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MAKING ACQUISITIONS

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Abstract

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This thesis examines acquisition-making, that is, activities and events leading up to the completion or cancellation of an acquisition. Acquisition-making involves people, from various areas of expertise, who are managed by and organized in what in this thesis is called a professional acquisition organization (PAO). The PAO is a small task force consisting of people from the acquirer and advisers assigned to make the acquisition. In addition to the PAO, decision-makers are obviously involved. However, the thesis especially examines the PAO's activities. The setting is serial acquirers in which the PAO is managed by a special group of people appointed for this task.

Acquisition-making is examined through a literature review of qualitative process research in M&A and three explorative case studies. These encompass a study of the role of the PAO in acquisition decision-making; a study of how strategic and financial rationales are produced; and a study of the role of management control systems in secret organizations such as PAOs.

The findings of these studies contribute to our knowledge about how acquisitions are made in three ways. First, the findings show how the PAO plays a critical role in acquisition decision-making, emanating from a division of labor between the PAO and decision-makers. This enables the PAO to enhance or attenuate the perceived benefits of an acquisition when informing decision-makers. The respective purposes would be to receive approval for the acquisition, or to show improved performance after it is made. Second, the findings show how the key reasons for making an acquisition, through the strategic and financial rationales, are made by judgments based on intuitive expertise. Thus, the study provides an explanation for and understanding of how concepts such as cash flows are used in evaluating acquisitions. This implies that the expertise of the practitioners producing the strategic and financial rationales is of utmost importance for acquisition decisions, probably more so than the tools used. Third, the findings show that management control systems are important for how confidential information is concealed and made visible in acquisition-making, revealing different categories of secrets to different insiders and outsiders throughout acquisition-making.

Keywords: acquisition-making, acquisition organization, capital investment, decision, decision-making, intuitive expertise, management control systems, merger and acquisition, secrecy

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*Jag säger inte att livet är gott
hellre ville jag säga att det är ont
men jag säger inte det heller.*

*Jag önskar mig bara tre verktyg:
vinkelhaken, saxen, knivbladet*

*så att jag kan mäta upp och skära till
det som går att mäta
och det som går att skära till.*

*Det andra får natten mäta
och de varelser som kommer fram den tiden
på dygnet.*

Lennart Sjögren

Dedicated to my lovely family
Sarah, Saskia, Harald and Henry

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Stockholm, April 2018

Michael Grant

List of Papers

This thesis is based on the following papers, which are referred to in the text by their Roman numerals.

- I Grant, M., Frimanson, L. and Nilsson, F. Mergers and acquisitions as multitude of processes: A review of qualitative research. In Risberg, A., King, D.R. and Meglio, O., eds. *The Routledge Companion to Mergers and Acquisitions*. New York, NY: Routledge. pp. 287–306.
- II Grant, M. (2018). The role of the professional acquisition organization in acquisition decision-making. An earlier version of this paper was presented at the European Group for Organizational Studies in Rotterdam, July 3–5, 2014; at the Nordic Academy of Management Research in Copenhagen, August 12–15, 2015; and at a paper development workshop arranged by Hanken School of Economics and Aalto University in Helsinki, September 4–5, 2014.
- III Grant, M. and Nilsson, F. (2018). The production of strategic and financial rationales in capital investments: Judgments based on intuitive expertise. An earlier version of this paper was presented at the Nordic Workshop XXI in Management Control, Uppsala University, Campus Gotland, January 26-27, 2017; at the Internal Research Conference at the Department of Business Studies at Uppsala University, March 23-24, 2017; and at Researching Management Accounting and Control: Reflections on its Impact and Implications for the Future, University of Groningen, June 8-9 June, 2017.
- IV Frimanson, L. and Grant, M. (2018). Management control in secret organizations: A multiple case study of professional acquisition organizations. An earlier version of this paper was presented at the Stockholm-Uppsala Accounting Workshop, Stockholm School of Economics, Stockholm, May 16, 2017; and at the Nordic Management Accounting Workshop, Stockholm School of Economics, Stockholm, February 1–2, 2018.

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Prologue

My first job was in financing and risk management of large infrastructure projects at ABB. This was after graduating with a master's in engineering and a master's in business administration. I continued with an international career and eventually as head of mergers and acquisitions at TeliaSonera. In 2010 I moved to academia after having worked with mergers and acquisitions for 25 years. Since then I have been a PhD student at Uppsala University. It has been a privilege to explore my previous field of work from different perspectives and to examine various phenomena in depth. Above all, the meeting with, and entry into, the academic world has been challenging and highly rewarding.

After embarking on my PhD journey, I found, to my delight, that the process of making acquisitions was largely unexplored. Thus, this is the focus of my thesis, and I hope that you as readers will find acquisition-making and my perspectives and discoveries as interesting as I have.

1. Introduction

The aim of this thesis is to further our understanding of how acquisitions are made. To this aim, I investigate activities of those people whose task it is to make acquisitions and the events that precede and lead to the completion of an acquisition.

The thesis applies a process perspective (Van de Ven and Poole, 2005; Langley et al., 2013) focusing on activities and events leading up to the completion of an acquisition, which I name acquisition-making.¹ I use this term to emphasize that acquisition-making evolves over time, and involves sub-processes, leading to completion or cancellation of an acquisition. Focus is the period from when the acquirer and seller have established contact and until the acquisition has been legally completed, or cancelled. This means that the thesis does not study areas such as antecedents of acquisitions or integration.

Acquisition-making involves people with many areas of expertise managed by and organized in what this thesis calls a professional acquisition organization (PAO). This is a small task force consisting of people from the acquirer and advisers assigned to make the acquisition. In addition to the PAO, decision-makers are obviously involved. However, the thesis especially examines the PAO's activities. The setting is serial acquirers in which the PAO is managed by a special group of people appointed for this task (Dionne, 1988; Cullinan, Rovit and Tymms, 2003; Nolop, 2007; Chatterjee, 2009; Trichterborn, Knyphausen-Aufseß and Schweizer, 2016). Furthermore, these companies have structures and processes for acquisition work (Haspeslagh and Jemison, 1991; Chatterjee, 2009; Trichterborn, Knyphausen-Aufseß and Schweizer, 2016).

