>“Because they preferred another acquirer, they were less willing to share information on their financials and costs. [...] This is why based part of the analysis on what our financial and legal advisor knew. Which is why we were way off in certain parts.” (CEO Blue).</td>
<td>“The moment that the deal was closed, was the moment we could not go back, but my impression is that they did not have any idea on what they had bought or what they were planning on doing with us.” (Board member Orange)</td>
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Outcome: loss of value and no synergy realization.
- The focus on opportunities resulted in less thinking about cost synergies, though there were several.
- Some clients and employees were unhappy. Possibly also because their CEO left a year after the deal and he was replaced by someone who did not get a board position.
- Suspended animation was the result of no and bad delegation of responsibilities.

Outcome: severe value destruction and haircuts of billions by Blue in the first two years after the deal was closed.
- The lack of due diligence resulted in overpayment and no idea about the potential cost synergies.
- Blue had no clear integration strategy, which lead to a lot of uncertainty under employees, customers, and the loss of considerable organizational value.
5.3.4 Analysis of preacquisition dynamics

Our analysis procedure followed a grounded theory building approach (Glaser & Strauss, 1967; Strauss & Corbin, 1990) and focused on constantly comparing theory and data throughout the data collection and analysis process. We began with an in-depth analysis of each interview through the lens of our research question (Eisenhardt, 1989b): *How does the interaction between decision makers and advisors influence acquisition behavior and how does this affect acquisition outcomes?* Consecutively, we built specific cases synthesizing the interview and archival data (Eisenhardt, 1989b). We then performed a cross-case analysis by creating categories and labeling quotes on an elementary level. From these categories (e.g., cost or revenue synergy, restructuring, loss of clients, slow integration, deal rationale, partner selection, value estimation, and price setting), we developed more abstract concepts like ‘heat of the deal,’ ‘deal-driven orientation,’ and ‘information asymmetries’. In this way, the insights from each case could be compared with those from other cases, with the aim of identifying consistent patterns and themes (Eisenhardt & Graebner, 2007).

While gradually grouping and re-grouping categories, an image started to arise of factors at three different levels of analysis affecting decision-making during the preacquisition process (i.e., Firm, Contextual, and Personal factors). These factors, it appeared, all play an important role in influencing an advisor’s actions, and affecting a decision maker’s willingness to pursue an acquisition. In particular, we observe that advisors use these factors to propel an actor’s deal-driven orientation, while also affecting the extent to which they remain ignorant of certain aspects of the partner and the acquisition, as well as the degree to which information asymmetries were – sometimes purposefully – preserved and cultivated during the acquisition process. Next, in our findings we will first describe typical occurrences of each of these factors, after which we delve into the interaction between advisors and decision makers, influencing acquisition behavior, and eventually acquisition outcomes.

5.4 Factors Influencing Acquisition Behavior

In Table 5.3 we present how firm level, contextual, and personal factors appearing in our cases influenced acquisition behavior. The transactions in our sample all started with discussions between decision makers and bank advisors or consultants. These discussions often pertained to the performance of a client (acquirer or target management), how to cope with environmental uncertainties, what competitors were doing, and how the client and competition performed. Although a lot of this information is frequently already known by the client, for investment banks and consultants, it is a way to open up discussions and talk about
how the client is currently being outperformed by its competitors, which was the case for Adida, Rocket, and Orange. Most of the time, decision makers and advisors also discuss the client’s strategic options and opportunities, the idea for an acquisition, or the proposition of divesting a part of the organization, or being acquired.

In the following sections, we will further unpack the preacquisition process, observing the following: Firm level factors, such as ‘lagging behind’ and ‘weak performance’ or ‘low innovativeness’ entail the need to persuade other stakeholders and legitimize the acquisition to external stakeholders. Contextual factors, such as ‘external pressures’ and ‘heat of the deal’ result in faster and not necessarily better decision-making. Personal factors, such as ‘status and remuneration’ or ‘age and tenure’ result in decision makers and advisors having the incentive to pursue a deal. As our findings indicate, each of these factors may then propel a decision maker’s acquisition behaviour.
### Table 5.3: Underlying factors of the preacquisition process – Study 4

<table>
<thead>
<tr>
<th><strong>Firm level factors</strong></th>
<th><strong>Contextual factors</strong></th>
<th><strong>Personal factors</strong></th>
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<tbody>
<tr>
<td><strong>Water – Fire</strong></td>
<td>“Through acquiring Fire we could reduce costs, increase our market share, and profitability.” <em>(Supervisory board member Water)</em></td>
<td>“Because a few years ago an earlier acquisition had not received approval from the competition authorities, we were a bit hesitant about acquiring Fire. Yet, our advisor showed us that this transaction would not have any antitrust issues. As eventually happened.” <em>(Supervisory board member Water)</em></td>
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<td>“As we needed to improve our bargaining position towards our suppliers and consumers, an acquisition would really benefit us.” <em>(Board member Water)</em></td>
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<td><strong>Jumper – Rocket</strong></td>
<td>“I knew that Rocket’s owner (a private equity firm) was interested in selling them, consequently, I pitched the proposal of being acquired by Jumper.” <em>(Bank advisor Rocket)</em></td>
<td>“The financial integration plan our bank advisor wrote for us, benefited us in finding funding and investors for the deal.” <em>(CEO Jumper)</em></td>
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<td></td>
<td></td>
<td>“Our bank advisor did not push us towards acquiring Rocket, they just gave a very thorough valuation why they would be the best partner for us.” <em>(Board member Jumper)</em></td>
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</table>
## Chapter 5: Unpacking Acquisition Behavior