In 2017, more than 50,000 global acquisitions² with a total value of €3.2 trillion were announced (Thomson Reuters, 2018), illustrating the widespread economic importance of the phenomenon. At the corporate level, acquisitions are highly strategic decisions. For example, they are means for firms to roll-up competitors in geographically fragmented industries (Zollo and Singh, 2004), to extend into new markets or products (Bower, 2001),

¹ Completion of an acquisition is described from a legal perspective as the closing of the transaction, meaning that the sale and purchase of the target company has been completed.

² The term acquisition is used interchangeably with the term mergers and acquisition (M&A) unless otherwise specified. See Appendix A for a discussion of the terms.

and to gain technological capabilities (Ranft and Lord, 2002). Furthermore, acquisitions constitute a large portion of companies' capital investments (Netter, Stegemoller and Wintoki, 2011; Mauboussin, Callahan and Majd, 2016). As an example, during the period 1991 to 2015, the top 1,500 companies in the US spent in total almost twice as much on acquisitions as on capital expenditure (Mauboussin, Callahan and Majd, 2016). As shown in Figure 1, companies' spending on acquisitions has been sizable throughout the last 25 years, even though it was accentuated during the two recent merger waves in the 1990s to 2001 and in the 2000s to 2008, and in the current wave starting in the middle of this decade (Kolev, Haleblian and McNamara, 2012).

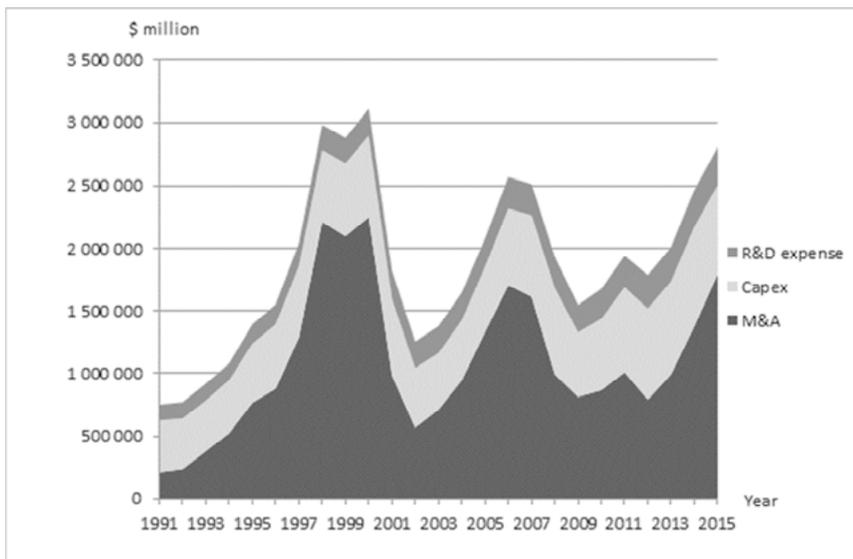


Figure 1. Spending on capital investments during the period 1991 to 2015 of the 1,500 top US companies, amounts in million 2015 US dollars (Mauboussin, Callahan and Majd, 2016).

In spite of the frequency and size of the acquisition phenomenon, it is evident from numerous studies that many acquisitions yield negative returns.³ Therefore, not surprisingly, much acquisition research has been on trying to understand what factors influence the financial and other outcomes of acquisitions (Haleblian et al., 2009; Faulkner, Teerikangas and Joseph, 2012; Gomes et al., 2013). In spite of this, researchers have difficulty in explaining why acquisitions succeed or fail. Some reasons suggested are: lack of knowledge about relationships between the numerous factors

³ However, it is important to stress that measuring the financial return on acquisitions is complex. See Appendix B for a discussion on financial performance of M&As.

influencing outcomes (Gomes et al., 2013), a deficit in our understanding of how different factors influence outcomes (Haleblian et al., 2009), and too little research across strategic, financial, and organizational disciplines (Javidan et al., 2004; Cartwright and Schoenberg, 2006; Faulkner, Teerikangas and Joseph, 2012).

In contrast to research with its primary focus on acquisition outcomes and in particular financial performance, another way of inquiring the acquisition phenomenon has been suggested. This aims to understand what takes place inside acquisitions and not to search for ultimate determinants of acquisition performance. This line of research argues for the use of qualitative process studies to better understand the phenomenon (Meglio and Risberg, 2010; Cartwright et al., 2012; Graebner et al., 2017). The inquiry thus adopts a process view, and examines “how and why things emerge, develop, grow or terminate over time” (Langley et al., 2013, p.1) in acquisitions, for example, to understand what takes place in post-merger integration processes (Graebner et al., 2017) or what takes place in pre-merger processes such as acquisition-making.

Following this line of inquiry, this thesis argues that if we want to further our understanding of acquisition processes we need to increase our knowledge about how acquisitions are made: for example, what roles people involved in the acquisition have, how they are organized, and how activities and events lead up to the completion of an acquisition. Present process research in acquisitions has centered on what takes place during integration in the organizations of the acquirer and target (Meglio and Risberg, 2010; Graebner et al., 2017). However, early research identified acquisition-making as critical for the outcome of acquisitions (Jemison and Sitkin, 1986a; 1986b; Haspeslagh and Jemison, 1991). It is therefore surprising that our knowledge within this area is still highly limited (Javidan et al., 2004; Meglio and Risberg, 2010; Cartwright et al., 2012; Teerikangas, Joseph and Faulkner, 2012).⁴ This paucity of knowledge restricts our empirical and theoretical understanding of how acquisitions are made. Consequently, it is the aim of this thesis to address this knowledge gap through four studies.

I A literature review of qualitative process research in M&A.

II A study of the role of the PAO in acquisition decision-making.

⁴ This lack of knowledge is supported by a broad review of M&A research that has been going on during my work with the thesis. This includes the review undertaken in the first study in this thesis, the literature review “Mergers and acquisitions as multitude of processes: A review of qualitative research.” (Grant, Frimanson and Nilsson, 2016). Furthermore, the review includes books providing state of the affairs of M&A research, a large amount of articles on M&A, Swedish theses on M&A, and also work presented at seminars at the Department and at conferences such as the European Group for Organizational Studies (EGOS) or the Nordic Academy of Management Research (NFF).

- III A study of how strategic and financial rationales are produced.
- IV A study of the role of management control systems in secret organizations such as PAOs.

In the following two chapters the background to these studies and the respective research questions are described. Chapter 2 presents an overview of current knowledge relating to the studies, whereas chapter 3 provides a detailed background to the research questions.

2. An overview of acquisition-making

Acquisition-making involves activities and events that are closely related to firms' strategic development (Jemison and Sitkin, 1986a; 1986b; Haspeslagh and Jemison, 1991; Chatterjee, 2009). These activities and events need to be carried out in secrecy (Haspeslagh and Jemison, 1991; Very and Schweiger, 2001), involving decision-makers and a group of other people, in this thesis called the PAO (Chatterjee, 2009; Trichterborn, Knyphausen-Aufseß and Schweizer, 2016).

Hence, in particular these aspects are presented in the following. The first section describes what we know from process studies of acquisition-making. The next section presents an overview of the strategic nature of acquisition-making. The subsequent two sections address our knowledge about decision-makers and PAOs. The chapter ends with a section on secrecy, which is an important condition of acquisition-making.

2.1 Knowledge from process studies of acquisition-making

There are few process studies of acquisition-making, i.e. studies examining how activities and events unfold and the people involved. Fine-grained studies are even scarcer. Consequently, we have little insight into how acquisition-making is actually done. Even though some recent studies have brought knowledge, most of them use acquisitions as a context to study other phenomena and do not train their focal point on activities leading to the completion or abortion of an acquisition.

The seminal studies by Jemison and Sitkin (1986a; 1986b), and Haspeslagh and Jemison (1991) brought the process perspective into acquisition research, even though earlier studies like Mace and Montgomery Jr (1962) also had a process perspective on acquisitions. The process view argues that the key to acquisition success are “understanding and managing the *processes* by which acquisition decisions are made and by which they are integrated” (Haspeslagh and Jemison, 1991, p.3). These works by Jemison and Sitkin (1986a; 1986b) and Haspeslagh and Jemison (1991) brought important knowledge to our understanding of acquisition-making. In contrast to the rational choice model, they show that acquisition-making is a dynamic

evolving process involving, and influenced by, people in different functions and at different levels in the organization. Furthermore, they argue that acquisition outcomes are affected by the quality of how acquisitions are justified in the organization of the acquirer, ultimately described in the decision dossier used by decision-makers. These documents include descriptions of how the acquisition contributes to the firm's strategy, the specification of synergies and how these should be realized, and the financial assessment. Consequently, the strategic and financial reasons for the acquisition should pay due consideration to organizational conditions for making and integrating the acquisition.

Furthermore, Jemison and Sitkin (1986a; 1986b) introduced fragmentation and increasing momentum as impediments to making a proper assessment of acquisitions. Based on interviews with managers, investment bankers and consultants involved in acquisitions, and research in psychology and sociology, they published a theoretical article (Jemison and Sitkin, 1986a), and an empirical, practice-orientated article (Jemison and Sitkin, 1986b). Both of these articles suggested problems in acquisition-making caused by fragmentation and escalating momentum. In Haspeslagh and Jemison (1991) these impediments were put forward once again. Thus, Haspeslagh and Jemison (1991) and Jemison and Sitkin (1986a; 1986b) argue that the need for many technical specialists in acquisition-making leads to fragmentation and an emphasis on quantifications of financial estimates instead of broader strategic and organizational considerations. Increasing momentum means that forces accelerating a transaction are stronger than those that can slow it down. Mechanisms leading to this include increased personal commitment, secrecy, and the use of external advisers.⁵

Since these pioneering works, there are few process studies of acquisition-making. Some examples are: Graebner and Eisenhardt (2004), Graebner (2009), Vaara and Monin (2010), Floris, Grant and Cutcher (2013), and Lander and Kooning (2013). However, most of these studies do not focus on how acquisition-making takes place, but rather use the acquisition context to examine other phenomena. For example, Graebner (2009) and Lander and Kooning (2013) explore how trust and distrust evolve during acquisition-making. Floris, Grant and Cutcher (2013) examine discursive practices of strategizing in the context of a proposed merger. Graebner and Eisenhardt (2004) examine the seller's perspective and why sellers sell their businesses. Vaara and Monin (2010) use a discursive

⁵ This is built on research by Staw and Ross that suggests that several psychological and sociological mechanisms contribute to escalating commitment in investments (e.g. Staw, 1981; Staw and Ross, 1987). For a recent overview of escalating commitment, see Meyer (2014).

perspective to investigate the process of legitimation and de-legitimation and organizational action during a merger.

In summary, in spite of the contributions by Jemison and Sitkin (1986a; 1986b) and Haspeslagh and Jemison (1991) and later process studies, the task to examine acquisition-making in a fine-grained manner remains undone. For example, we know that decision-makers and other people are involved in acquisition-making, but we have little insight into how acquisition work is organized and what decision-makers and other people actually do in acquisition-making.

2.2 The strategic nature of acquisition-making

Acquisitions are strategic and influence firms' long-term direction: for example, acquiring high technology companies to gain new technologies and capabilities (Ranft and Lord, 2002; Graebner, 2004), acquiring biotechnology companies to gain new products and capabilities (Schweizer, 2005), or entering new geographic markets to exploit a firm's resources (Meyer, 2006). For serial acquirers, which often use an acquisition program consisting of a string of acquisitions, the strategic importance of acquisitions is arguably even higher and embedded in the strategy of the acquirer (Schipper and Thompson, 1983; Laamanen and Keil, 2008; Chatterjee, 2009).

The strategic nature of acquisitions received attention from strategy scholars early on (e.g. Salter and Weinhold, 1979; Lubatkin, 1983). A common perspective used by strategy scholars is the resource-based view of the firm (Penrose, 1959; Wernerfeldt, 1984; Barney, 1991). An acquisition is in this perspective viewed as a bundle of resources, having the potential to add value through similarities and complementarities between the two firms (Larsson and Finkelstein, 1999; Wang and Zajac, 2007; Kim and Finkelstein, 2009; Bauer and Matzler, 2014). Similarities are about adding similar operations and complementarities are about adding different, but complementary operations (Larsson and Finkelstein, 1999). Based on empirical studies, the so-called synergy hypothesis (Bradley, Desai and Kim, 1983; 1988; Seth, 1990; Seth, Song and Pettit, 2002) suggests that the increase in value from acquisitions corresponds to the value of the similarities and complementarities. In summary, research on similarities and complementarities has focused on the value of these and how they affect acquisition performance. However, how individual firms assess similarities and complementarities, and the value of these, has not been examined.