<table>
<thead>
<tr>
<th>Firm level factors</th>
<th>Contextual factors</th>
<th>Personal factors</th>
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<tbody>
<tr>
<td>Nick – Adida</td>
<td>“Our bank advisor contacted our CEO with the idea of the divestment and the idea of acquiring Adida. Moreover, we as team had several spreadsheets and analyses that indicated a lot of potential for synergies and growth.” (Strategy Director Nick).</td>
<td>“We tried to keep the bank advisors at a distance, still we allowed them to sit in on strategy meetings of the board. So that we did not have to inform them after each meeting.” (Strategy director Nick)</td>
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<td>“The bank advisor kept on stressing that we should do the deal fast because of potential competing bids, while I did not agree, I think the acquisition team’s decision making was influenced by this.” (Supervisory board member Nick)</td>
<td>“Being a former banker myself, I knew about the incentives of our bank advisors, but I think the lack of experience the CEO had with handling them resulted in the bankers being in the lead. [...] I hoped that the chairman of our supervisory board would prevent this, but it just did not happen. [...] This eventually resulted in a higher price per share and the pressure on the supervisory board to make decisions fast.” (Supervisory board member)</td>
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<tr>
<td>Bosox – Yankee</td>
<td>“It was so sad that the first time we wanted to make an offer, this was canceled by the CFO and CEO the day before, they just thought it was too risky. We had worked the whole summer on the deal. However, I actually think that this really made us eager on making the second time a success.” (Director Investor Relations Bosox).</td>
<td>“Looking back there was one moment where I think the advisor put us in the dark. He walked in and told us we really should do the deal. It offered great opportunities for growth and we’d become a real global player. And even more convincing, he promised to help us find the funding and persuade our shareholders. After this final meeting we decided to pursue the deal.” (Supervisory board member Bosox)</td>
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<td>“Though we expected to need two more weeks for the due diligence and closing negotiations, the share price just started running on a Friday morning. After releasing a statement that we were in talks, our share price was frozen by the market supervision authority. [...] On Monday we could announce a deal, yet, we had not been able to do a thorough due diligence as planned.” (Board member Bosox)</td>
<td>“I think that because our CEO had already decided to pursue acquiring Yankee, the advisor did not have to spend a lot of time on persuading him. Still, they really pushed the chairman of the supervisory board in approving the deal.” (Board member Bosox)</td>
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### Notes:
- Nick – Adida: "Following the divestment we had two options, spend the €10 billion or give it back to our shareholders. Because we wanted to grow in the Asia pacific area and Europe, to become a global market leader. As we preferred the latter, we looked into our strategic growth options.” (Strategy director Nick)
- "We knew that partnering with Nick would give us enough options to keep up the growth as part of a large division, this is why we preferred them.” (CEO Adida)
- Bosox – Yankee: “As we were really keen on our financial ratios, we saw that there was room for acquisitions. [...] In one of the meetings I often have with our primary bank advisor they pitched the opportunity of acquiring Yankee or a competitor. As we had discussed this option with the board, we saw the potential for growth and market expansion. Consequently, I asked them to work out a proposition.” (Strategy director Bosox).
<table>
<thead>
<tr>
<th>Firm level factors</th>
<th>Contextual factors</th>
<th>Personal factors</th>
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</thead>
<tbody>
<tr>
<td>Thunder – Lightning</td>
<td>“We had the feeling that the deal would create several opportunities for synergies through cross-fertilization.” (CEO Thunder)</td>
<td>“I am really happy that we added Lightning to our firm, it is a great company and it allows us to grow and access new markets.” (CEO Thunder)</td>
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<td>“After I joined them I noticed that they also benefited from the investments we had made in improving our ships and other innovation. [...] I just noticed how they had not invested in R&amp;D. (CEO Lightning)</td>
<td>“While I would have preferred to stay stand alone, I could not resist the offer, as we could stay stand alone as a business unit for at least 2 years and I would stay CEO. [...] Looking back I however feel that the moment we jumped ship, every employee also looked at the new captain, this resulted in me deciding to leave the combined firm after two years.” (CEO Lightning)</td>
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<td>Blue – Orange</td>
<td>“Because our performance was lagging behind, shareholders wanted us to look into our strategic options.” (Board member Orange)</td>
<td>“I noticed their legal and bank advisor were really keen on doing this deal, they did everything for their client. I personally think because this was the deal of the decade and it would put them on top of the league tables. [...] what the heck, they paid over a billion on success fees, wouldn’t you advice a client to do a deal then?” (Board member Orange)</td>
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<td></td>
<td>“When the shareholder approached us saying that he wanted more return, I knew that we had to do something big to get away with it. I think it also awoke some advisors who started looking around for deal prone ears like the CEO of Blue.” (CEO Orange)</td>
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<td></td>
<td>“Based on what they had presented at their annual shareholder meetings we knew that they had a lot of inefficiencies that we could use to create synergy.” (Board member Blue)</td>
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<td></td>
<td>“I knew that they could fund it.” (Bank advisor Blue)</td>
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5.4.1 Firm level factors

Firm level factors are important in rationalizing acquisition behavior for three reasons. First, our informants often pointed out that acquisitions were necessary because their firm or client was performing weak or was lagging behind competitors. In our cases, most acquisition processes started with discussions about how a firm was performing in comparison to competitors and in terms of market share and share price. Often decision makers received ‘unwanted’ advice from bank advisors with ideas as to how to improve firm performance, shareholders, however, are also important in this regard. In the acquisition of Orange by Blue, for instance, a shareholder proclaimed the believe that Orange was underperforming and lagging behind, and that the company could potentially improve profit and shareholder value by doing a large divestment or by being acquired. In general, the need to improve performance of a firm, or overcome underperformance, is an important rationale in deciding to either pursue an acquisition or be acquired.

Second, several of our cases resulted from the need to improve firm innovativeness as a firm was lagging behind competitors, acquisitions allow firms to prevent others from gaining access to specific resources, knowledge, and capabilities. Although firm factors mostly impact the primary decision to pursue a transaction, they also play a role during other preacquisition processes. Last, expanding market share and becoming a large national or global player were also often mentioned as the main rationales for the deals in our study (cf. Halebian et al., 2009). As decision makers often use the forenamed arguments to rationalize and legitimize their actions, this may suggest that acquisitions are less likely to occur when the forenamed factors are not present.