2.3 Decision-makers

Studies of decision-makers in acquisitions typically use cross-sectional designs to examine how executives, such as the CEO or board members, affect acquisition decisions and acquisition outcomes.⁶ These studies do not, in general, examine the decision-makers' activities or how they evolve and affect the acquisition. However, these studies suggest that behavioral traits by executives, like hubris or overconfidence, can explain poor acquisition outcomes. Other researchers point to information-processing problems encountered by decision-makers.

Several studies try to explain poor acquisition outcomes with behavioral traits of the decision-makers, typically the CEO (e.g. Roll, 1986; Haunschild, Davis-Blake and Fichman, 1994; Hayward and Hambrick, 1997; Malmendier and Tate, 2005; 2008). Based on financial studies and knowledge from psychological research, Roll (1986) introduced the hubris hypothesis. He suggested that hubris by individual decision-makers could explain poor acquisition outcomes. Hayward and Hambrick (1997) supported the hubris hypothesis in an empirical study. This showed that indicators of CEO's hubris have a positive correlation with high acquisition premiums paid, and negative share price reactions of the acquirer. Subsequently Malmendier and Tate (2005; 2008) have shown that overconfident CEOs overestimate their ability to generate returns on acquisitions and therefore overpay for their targets.

Other researchers have suggested problems in information processing by decision-makers as acquisition decision-making involve a huge number of variables and amounts of data (Duhaime and Schwenk, 1985; Jemison and Sitkin 1986a; 1986b; Haspeslagh and Jemison, 1991). Duhaime and Schwenk (1985) suggest that, due to the large amount of data, decision-makers have to use heuristics, which can lead to biases. Fragmentation (Jemison and Sitkin, 1986a; 1986b; Haspeslagh and Jemison, 1991) also concerns problems with information processing, in the sense that decision-makers lose their overview of different analyses of an acquisition. This results in a fragmented picture with a focus on financial analyses and too little regard to how the acquisition fits strategically, or how it should be integrated (Jemison and Sitkin, 1986a; 1986b; Haspeslagh and Jemison, 1991).

Taken together, these studies show that behavioral traits of decision-makers influence acquisition decision-making and acquisition outcomes. This particularly concerns large acquisitions, as these studies, typically, are event studies measuring the share price reaction following the announcement of an acquisition. Consequently, smaller acquisitions are not part of these

⁶ There is a large literature studying how executives affect firms and their performance (for overviews see Hambrick, 2007, and Finkelstein, Hambrick and Cannella, 2009). Part of this literature studies acquisition outcomes.

samples, as their effect on the share prices cannot be easily measured (Netter, Stegemoller and Wintoki, 2011). These studies also suggest that information processing in acquisitions is a problem for decision-makers. The reason is that acquisition decision-making processes are highly dense when it comes to information collection and analyses. To summarize, even though these studies show that personality traits of decision-makers and their information-processing abilities can affect acquisition decision-making, we have limited insight into the activities of decision-makers and what they and other people, such as those belonging to the PAO, actually do during acquisition decision-making.

2.4 The professional acquisition organization (the PAO)

Making acquisitions involves decision-makers and a group of other people, i.e. the PAO. This can be seen as a special task force or organization for making acquisitions. M&A research informs us that, in serial acquirers, the PAO is led by an acquisition manager and other people from a special M&A function. Furthermore, the work of the PAO involves a large number of tasks including detailed technical analyses in several areas. These tasks need to be performed, typically, in an auction process with competitors (Hansen, 2001; Boone and Mulherin, 2007; 2009), and in secrecy (Haspeslagh and Jemison, 1991; Saorin-Iborra, 2008). This places high demands on the PAO and requires that the PAO be augmented with additional people, including many specialists from the acquirer and outside advisers.

In serial acquirers, the PAO is led by people from an M&A function (Dionne, 1988; Haspeslagh and Jemison, 1991; Cullinan, Rovit and Tymms, 2003; Nolop, 2007; Chatterjee, 2009; Trichterborn, Knyphausen-Aufseß and Schweizer, 2016).⁷ This is a special function with people employed to manage and provide professionalism and experience to acquisition-making (Haspeslagh and Jemison, 1991; Trichterborn, Knyphausen-Aufseß and Schweizer, 2016). Consequently, acquisition managers assure the general quality of the acquisition-making process, provide a generalist perspective, and bring in and manage specialists in different areas (Haspeslagh and Jemison, 1991). As integration is a critical part of acquisitions, the individual who is responsible for the integration is also, typically, part of the PAO (Jemison and Sitkin, 1986a; 1986b; Dionne, 1988; Haspeslagh and Jemison, 1991; Ashkenas, DeMonaco and Francis, 1998; Cullinan, Rovit and Tymms, 2003; Nolop, 2007; Teerikangas, Very and Pisano, 2011).

⁷ This seems to be the case also in some companies with low acquisition frequencies. Trichterborn, Knyphausen-Aufseß and Schweizer (2016) suggest that even companies making only 2-3 acquisitions in total over several years also can have a special M&A function.

Acquisition work involves tasks such as negotiations, strategic and financial analysis, due diligence, and integration planning. To perform these tasks a broad and deep range of competences are required, with several typical of acquisition-making (Jemison and Sitkin, 1986a; 1986b; Haspeslagh and Jemison, 1991; Very and Schweiger, 2001). Examples are: assessment of synergies and how to integrate the acquired business (Haspeslagh and Jemison, 1991), due diligence (Angwin, 2001), anti-trust and other regulatory issues (Wood, 2001; Lu, 2010), deal structure including structuring of payment and tax issues (Joseph and Ryan, 2012), and negotiations (Saorin-Iborra, 2007; Parola and Ellis, 2013). Typically, firms do not have all these competences in-house and therefore in addition use external advisers including lawyers, financial advisers, and auditors (Jemison and Sitkin, 1986a; 1986b; Haspeslagh and Jemison, 1991; Angwin, 2001; Very and Schweiger, 2001).

Taken together this suggests that the PAO, with all its specialists, has a prominent role in acquisition-making. However, even though research provides valuable knowledge of aspects of the PAO and what it does, we have little insight into what role the PAO plays in acquisition-making.