Investment bankers and other advisors play a fundamental role here. They are responsible for uncovering and assessing the information that is necessary to estimate synergies, value drivers, risks, and price premiums. They assist organizations in conducting due diligence and in building arguments for a potential deal so as to persuade stakeholders and financiers to vote in favor of the transaction. Synergies and organizational growth were often mentioned as rationale for a potential transaction. However, the definition and operationalization sometimes differs between managers and advisors. Interviewed bank and legal advisors more than once defined synergies as “firing people and closing factories,” which implied drawing up long legal documents, and accepting high restructuring costs, loss of knowledge, experience and innovativeness, as well as possible unrest under employees. Managers seemed to focus more on how the processes aimed at achieving synergies would play out following the transaction, and how they would create value for their organization.
Knowing this difference, Thunder’s legal advisor was very keen on getting to know the objective of the acquisition of their client. As the primary objective was to grow and expand, saving costs through workforce reduction would be detrimental. As the CEO of Lightning stated: “Their legal advisor came up with a clear plan on how to save costs, but also mentioned the possible side effects of employee reduction they had seen at other transactions. Moreover, they told us to really think it over as firing people is expensive, but hiring them back can be even more expensive. Eventually this made it easier to negotiate the deal.” In sum, this suggests that firm level factors are often used as arguments to persuade decision makers to start a preacquisition process. Furthermore, they can be beneficial during the postacquisition integration process, as firm factors press decision makers to focus on the objectives of a deal.

5.4.2 Contextual factors

Deal pressures and other contextual factors can speed up decision-making and enhance a decision maker’s eagerness to conduct an acquisition. Shareholders can be important in pushing organizations to pursue acquisitions or be acquired when a firm is lagging behind, witnessing the example of Orange. Following a large divestment, Nick had funding available that had to be put to use, otherwise shareholder activism could result in discussions about paying out these funds in terms of dividends. This pushed the management of Nick into pursuing the acquisition of Adida, although it was not sure whether that was the best option.

Likewise, the ‘heat of the deal’ can speed up decision-making. For example, the acquisition of Yankee by Bosox had to be finished over a weekend as there had been a leak to the market. Moreover, Bosox’ bank advisor pushed decision makers into doing the deal as it would provide them “great opportunities for growth and [...] the opportunity to become a global firm,” words that were later used in the CEOs statement about the rationale for the acquisition (also see Table 5.1). Other deal specific characteristics can further enhance the pressure to make transactions successful. Water had previously tried to acquire a different competitor than Fire, but had not received approval from antitrust authorities. Because Water wanted to grow, reduce transaction costs, and obtain a better bargaining position than suppliers, its management was eager to pursue an acquisition. Consequently, there was a lot of pressure into making the deal with Fire a success. Overall, external pressures are likely to speed up decision-making and propel a CEOs eagerness to do a transaction.

Likewise, acquisition processes often take place under high time pressure and tend to require speedy decision-making. This, however, may result in insufficient information for
making important decisions. In our cases we saw how this had negative effects on the outcomes of acquisitions. For example, after Nick had recently done a large divestment, it had considerable funds available for acquisitions. However, shareholders were also interested in receiving this money in the form of dividends. As Nick’s management wanted to grow and stay competitive, it was under pressure to find an acquisition target soon. Similar to Nick, the acquisition of Yankee by Bosox and Orange by Blue also indicate that the due diligence process was affected by the ‘heat of the deal.’

Advising parties play an important supporting role during due diligence, as they often act as information catalysts and because they look into potential risks and caveats. Furthermore, they are often responsible to do the largest part of the estimation of the target’s value, potential synergies, and future earnings. This information often serves as the basis for the negotiations between acquirer and target, but also for the discussions between decision makers and other stakeholders that have to vote in favor of the transaction. In the acquisition of Yankee by Bosox, for instance, the leakage of a potential deal had a negative impact on the negotiations and moments occurred when a transaction seemed very difficult. We see something similar in the case of the acquisition of Orange by Blue, where the intensity of the process resulted in less extensive due diligence and an absence of integration planning. Overall, pursuing an acquisition under pressure and with a lack of information available often results in overpayment, zero value creation, and a severe loss of organizational value.

The reason for hiring an advisor often depends on a decision maker’s own lack of experience. Yet, there are differences among advisors in terms of how they act. Consultants operate much more in the background, as we saw in the acquisition of Fire by Water. Water had hired a consultant to discuss its strategic options, one of the outcomes being the acquisition of Fire. Because an earlier acquisition process had failed, this deal had to succeed. Since, the chairmen of Water and Fire knew each another quite well, the former took the initiative and set up a sailing trip to discuss the positions of the two firms informally. Using the plan and models provided by the consultant, the chairman of Water discussed the combination potential and value drivers of both firms. The plan of the consultant persuaded Fire’s chairman to agree to a possible transaction. As the consultant’s plan also involved different valuation models, both chairmen used the plan to persuade the other members of their supervisory board and board of directors, proposing to hire the consultant as the main advisor for the deal and the integration following the acquisition. Eventually, the plan was also used to persuade shareholders and antitrust agencies, as the models showed that the price was fair and did not negatively affect competition.
5.4.3 Personal factors

“Merrill Lynch, architects of the takeover of ABN Amro [...] In late 2007, the investment bank was still crowing about the ABN Amro deal. ‘Our commitment to complete this high-profile transaction demonstrated a new level of partnership in investment banking.’ The bank itself earned around $500 million on the deal and ensured that none of the main players did badly. It reported that Andrea Orcel and Matthew Greenberg (team leaders at Merill) both took home $25 million. Joost Scholten (Merril), who had drawn up the figures with Huibert Bouwmeester (former ABN Amro employee) the previous December while enjoying a pleasant glass of wine, received around $10 million.” (Smit, 2010: 415)

Personal incentives of decision makers and advisors can have terrible effects on the outcomes of an acquisition process. In their presentations, bank advisors are actively looking for managers with deal-driven ears, emphasizing opportunities for them to raise status and financial wealth. Consultants are generally less deal-driven and are hired to carry out a project and help an organization solve a problem (e.g., how to improve performance, how to integrate). In contrast, the initial intention of bank advisors is to be hired to advise an organization to do a transaction. We observe that, during this pitching process, most bank advisors try to persuade their clients with strategic arguments that benefit the organization. Personal persuasion of the CEO becomes more important when there is a prior relationship with the client. In that case, the bank advisors focus more on explaining the effects of a possible transaction on the position and personal wealth of their client.