2.5 Secrecy

Processes of making acquisitions are characterized by secrecy and limited access to information about the target. Secrecy has been mentioned as a pre-requisite for acquisitions in the sense that there is a need to keep secret that a possible acquisition is going on and to keep information secret during the acquisition (Mace and Montgomery Jr, 1962; Hunt, 1990; Haspeslagh and Jemison, 1991; Pablo, Sitkin and Jemison, 1996; Very and Schweiger, 2001; Harwood, 2006). The concern is that if the process is not kept secret there is a risk that the acquisition process might be derailed. This is heightened during negotiations, as leaks can cause external and internal interferences (Saorin-Iborra, 2008). At the same time, secrecy allows important analyses and decisions to be made prior to the announcement and alleviates the risk of negative reactions from employees' in the acquirer and target company, thereby easing pressure to finalize negotiations (Parola and Ellis, 2013).

Consequently, an important task in acquisitions is to manage secrecy (Very and Schweiger, 2001). For instance, the acquirer often requires its employees involved in the acquisition to sign an internal confidentiality agreement (Harwood, 2006). Furthermore, due to the need for secrecy, the number of people involved in acquisition projects is limited.⁸ From the seller's side, controlling information about the target and a possible

⁸ Limiting the number of participants is one method used to manage secrecy, as it minimizes the risk of leakage (Steele, 1989).

transaction is critical, so sellers also require that potential acquirers sign a confidentiality agreement. Another way that sellers control information is to provide acquirers access only to limited and selected information about the target, throughout the sales process (Hansen, 2001; Boone and Mulherin, 2007). One reason is that sales processes often are auction-like, involving several bidders. Another is that information about the target, such as technologies and customers, is often proprietary and something that the seller and target are reluctant to share because of the risk that the actual acquisition may not be realized (Haspeslagh and Jemison, 1991). A consequence is that acquirers have limited information about the target throughout the sales process. The processing of information by the acquirer is also limited, as the number of people involved is restricted. For example, this prevents involving a broad range of people with operational knowledge (Haspeslagh and Jemison, 1991). Although secrecy is described as being paramount for acquisition-making, we lack knowledge about how it affects the process and how secrecy is managed during acquisition-making.

3. Introducing the research questions

This chapter introduces the research questions and provides a background to them. The description is at an aggregate level, whereas the more detailed scholarly conversation is displayed in each paper. The thesis consists of four studies, each with its research question. The first study, a literature review, concerns the question of what we can learn about the acquisition phenomenon from qualitative process studies in acquisitions. Subsequently, based on this literature review and other acquisition research, three empirical research questions are identified. The first concerns the role of the PAO in acquisition decision-making. The second delves more deeply into acquisition-making by examining how two main groups of reasons for making an acquisition, namely, strategic and financial rationales, are produced.⁹ The third question examines the role of management control systems in secret organizations such as the PAO. In the following a more detailed background to these four questions is provided.

3.1 The literature review

The aim of this thesis is to further our understanding of how acquisitions are made. However, understanding acquisition processes is complex. Each M&A process can be seen as unique in terms of organizational, cultural, and social dimensions (Meglio and Risberg, 2010). Many stakeholders are involved. This influences acquisitions in complex ways (Anderson, Havila and Nilsson, 2013). For example, M&As involve stakeholders such as top and middle managers and employees, customers and suppliers, shareholders, government and regulatory bodies. These stakeholders often have different objectives and influence acquisition processes in different ways (Anderson, Havila and Nilsson, 2013). Researchers also argue that the M&A phenomenon is complex to understand and examine because of its multi-level, multi-stage, and multi-disciplinary character. This is in contrast to

⁹ Acquisition literature (Jemison and Sitkin, 1986a; 1986b; Haspeslagh and Jemison, 1991) and capital investment research (Carr and Tomkins, 1996; 1998; Shank, 1996; Slagmulder, 1997; Abdel-Kader and Dugdale, 1998; Alkaraan and Northcott, 2006; Carr, Kolehmainen and Mitchell, 2010) show that firms use two groups of reasons, i.e. strategic and financial, when making an acquisition or other strategic investment. In this thesis these groups of reasons are called strategic and financial rationales.

most acquisition studies, which have a cross-sectional design and are single-level, single-stage, and single-disciplinary (Javidan et al., 2004; Meglio and Risberg, 2010; Cartwright et al., 2012).

Consequently, M&A scholars have argued for the use of qualitative process studies (Javidan et al., 2004; Meglio and Risberg, 2010; Cartwright et al., 2012). They suggest that qualitative process studies are better suited than cross-sectional studies (which dominate M&A research), to further our understanding of the phenomenon and why M&As succeed or fail.

Ever since Jemison and Sitkin (1986a; 1986b) and Haspeslagh and Jemison (1991) introduced the process perspective, few process studies have been undertaken, and it is primarily during the last two decades that studies of this type have started to emerge. However, there is no systematic examination of what these studies teach us about M&A processes, and specifically about acquisition-making processes. Thus, the first research question examines this by asking: *What do these papers research empirically about M&A processes?*

3.2 The role of the PAO

The literature review shows that acquisition-process studies focus on integration and in particular how integration processes affects and are affected by people at different levels of the organizational hierarchy. This contrasts to the typical managerial perspective prevailing in M&A (Meglio and Risberg, 2010) and acquisition decision-making studies in particular (e.g. Roll, 1986; Hayward and Hambrick, 1997; Malmendier and Tate 2005; 2008). Several papers in the literature review give evidence of politics, on the part of individuals at lower levels of the organizational hierarchy, in integration decision-making (e.g. Empson, 2001; Vaara, 2003; Yu, Engleman and Van de Ven, 2005), suggesting that this could occur also in acquisition-making. In particular, one study found in the literature review, Vaara and Monin (2010), shows how individuals working with the making of acquisitions have an important role in decision-making. This paper describes how top management created a strategic idea for a merger. However, when individuals at lower organizational levels assessed potential synergies, they could not find any. This resulted in the break-up of the merger. In summary the literature review suggests that not only decision-makers have crucial roles in acquisition decision-making, but also the PAO.