Personal interests can result in decision makers pursuing an acquisition for three reasons. First, next to improving an organization’s legitimacy, acquisitions also enhance a decision maker’s status (cf. Roll, 1986). Second, as the example of Merril Lynch’s role in the acquisition of ABN Amro points out, acquisitions can enhance the personal wealth of the stakeholders and advisors involved. More specifically, managers are often interested in improving firm size, as that often comes with higher salary (Chatterjee & Hambrick, 2007). Besides, target firm decision makers often fare well when selling their firms, as we saw in the acquisition of Yankee where the CEO took home a € 2.5 million bonus, and in the case of Lightening, where the CEO also took home a multimillion Euro bonus after the acquisition was closed. Finally, advisors often use personal factors to persuade managers to carry out a transaction. They often maneuver themselves into a brokerage role with unique knowledge about all parties within a specific industry, something which Blue’s and Jumper’s advisors did. Bank advisors, for instance, generate an extensive content management system
containing information about a firm’s management characteristics, interests and (personal) backgrounds. They do this by keeping track of what is said during business-related meetings, ‘social gatherings’ or ‘unexpected encounters’, such as sports activities, when organizational, but often also personal needs are discussed. Overall, advisors often use the knowledge gathered during these happenstances to indicate their expertise in a certain industry. They subsequently use this information to persuade decision makers into doing a transaction and they play out their cards, for example showing that they know about a decision maker’s personal plans to stay on just a few more years.

5.5 Unpacking Acquisition Behavior
5.5.1 Deal-driven orientation

In Table 5.4 we provide an overview of the interaction that took place between advisors and decision makers at the firms in our sample, and we show how this resulted in a manager’s deal-driven orientation and the creation and preservation of information asymmetries that underlie acquisition behavior. The factors that we have identified previously are often part of the base argument that advisors and decision makers use in deciding to pursue an acquisition. At firm level, decision makers are triggered by uncertainties in competition and future performance. Contextual factors, such as pressures from advisors and other external stakeholders, can result in decision makers being more eager to do a transaction. Finally, personal factors such as the status, age and tenure of decision makers can enhance their interest in doing acquisitions.
Table 5.4: Examples of interaction between advisors and decision makers and their outcomes – Study 4

<table>
<thead>
<tr>
<th>Case</th>
<th>Interaction</th>
<th>Resulted in</th>
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<tbody>
<tr>
<td>Water – Fire</td>
<td>“Because we focused on creating a level playing field and creating a personal connection between Water’s Chairman and Fire’s CEO, the negotiations went really smooth and it was easy to construct a new organizational structure for after the transaction. [..] Moreover, this also resulted in a really constructive atmosphere and the sharing of all potential challenges that the combined firm would face.” (Consultant)</td>
<td>• Easy decision making process as it was based on the facts • Approval of European Competition Authorities</td>
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<td>Jumper – Rocket</td>
<td>“We sat together with the consultant and the European Commissioner and discussed how to get the transaction acceptable according to antitrust legislation. The commissioner eventually agreed, based on their [the consultant’s] report that the market was a lot bigger than it actually was. I have the feeling that the consultant’s number crunching and reputation had a large effect in persuading her.” (Board member Water)</td>
<td>• Focus on asking specific plans from the advisor • Easy negotiations resulted in no resistance of Rocket’s shareholders</td>
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Chapter 5: Unpacking Acquisition Behavior

<table>
<thead>
<tr>
<th>Case</th>
<th>Interaction</th>
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<tr>
<td>Nick –</td>
<td>“In one of the first meetings, our bank advisor very thoroughly explained that by acquiring Adida, we’d become a real global player and possibly market leader. They explained that it was a great opportunity to leave some of our competitors behind, but we had to do the deal fast, because competitors could also fund the deal. [...] Moreover, their estimations showed that we’d fit perfectly, would create significant synergies and be approved by antitrust authorities. While their estimations only showed growth in the future, we knew that that was not possible. Still the CEO and the chairman of the supervisory board believed it and followed his advice.” (Supervisory board member Nick)</td>
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<td>Adida</td>
<td>“I feel that one of the reasons why our bank advisor came up with the proposition of being acquired by Nick was that they had funding available, and I mean a lot of funding. [...] This is why our bankers first focused on them.” (CEO Adida)</td>
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<td>“In the meeting that we as board had to approve the deal, the bank advisor we hired really pushed us, saying that there was a risk of competition and that we should pay 50 pence a share more. [...] While other members and I didn’t agree, the chairmen and CEO were already convinced that it was necessary to pay more. [...] Thinking back we should have asked them not for the price that we had to pay, but for a good valuation of Adida.” (Supervisory board member Nick)</td>
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<td>Resulted in:</td>
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<td>• Because most responsibility was left to an acquisition team that consisted of the CEO and the Chairman of the supervisory board, and strategy director, the bank advisor was able to influence their eagerness</td>
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<td>• The lack of involvement of other board members possibly resulted in information asymmetries. While the strategy director thought they had enough knowledge, they just lacked knowledge in asking the right questions</td>
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<td>• Eventually, a higher price was paid than necessary and the decision to pursue the acquisition was made fast, which is the basis of the haircut of €2.5 billion</td>
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<tr>
<td>Bosox –</td>
<td>“At a certain moment I saw that several of the board members of Bosox were struggling to vote in favor of the transaction as due diligence had not been finished and they were not entirely certain of the strategic rationale and price. Eventually I walked into their office saying, ’you guys got to do this deal, this is such a great opportunity for your company as a whole, and the shareholders you represent. The financial ratios are all in favor and I’ll help you find funding...’ After this, they discussed it within their board and decided to do the deal.” (Bank advisor Bosox)</td>
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<tr>
<td>Yankee</td>
<td>“The high pressure following the leak resulted in lack of looking into the challenges we saw and less extensive due diligence. This resulted in us overpaying and negotiating a deal because we wanted one, not negotiating a price because it was worth that amount.” (Former board member Bosox)</td>
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<tr>
<td></td>
<td>Resulted in:</td>
</tr>
<tr>
<td></td>
<td>• The high pressure resulted in doing the deal quickly, this resulted in a lack of due diligence and less information about potential challenges and synergies, which may have led to overpayment and value destruction</td>
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<td></td>
<td>• As the CEOs and strategy director were already persuaded to do the deal, the advisors focused on persuading the chairman of the supervisory board. This took time but, worked out.</td>
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### Case Interaction

**Thunder – Lightning**

“I have been his legal advisor for a very long time and we have discussed many different options before. [...] While I knew that he (Lightning’s CEO) did not want to be acquired, they just offered him what he wanted, staying stand alone as a business unit and pursuing his strategy. Consequently, we had to start discussions as the offer was too good to be put aside.”

(Legal advisor Lightning)

“The moment I knew they had a toehold in us, implied that we would combine at a certain moment, still we looked at many options, white knights, selling our most important parts, and also discussed this with our major clients. [...] I also made the mistake of asking a financial advisor to help us stay stand alone. They did not like that. [...] Two months later I found out that they [our financial advisor] had tried to contact Thunder to make a deal, I’ll never work with them again.” (CEO Lightning)

“In a previous acquisition process I hadn’t delegated all my responsibilities, but the intensity and constant interaction with advisors taught me that I personally slacked and underperformed. Consequently I decided to delegate all my responsibilities to the other board members during the negotiations and preparation of the deal. At first I thought this worked out fine, the longer the negotiations took, the more I noticed that important decisions were not made and other board members were slacking. They needed someone to ask how things were working out and check whether they had done what they had promised to do. This resulted in less growth and unhappy customers.” (CEO Lightning).

Resulted in:
- Thunder overestimated synergies and overpaid. Consequently, they were not able to create all revenue synergies because the CEO of Lightning had talked down on them. Moreover, this resulted in unrest under employees
- Suspended animation was the result of less oversight by Lightning’s CEO, resulting in slacking behavior by other board members
- Bank advisors tried to persuade Lightning’s CEO to do the deal. When this did not happen, they went to Lightning to discuss a potential deal.
- The focus on revenue synergies resulted in gaps in the knowledge about Lightning. The CEO of Thunder, however, did not mind.

**Blue – Orange**

“We were contacted by two investment bankers with the idea of acquiring Orange, as they had information that Orange was in discussions with one of our competitors. [...] Because it was a competitor and, I also think because our CEO had been long friends with our bank advisors, they were able to persuade him in considering and pursuing Orange.” (Board member Blue)

“I still don’t get why they really wanted to acquire us. They did not have access to all our financial information, yet their legal and bank advisor just showed them the different scenario’s.” (Board member Orange).

“Our CEO just really wanted to acquire Orange, he told us time and time again, ‘look at the financials and the potential cost synergies, it is just great.’ I think we should have been contentious, as my impression is that this directly came from our advisor. [...] Thinking about the organizational and cultural fit, this was mostly missing and still we did the deal.” (Former board member Blue).

Resulted in:
- The opportunity of acquiring a competitor and the financials the advisor presented resulted in eagerness of Blue’s CEO and management.
- Because Blue’s bank advisor was too focused on the opportunities and forgot the threats, Blue overpaid.
Several of the acquisitions in our sample started with informal discussions between the CEOs or key decision makers at the acquiring and target firms, at a kitchen table, the VIP lounge of a football stadium or during a sailing trip. We see that bank advisors often play a central role in this, as they have knowledge about the needs and wants of their potential clients. This is why they often focus on presenting how large their network is, how well they know the market, and how they can act as a broker to create new opportunities. This was the case for Yankee and Bosox, where the primary bank advisor of Yankee heard rumors that Bosox’ CEO was interested in acquiring Yankee. Consequently, the advisors contacted the CEO of Yankee and asked whether they could be of service. In response, the CEO told them “I can’t do anything with rumors,” and indicated that he wanted a meeting with Bosox’ CEO, which the advisors arranged at the latter’s home. Bank advisors prepared both CEOs for the meeting which eased the decision-making process. The meeting started with the CEO of Bosox explaining the rationale behind an acquisition of Yankee, and the potential of the combined organizations to become a leading global service firm. Moreover, the CEOs conducted some initial negotiations on price and discussed the board structure after the acquisition, which also implied the stepping down of Yankee’s CEO. Although they decided to delegate a large part of the management of the acquisition process to the bank advisors and less senior staff, the CEOs also decided to stay in direct contact when things would not go as planned. See the following quote of the CEO of Yankee, “I gave him my phone number and told him that if things would go wrong or get tense, he should call me directly.” Although the bank advisors were not in the room when the decision to combine was made, they were able to get the two CEOs to sit down together at an early stage of the acquisition process. Eventually, they were able to persuade both CEOs of the rationale behind the acquisition, by providing them with information on potential value drivers, synergies, and growth opportunities.

In multiple occasions, however, bank advisors were able to mind-boggle their clients and push them into doing a transaction. They earned fees, sometimes based on the size of a transaction. Although advisors play an important role in the negotiation process, acting as gatekeepers of information, they also have the incentive for a transaction to succeed. Hence it may be wise to keep them at bay while negotiating. Combined with the fact that it may be difficult for top management to resist the urge of wanting to go fast, this may result in considerable overpayment of a target company and a loss of corporate value.

We see that advising parties strategically position themselves if they think that companies may become future targets, but they are not the primary advisor of the target.
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Blue’s eventual legal advisor noticed that consolidation was taking place within the financial service industry and saw that his firm would not be a potential advisor for Orange. Therefore, they declined all requests for business that involved people or clients related to Orange. However, he did invest in building a knowledge basis regarding legal issues that would benefit the firm if Orange were to come in play. When Blue was eventually considering an offer for Orange and was looking for a legal advisor that was objective, experienced, informed, had local knowledge, and would have the chance of winning the bidding process. Eventually, they ended up hiring the legal advisor in question. Yet, it is questionable whether the objective of Blue’s advisors was mostly focused on them doing an acquisition, or on serving and helping their client with the acquisition itself.