Other acquisition research strengthens and adds to this suggestion. It informs us that the work of the PAO involves a myriad of activities requiring people, from both the acquirer and advisers, with a broad range of expertise (Jemison and Sitkin, 1986a; 1986b; Haspeslagh and Jemison, 1991; Angwin, 2001; Very and Schweiger, 2001). Furthermore, the acquisition process is competitive (Hansen, 2001; Boone and Mulherin, 2007; 2009) and needs to

be managed in secrecy (Harwood, 2006; Saorin-Iborra, 2008). It is therefore challenging to collect and analyze information about the target and its future integration into the acquirer (Haspeslagh and Jemison, 1991; Teerikangas, Very and Pisano, 2011). Thus, it is not surprising that research suggests that the acquisition process itself, with all its events, activities and participants, may distort acquisition decision-making (Jemison and Sitkin, 1986a; 1986b; Haspeslagh and Jemison, 1999). This suggests that the PAO with all its experts has an important role in acquisition decision-making. However, we have limited insight into the work of the PAO, for example how they work within the process, and the division of labor between the PAO and decision-makers. Consequently, the second research question examines this by asking: *What is the role of the PAO in acquisition decision-making?*

3.3 The production of strategic and financial rationales

The literature review describes acquisitions as strategic means for firms' long-term development. For example, the review provides examples of how individual acquisitions (Graebner and Eisenhardt, 2004; Schweizer, 2005) and several acquisitions (Meyer, 2006; Jones and Miskell, 2007), sometimes over decades, shape the development of firms. Consequently, studies describe strategic fit and synergies as important reasons in acquisition decision-making. Two of the papers describe how lack of synergies led to a break-up of planned mergers (Meyer and Altenborg, 2008; Vaara and Monin, 2010). Graebner and Eisenhardt (2004) examined the sellers' perspective and found that synergies between the target and the acquirer are also important for the sellers' decision-making. A possible explanation is that sellers seek acquirers that provide major synergies, as those can pay a high price. Thus, in summary the literature review shows that strategic fit and synergies are important for acquisition decision-making. However, it does not provide any insights into how strategic fit and synergies are produced 'inside' the organization of the acquirer.

Interestingly, a similar picture prevails in other acquisition research, capital investment and strategy research. These literatures all emphasize the importance of strategic and financial reasons in decision-making. Still, how and by whom these are produced is not examined. Other acquisition research shows that strategic fit and synergies and the economic value of these are critical in acquisition decision-making (Jemison and Sitkin, 1986a; 1986b; Haspeslagh and Jemison, 1991).¹⁰ Haspeslagh and Jemison's seminal study (1991), which is a rare example of a study examining the decision

¹⁰ This is notwithstanding the post-merger integration, as this should be considered when assessing synergies and their value (Haspeslagh and Jemison, 1991; see also Barkema and Schijven, 2008).

documents used by decision-makers, suggests that the quality of the rationales used by decision-makers to justify acquisitions, such as strategic fit, synergy, and its financial value, is critical for successful acquisition decision-making. They describe that these rationales are produced by “many people, in different functions, and at different levels” (Haspeslagh and Jemison, 1991, p.41); however, they do not provide details of how and by whom these rationales are produced.

This lack of knowledge is also present in capital investment research that focuses on investment evaluation. This research shows that firms use two groups of reasons for evaluating investments (Carr and Tomkins 1996; 1998; Abdel-Kader and Dugdale, 1998; Alkaraan and Northcott, 2006; Carr, Kolehmainen and Mitchell, 2010): strategic and financial rationales. In this literature a primary focus is what financial rationales firms use. It shows that they use less sophisticated models and higher hurdle rates than theory prescribes. This contrasts with normative investment literature (Brealey et al., 2012; Koller, Goedhart and Wessels, 2015), which suggests techniques and models for calculating the value creation of investments based on theories of asset pricing. Within capital investment literature, too, there is limited knowledge about how and by whom financial rationales are produced.

Turning to strategy research, a similar picture emerges. This research examines strategic and financial rationales in the sense of how synergies, in the form of similarities and complementarities between two firms, affect acquisition performance (Larsson and Finkelstein, 1999; Wang and Zajac, 2007; Kim and Finkelstein, 2009; Bauer and Matzler, 2014). Further, it suggests that value creation in acquisitions corresponds to the value of the synergies (Bradley, Desai and Kim, 1983; 1988; Seth, 1990; Seth, Song and Pettit, 2002). Yet, how individual firms assess and value synergies is missing in this body of research.

To summarize, the literature review and these three research streams all reveal a lack of knowledge regarding the people and processes behind strategic and financial rationales. Thus, the third research question is: *How are strategic and financial rationales produced?*

3.4 The role of management control systems in secret organizations such as PAOs

To our surprise we only found one study of secrecy in acquisition processes in our literature review. Harwood (2006) explores confidentiality of organizational information in M&A integration and illustrates the findings with a bubble metaphor. Inside the bubble are confidential information and the people who possess it; outside the bubble are outsiders from whom the

information is concealed. The context of Harwood's paper is working groups developing integration scenarios. These scenarios are the confidential information inside the bubble and are characterized as extremely sensitive if disclosed internally to other employees or externally to investors, competitors, suppliers, or customers. Internal confidentiality agreements were described as the primary means for keeping information confidential. In summary, this points to the question of what bubbles we can find in acquisition-making and what information and people they encompass as it evolves.

Other research describes secrecy as an important context and a pre-requisite for acquisition-making (Mace and Montgomery Jr, 1962; Hunt, 1990; Haspeslagh and Jemison, 1991; Pablo, Sitkin and Jemison, 1996; Very and Schweiger, 2001; Harwood, 2006; Saorin-Iborra, 2008). This literature primarily points out the need to keep secret that a possible acquisition is going on and to keep the information secret during the process. However, research studying how firms are sold suggests a more complex pattern of secrecy (Hansen, 2001; Boone and Mulherin, 2007). For example, this literature shows that most acquisitions are sold in auction processes, in which the acquirer submits several bids during different stages of the auction. Subsequently, negotiations and information in bids are highly sensitive, as leakage to possible competitors could have severe consequences (Saorin-Iborra, 2008). Furthermore, the acquirer is required to sign a confidentiality agreement with the seller, committing to keep information received from the seller confidential (Hansen, 2001). This highlights the importance of managing secrecy in acquisition-making and puts the focus on the question of how this is done. The third research question examines this by using a management control perspective. As in the previous research questions the PAO is in focus, this time viewed as a secret organization, i.e. an organization in which its members intentionally conceal activities and information to its members (Simmel, 1906; Costas and Grey, 2014).¹¹ This leads to the fourth and last research question: *What is the role of management control systems in secret organizations such as PAOs?*

¹¹ A secret organization is thus defined by its internal character and is recognized by outsiders. A well-known example of a secret organization is the Central Intelligence Agency in the US.