Risk of competition may further stimulate precipitate decision-making. This was the case in the acquisition of Adida by Nick, whose bank advisor was very explicit on the valuation of Adida: “you should pay 700 pence per share, otherwise a competing bid will come in.” Several supervisory board members disagreed: “The feeling was that we’d also get it for 650 pence a share. We knew who our competitors were, and that they wouldn’t be able to finance the deal, as we had the money on our bank account. Moreover, we did not ask them for the price we should pay per share, we asked them for what Adida’s value was.” Nevertheless, the idea that other competitors would try and buy Adida and the argument that paying more would result in a faster finalization of the acquisition persuaded the CEO and the chairman of the supervisory board of Nick to issue a higher bid. Although several board members disagreed, bank advisors were able to make the actual decision makers (the CEO and the chairman) more eager to do a transaction, mentioning the risk of not acquiring Adida when issuing a lower bid and emphasizing the importance of speed as competitors could step in. Eventually, Nick had to realize more synergies to earn back the investment back, where more internal discussion would have been less costly and would have saved shareholders and other stakeholders money. Summarizing, the interaction between advisors and decision makers at acquiring and acquired parties can result in eagerness of doing an acquisition. See the following proposition:

**Proposition 1:** The interaction between advisors and decision makers influences their deal-driven orientation, something which is further reinforced by firm level, contextual, and personal factors.
5.5.2 Information asymmetry

Incongruities between general agreement and implicit expectations of each party, and other information asymmetries can result in expectational ambiguity, possibly impeding acquisition outcomes (Jemison & Sitkin, 1986: 157, 158). More specifically, information asymmetries, such as differences in knowledge about a target's potential and risks, can result in the decision to pursue the wrong targets. Similar to firm level, contextual, and personal factors’ impact on a decision maker’s deal-driven orientation, these factors may also result in the ignorance of important facts by particular decision makers and the preservation of information asymmetries among stakeholders. While decision makers at acquiring firms are keen on getting a better understanding about a target’s perspectives on future earnings and innovativeness, their decisions are often based on uncertain estimations and too optimistic about future earnings and opportunities. Our cases (e.g., Bosox acquiring Yankee and Blue acquiring Orange) indicate that it is often difficult to get a grasp of future sales or investment returns, since a lot of information could only be accessed after the acquisition took place. Moreover, time constraints and external pressures often speed up the preacquisition process, making it difficult for acquirers to perform extensive due diligence and unveil key information about potential caveats and value drivers.

Advisors can benefit organizational lack of information, access to certain networks, and create interesting opportunities for acquirers and targets, in three ways. First, although firms are often in touch with important competitors in the field, they generally do not have access to all their boardrooms. Sometimes acquirers hire advisors because of their large networks and connections. Moreover, advisors often have more knowledge about the strategy of some competitors and about potential financial funds available. Nick’s advisor came up with the idea of acquiring Adida as it presided over knowledge that the company was interested in doing a deal. This was also the case for the acquisitions of Yankee by Bosox and Fire by Water, where advisors set up the meetings between decision makers at both firms. Hence, networks of advisors can create opportunities and enhance a decision maker’s eagerness to pursue a transaction. Second, next to finding the right partner, advisors can benefit decision makers by getting access to funding and approval by shareholders for a transaction. If decision makers are certain that they will get approval and funding for an acquisition they are more eager to pursue that transaction. Hence, as we see in our cases, advisors are hired for legitimizing the actions of decision makers by showing shareholders and investors that the price paid is fair, and they point at the opportunities an acquisition creates. Last, advisors help decision makers in overcoming antitrust issues and help them in
getting approval from antitrust agencies.

The personal incentives and reward structures of decision makers and advisors often contrast sharply. Where managers are rewarded for an organization’s performance, advisors frequently benefit most when an acquisition is indeed pursued. Consequently, by providing useful information, advising parties make sure a decision maker pursues a certain target, sometimes for a high price, something we saw at the acquisition of Adida by Nick. In turn, advisors can overwhelm management with their experience and knowledge, which may dwell decision-making while there is no clear idea of the potential or risk of a transaction (Pablo et al., 1996). By presenting the information gathered during due diligence in a specific way, investment bankers and legal advisors can create enthusiasm under decision makers, that makes them pursue a certain target. Orange’s legal advisor admitted that he sometimes really suffers with the client, “when things do not go as planned, I try to suffer with the client, so that they get the feeling that they are not alone in this case.” Yet, he also tries to help his client in getting more support from the board for a transaction: “Sometimes I do a little ‘inception’ and help the CEO in persuading the members of the supervisory board, through presenting the case in such a way that the client will make the decision to go forward with the deal, by mostly discussing the potential cost synergies, strategic rationale, and not focusing too much on the potential red flags or legal issues.”

Although we observe that bank advisors are predominantly hired for their experience with acquisitions, advising parties appear to be especially successful in pointing decision makers’ attention towards the opportunities that an acquisition offers. This can blur the ideas of decision makers and lead to the ignorance of important information. For example, a strong dependence on external advisors may result in the putting aside of internal reports that point out that antitrust approval is not possible for certain (parts of) a target, or other potential caveats. Likewise, the interaction provides advisors with a good idea about the personal incentives of decision makers. Consecutively, advisors can use this information as leverage and only provide the information that will make decision makers more enthusiastic because of personal objectives, while, these may not be in line with the firm’s interests. Our cases demonstrate that advising parties can be very helpful during an acquisition process, but that it is also wise to remain contentious when dealing with them (Russo & Perrini, 2006). When decision makers are more eager to pursue a transaction than what’s warranted by the facts, red flags are sometimes ignored and acquisitions are pursued. We propose the following relationship:
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**Proposition 2:** Advisors – sometimes purposefully – create information asymmetries that stimulate a decision maker’s deal-driven orientation, something which is further reinforced by firm level, contextual, and personal factors.