4. Methods

This chapter describes methods used in addressing the aim and research questions. A more detailed account is provided in each paper. The chapter starts with a section on the literature review. Thereafter follow discussions on the empirical studies, with sections on the general research design, data sources, analysis, and validity and reliability. The chapter ends with a discussion of my pre-understanding as a researcher.

4.1 The literature review

The purpose of the literature review was to understand what qualitative process studies teach us empirically about M&A processes. The chosen method was a systematic literature review (Jesson, Matheson and Lacey, 2011). This meant that we had a clearly stated purpose and a defined search approach, with inclusion and exclusion criteria. In the following I will discuss what this meant for the analysis, especially the main choices it entailed in terms of data and data sources. Furthermore, the 2001–2010 study period will be discussed.

Journals were selected as the source for the study. These can be considered as representing current knowledge in the field. On the other hand, sources such as dissertations and conference papers could be considered more up to date. However, a systematic review of these would for example involve the difficulty of searching for and finding them. There are also peer-reviewed edited books and monographs. However, a search for these found that few edited M&A books had been published during the study period.

We selected journals, in the two highest categories, 4 and 4*, from the list published by the Association of Business Schools (ABS) in 2010. This list covers the fields of business and management and is well recognized. The ranking is based on peer review, statistical information relating to citations, and editorial judgments. Consequently, 94 journals were included in the search covering 20 out of 22 fields on the ABS list.¹² Lower-ranked journals were not included, which could be seen as a deficiency, as these could

¹² The fields of Business ethics and governance, and Management development and education were excluded as they lacked 4 and 4* journals.

include new knowledge not published in the higher-ranked journals.¹³ However, the selected 94 journals arguably have the highest academic standard. Moreover, the breadth of the scope, covering 20 fields, should ensure that a wealth of perspectives and theories would be included in the review.

The period 2001 to 2010 was chosen at the start of the review with the aim to provide current knowledge. Hence, studies before or after this period were not included. Arguably knowledge from the period before 2001 is incorporated in later studies. Furthermore, other review and methodological articles suggest that most qualitative process studies were made more recently (Meglio and Risberg, 2010; Cartwright et al., 2012). Even though the study does not cover the latest qualitative studies, we argue in the review that it does not change the overall analysis.¹⁴

The analysis encompassed elements such as research question, research design including method of collecting data, theoretical perspective, and main findings. For the synthesis and search for empirical process patterns, an inductive analysis was made. This was an iterative process going back and forth between the articles and discussions among the authors. A reason for this inductive approach was the variety that the studies evinced in terms of, for example, research question, theoretical perspective, and findings.

4.2 Research design

In this section I discuss the choice of research strategy for the three empirical research questions:

1. What is the role of the PAO in acquisition decision-making?
2. How are strategic and financial rationales produced?
3. What is the role of management control systems in secret organizations such as PAOs?

As showed by the literature review and in the previous chapter, these questions are largely unexplored. For example, we have only limited insight into the work of the PAO and how they work with the making of the acquisition. There is also limited knowledge about the people and processes behind strategic and financial rationales. Moreover, we know little about secrecy and how secrets are managed in acquisition-making.

¹³ An example of this is Scandinavian Journal of Management, which is ranked 2 on the ABS list (2010).

¹⁴ As earlier described, during the work with the thesis I have also continuously followed new research on M&A, especially qualitative process studies.

Generally, acquisitions evolve over several months with competing bidders, in which information about the target is received and offers are made to the sellers in several stages (Hansen, 2001; Boone and Mulherin, 2007). Accordingly, the research questions are related to processes of making acquisitions. Thus, to answer the questions we need to examine how activities and events evolve during the making of an acquisition. This can be described as having a processual design (Meglio and Risberg, 2010; Langley et al., 2013).

Hence, case studies were chosen as the research strategy. These are especially suited when the enquiry “investigates a contemporary phenomenon in depth and within its real-life context” (Yin, 2009, p.18).¹⁵ Or as Eisenhardt (1989, pp. 548–549) describes it, case studies are “particularly well-suited to new research areas.” Arguably the research questions require an in-depth investigation into their real-life context, namely, acquisition-making. Furthermore, the research questions concern research topics and a process perspective, which has been little examined in research about how acquisitions are made (Javidan et al., 2004; Meglio and Risberg, 2010; Cartwright et al., 2012).

The thesis comprises three case studies based on data from two companies, which are named Alpha and Beta. Thus, by case study I refer to the theoretical unit of analysis and not the empirical unit (Ragin, 1992; Piekkari, Welch and Paavilainen, 2009; Yin, 2009). The first study is a single-case study of the role of the PAO in acquisition decision-making processes, in the empirical unit Alpha. The second study is a single-case study of the production of strategic and financial rationales in an acquisition, in the empirical unit Alpha. The third study is a multiple-case study of the role of management control systems in secret organizations such as PAOs, in the empirical units Alpha and Beta.

I selected large successful international serial acquirers that were highly skilled in acquisition-making and that operated with PAOs. This setting offered several advantages. Serial acquirers with PAOs have extensive experience in acquiring companies over a long period of time and have dedicated acquisition professionals as well as developed structures for managing acquisition processes (Dionne, 1988; Ashkenas, DeMonaco and Francis, 1998; Laamanen and Keil, 2008; Chatterjee, 2009; Trichterborn, Knyphausen-Aufseß and Schweizer, 2016). This contrasts with acquirers who make few acquisitions. They do not typically have people from within their own organization who specialize in acquisition-making, nor do they have routines and dedicated organizational units for the managing of

¹⁵ Yin does not explain what he means by real-life context. However, this could be seen as a distinction separating case studies from other methods such as experiments and surveys, which in contrast to case studies do not capture the context in which phenomenon takes place. This can, perhaps, be related to Yin’s background in psychology, in which experiments with highly controlled contexts are frequently used.

acquisition processes. Furthermore, successful acquirers highly skilled in making acquisitions can be expected to be in the forefront, providing valuable insights from theoretical and practical perspectives (e.g. Kaplan, 1986; 2011).

Based on discussions with M&A advisers and my knowledge of the Nordic business and M&A community, two companies that met the above criteria were selected and contacted. Alpha and Beta are manufacturers that have each acquired several companies per year for more than a decade. Access to these companies was facilitated by my experience of working in a globally operating acquisition organization and my contacts within the M&A community.