5.5.3 Acquisition behavior performance

Stakeholders’ deal-driven orientation speeds up the acquisition process, which results in sloppy, hasty, non-deliberate, and ill-prepared preacquisition processes, standing at the basis of value destruction. The desire to carry out a transaction on the part of both bank advisors and legal advisors affects a manager’s deal-driven orientation. Yet, it may be wise to take their advice with a pinch of salt. Often, the initiative to acquire or be acquired is taken by bank advisors, seeking partners for companies that are for sale. This, however, does not imply that the acquisition also creates value for others than the advisors themselves. Moreover, contextual factors may lead to a short and ineffective due diligence process which may result in a loss of focus and limited value creation after the acquisition. More specifically, a lack of focus on the possible challenges and detrimental effects of the acquisition may result in weak and not well-thought out integration plans.

While firms often hire advisors based on their own lack of experience with guiding the preacquisition process, these can overwhelm CEOs and managers with their experience and eagerness to do a transaction. In turn, this enhances a decision maker’s deal-driven orientation, but it may also result in managers finding it difficult to delegate tasks to legal and bank advisors, or senior staff, which can lead to ineffective due diligence, poor integration planning and eventually negative organizational performance. Overall, high deal-driven orientation may cause the blindsiding of decision makers who do not take care of other investment decisions or important issues within their organization. Eventually, this may result in suspended animation because important decisions are not made (Hitt, Ireland & Hoskisson, 2009a). Management can be too preoccupied with solving issues that do not relate to the acquisition, leading to bad decisions, taken under high distress, and the destruction of organizational value. This suggests that high stakeholder deal-driven orientation can have detrimental effects on value creation.

Looking back, senior management of Blue and Orange both had mixed feelings about the decision to carry out the acquisition. One senior manager at Orange admitted: “*We expected that they had a rationale for buying us, however, the day they acquired us, felt like they just started thinking, hey we got them, but what are we actually going to do with them?*” While strategically there was a good fit, Blue had no well thought through integration plan
and several red flags were ignored. For example, a lack of due diligence and limited discussions about the rationale and possible value drivers of the deal had resulted in overpayment. Furthermore, while staff at Blue was busy trying to manage the acquisition process, they forgot to manage their own firm. Inside Blue, significant mistakes were made during the preacquisition process and important decisions were not made (in time), which resulted in considerable internal uncertainty, eventually leading to severe value destruction and the loss of billions of Euros.

To maximize potential synergies, organizations are recommended to start integration planning well before the actual implementation process starts, conforming to the idea that delayed planning may be the main reason as to why so many mergers and acquisitions underperform (Ansoff, Avner, Brandenburg, Portner & Radosevich, 1970; Schuler & Jackson, 2001). Existing literature suggests that advising parties play a pivotal role during different preacquisition processes, using their experience and knowledge to diminish information asymmetries among stakeholders. Our cases show that acquirers who set the gathered information to use and that work on an integration plan during the preacquisition process, or specifically ask advising parties to make one, gain higher returns.

Acquirers whom do not have an integration plan or do not ask their bank advisor to think through the best way to integrate two firms benefit less or even lose value. Jumper, for example, asked its bank advisor to make a financial integration plan that could be used to persuade investors to provide additional capital. This paid off in terms of the realized synergies when integrating Rocket. Water did the same when a consultant advised the firm to acquire Fire. If the consultant saw potential, they should also make a plan on how to integrate the two companies and create value. Nick had a specific corporate development unit which already had some ideas about the potential synergies that acquiring Adida would bring. By performing extensive due diligence and using the information the advising parties brought in on Adida, they were able to clearly delineate specific value drivers and come up with an integration plan. Unfortunately, the interaction resulted in overestimation of future earnings and overpayment, resulting in a haircut of €2.5 billion four years after the acquisition.

We see that advisors play an important role in setting mobilizing and mitigating actions in motion so as to realize synergies and create serendipitous value (Graebner, 2004). Advisors can, for example, foster discussions among staff, which has been noted to result in more value creation (Graebner, 2004; Mizruchi & Stearns, 2001). Furthermore, they also help their clients to legitimize an acquisition by showing that their estimations and calculations result in value creation and a fair deal with benefits for all shareholders. In the acquisition of
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Fire, Water hired a consultant with the assignment to make it look like a merger of equals: “We started with setting up a new combined organization, top down, along with the right people and thinking where the combined entities would fit in. Eventually, we used our model to also show that the price paid was fair and that the transaction looked like a merger of equals, though eventually there is one CEO after the acquisition.”

Managers are prone to listen to the advice of bank advisors, legal advisors, and consultants. We see that advisors are able to stay a step ahead of their clients by continuously searching for more market knowledge and information about target firms. Moreover, with their ideas, experience, network, and legitimacy, advisors are capable of overwhelming, dazzling, and mind-boggling decision makers of acquiring and target firms, by, focusing their attention on the potential of a transaction. Advisors may thereby blur a decision maker’s view of potential synergies and the financial consequences of a transaction by primarily emphasizing rational as well as irrational arguments to persuade managers to perform a transaction (cf. Roll, 1986). Important information that can withhold decision makers from pursuing a deal is sometimes purposefully ignored and information asymmetries among target and acquirer are preserved by advisors so as to enhance the chance of getting the deal done. Hence, this points out that acquisition behavior has the highest chance of occurring when advisors are able to stimulate a decision maker’s deal-driven orientation and keep them in the shadow about potential caveats by creating and preserving information asymmetries. More specifically, when an acquisition is pursued that is the result of this interaction, the chance of creating value is minimal. Likewise, the opposite is true when the interaction between advisors and decision makers is governed well, increasing the chance of value creation following acquisitions. See the following proposition:

Proposition 3: Acquisition behavior that is the result of (a) deal-driven orientation and (b) information asymmetries increases the destruction of value through acquisitions.

5.6 Discussion: Value Destruction Through Acquisitions

This study adds to existing literature on value creation and destruction following acquisitions (e.g., Graebner, 2004; Jemison & Sitkin, 1986; King et al., 2004; Zollo & Meier, 2008). Our results provide insights into how the interaction between advisors and decision makers may influence acquisition behavior. More specifically, advisors use arguments based on firm level, contextual, and personal factors to stimulate a decision maker’s deal-driven orientation, i.e. their desire to acquire, while preserving their ignorance and even promoting
information asymmetries, possibly hampering the creation and simultaneously fuelling the destruction of value through acquisitions. Through looking into the interaction between all stakeholders involved in acquisition processes, we are able to explain why some transactions take place at all, despite making little sense to the outside world and therefore at the cost of corporate value. Our cases indicate that advising parties play an important role in gaining and presenting knowledge about other firms to decision makers. Moreover, they appear to be important actors in guiding decision makers through the preacquisition process. While firms often hire advisors because of their own lack of experience with guiding the preacquisition process, advisors can also overwhelm CEOs and managers with their knowledge and experience, which may have negative effects on their decisions and – eventually – the outcomes of an acquisition. Uncertainty, ambiguity (Jemison & Sitkin, 1986), and related impediments such as ignorance and the prevalence of biases, for example, partly exist by the grace of not looking actively enough into information asymmetries between acquirer and targets. Although advisors are dedicated an important role in tackling these problems, agency conflicts may incite them to follow their own agenda (Eisenhardt, 1989a), preserve decision makers’ deal-driven orientation, and maintain or even promote information asymmetries among partnering firms.

Overall, our results indicate that managers may find it difficult to delegate tasks and responsibilities to legal and bank advisors, and even senior staff, due to the highly interactive preacquisition process. In turn, this can result in ineffective due diligence, poor planning, suspended animation, loss of value and eventually negative organizational performance. However, our findings offer several solutions for improving value creation following acquisitions. More synergies are realized when bank advisors are asked to come up with a (financial) integration plan. Furthermore, we add to Graebner (2004) and Coleman and Lunnan (2011) by showing how synergies are realized and serendipitous value is created when consultants are hired at earlier stages, as this tends to benefit integration planning.

In general, our unique data set allows us to shed light on the question why some acquisitions destroy value, while others create value. Prior literature has pointed out that managerial, organizational, and deal specific characteristics in different forms may present impediments to value creation following acquisitions (Angwin, 2004; Graebner, 2004, 2009; Hitt, Harrison, Ireland & Best, 1998; Jemison & Sitkin, 1986; Laamanen, 2007; Sirower, 1997). We observe that these factors – sometimes in combination – already play out during the preacquisition process. Corresponding to prior work, for example, several of our cases show that a lack of integration planning can lead up to the failure of acquisitions (Ashkenagas,
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DeMonaco & Francis, 1998). Moreover, as existing literature suggests, the role of external advisors can be biased; our data support the idea that it is unlikely that potential acquirers’ advisors begin their work with the hope of learning that a target firm is unworthy of being acquired by their clients (Garbuio et al., 2011). This may result in possible agency problems (Eisenhardt, 1989a). Since advising parties have a significant impact on a manager’s deal-driven orientation and the decision-making process at large, it is important to manage them well and keep them at bay. An important gap in the acquisition literature, therefore, exists of our limited understanding of the interaction that results in acquisition behavior. Our study addresses this gap, identifying several factors that stand at the basis of value destroying acquisitions. Our cases point at the interrelation between a decision maker’s deal-driven orientation, information asymmetries, and acquisition behavior by organizations, resulting in acquisitions that can have detrimental effects on an organization’s performance and future.

Our findings also point at three clear managerial implications. First, contrary to what is claimed in existing literature (Graebner, 2009; Sharma, 1997), our findings show that the advice of bank and legal advisors is in some cases not very helpful or should even be ignored. Hence, it is important that decision makers make sure that their advisor’s incentives are in line with theirs. Where the advisor mostly benefits from doing acquisitions for a high as possible price, decision makers are more interested in an organization’s future. Thus, being clear and relating the reward structure to one another may prevent agency conflicts. Second, discussions between advisors and decision makers may improve the quality of acquisitions because of the thought and interaction processes that they provoke with and between decision makers (Mizruchi & Stearns, 2001). Hence, advising parties can be very useful in solving problems during acquisition processes, taking work out of the hands of clients, finding funding, interesting investors for a deal, and getting the acquisition approved by antitrust authorities. More specifically, advising parties can bring guidance by writing up an integration plan, as not having one is still the largest cause for acquisition failure (Ashkenas et al., 1998). By asking very specific plans on the integration of the combining firms, management can use advising parties to create more value. Last, our study points out that supervisory boards and shareholders should keep their eyes open when their managers or CEOs appear highly interested in doing acquisitions. This can be done by setting up clear boundaries to the investment capacity and risks their managers can take. Moreover, more focus on the personal incentives of CEOs in relation to their actions can be another way to prevent ‘sudden’ acquisition from happening. While we see that it is sometimes beneficial to pursue interesting opportunities, it is vital that they are done with clear thought and planning.
5.7 Conclusion

M&As involve highly interactive and stressful processes that can result in value creation as well as value destruction for firms (Sharma, 1997; Sirower, 1997). Based on a dataset of six in-depth case studies, we show how firm level, contextual, and personal factors influence an organization’s acquisition behavior. By unpacking this process we show that the interaction between advisors and decision makers stimulates the latter’s deal-driven orientation, while also preserving information asymmetries among them. In turn, this may have detrimental effects on the value that is being created following acquisitions. Building on these results, we offer three avenues to future acquisition research. First, we expose the dual role of advisors, showing how they simultaneously generate and escalate momentum, resulting in the – sometimes validated, sometimes unwarranted – pursuit of acquisitions by the decision makers relying on these advisors. Second, our results suggest that it is necessary to further disaggregate the role of advisors and specifically look at the effect of investment bankers, legal advisors, and consultants. Finally, our study presents an initial step in gaining a better understanding of the preacquisition process itself, offering promising opportunities for future research into the prevalence and performance of acquisitions.