For pragmatic reasons I selected and contacted two companies. A reason was that I did not know beforehand what information I would get access to. During the data collection phase, Alpha turned out to be the richer case in terms of information. I therefore used data from Alpha for the first and second empirical studies. However, the data from Beta supported, and did not contradict, the findings from Alpha.

For the third research question, which concerns secrecy, a multiple-case study was used. The two cases, of the role of management control systems in secret organizations such as PAOs, in Alpha and in Beta, respectively, could be seen as polar types (Eisenhardt, 1989) as they are different, particularly in terms of acquisition strategy, and PAO characteristics. The acquisition strategy of Alpha is to make complementary acquisitions, whereas Beta's strategy is to consolidate its industry. Consequently, acquisitions and secrecy could be considered more important for the strategy of Beta compared to Alpha. Furthermore, Beta had acquisition managers that were employed full-time, whereas Alpha had acquisition managers that worked part-time. This could influence how secrecy was managed and controlled.

The studies can be described as inductive (Eisenhardt, 1989; Eisenhardt and Graebner, 2007) going back and forth between data and theory, with the purpose of building theory. Others might rather describe the process as being abductive (Dubois and Gadde, 2002; 2014). However, it was in essence an iterative process between data and findings, existing knowledge, and research questions. But it was also about being able to relate this in academic papers, something which can be seen as storytelling emphasizing semiotic awareness (Patriotta, 2017). During my work on the thesis, draft papers and findings were presented at seminars like the European Group of Organization Studies and Nordic Academy of Management Research and internal seminars within the Department of Business studies at Uppsala University. Feedback received in these seminars and from colleagues provided important input for the development of the papers included in the dissertation.

The papers have different levels of analysis (Yin, 2009). In the first study, on organizational decision-making, the level of analysis is centered at the

level of the PAO and decision-makers. In the second study, the analysis is focused at the individual level, because the construct intuitive expertise resides in individual members of the PAO. In the third study, on management control of secrecy, the level of analysis is at the PAO.

4.3 Data sources

Data were collected through interviews with representatives from Alpha and Beta and from documents. Furthermore, interviews were held with representatives from an investment company and two M&A experts. The nature and sources of data are described in each paper. Therefore, in this section I reflect more generally on interviews and documents as sources of data.

4.3.1 Interviews

In total, 22 interviews with 14 respondents were conducted at Alpha and Beta. Interviews lasted 30 to 150 minutes, with an average of approximately 80 minutes, resulting in more than 400 pages of transcribed text (see Table 1). In addition, four interviews were held, at an early stage of the data collection, with representatives from an investment company (see Table 2).¹⁶ This type of company could be seen as a serial acquirer with excellent skills in acquisition-making (Trichterborn, Knyphausen-Aufseß and Schweizer, 2016). These interviews provided me with insights and ideas for my studies. For example, the way the work was organized in the investment company and the division of labor between decision-makers and PAOs was similar to what I observed in my initial examination of Alpha.

Furthermore, in two post-study interviews I asked two M&A experts (a lawyer and an investment banker) to comment on my findings regarding the role of the PAO in acquisition decision-making. The purpose of these interviews was to provide further validation of the findings (see Elsbach and Kramer, 2003, p.89). The lawyer had been general counsel and secretary of the board in a large international firm for 14 years and had attended more than 200 board meetings during this period. As secretary of the board he read and edited the documents presented to the board. The investment banker had more than 25 years of experience from working in first-tier investment banks. He currently holds the position as managing director in a leading so-called boutique adviser (Song, Wei and Zhou, 2013). The experts

¹⁶ These interviews were made with people in a third company, which I originally had included in my study. However, as the study proceeded, I realized that Alpha and Beta provided sufficient data, and, given time constraints, I decided not to proceed with this company.

supported the findings. In a similar manner, one M&A expert, the lawyer, was asked to comment on our findings on control of secrecy. He supported the findings.

Table 1. Interviews with Alpha and Beta

Position in acquisition processes	Position in company	Length of interview (minutes)
Alpha		
Core project team, acquisition manager	Business Development Director, Division	30+83+110+150+110
Core project team	Finance Director, Division	90
Core project team	Manager, Division	60
Core project team, legal manager	General Counsel, Group	140
Acquisition control	Finance Director, Business Area	94
Acquisition control	Business Development Director, Business Area	94+120
Decision-maker	Division Manager	41
Decision-maker	Business Area Manager	45
Decision-maker	CFO, Group	70
Beta		
Core project team, acquisition manager	Business Development Director, Business Area	60+40
Core project team, legal manager	Head of Legal Affairs, Business Area	46+90
Core project team	M&A Manager, Business Area	77
Acquisition control	Director Corporate Finance, Group	71+77
Decision-maker	General Counsel, Group	75

Table 2. Interviews with Investment company and M&A experts

Company	Position in company	Length of interview (minutes)
Interviews with Investment company		
Investment company	CEO and board member in several companies	30
Investment company	COO and board member in several companies	37 (recorded and transcribed)

Investment company	Investment Director and board member in several companies	61 (recorded and transcribed)
Investment company	Investment Manager and board member in two companies	96 (recorded and transcribed)
Interviews with M&A experts		
Investment bank	Managing Director, Responsible Nordic region	approximately 60 minutes
Large international company	General Counsel and secretary of the board, board member in several companies	approximately 30 and 60 minutes

There are several aspects of interviews. For example, how should an interview be interpreted? Obviously, the interview is a social interaction between the interviewer and the interviewee that takes place in a certain situation. Of course, the interviewer needs to be prepared. However, it is also crucial to be responsive and reflect on what interviews mean. An example of this is Alvesson's (2003) reflections on interviews. He provides examples of how interviews can be used by the interviewee. For example, the interview could be based on cultural scripts, which in my setting could mean a story of how an organizational employee should talk about acquisition-making. Another example is impression management, meaning that the interviewee wants to make a good impression in terms of how she or he works with acquisitions. It could also be that they might give an answer without understanding the question or having any knowledge. So how did I go about handling these types of issues? One way was that during the analysis I tried to consider alternative interpretations. Furthermore, during the interview I made an effort to make the interviewee comfortable, and I tried to come off as trustworthy. In a few of the interviews, impression management and cultural scripts seemed to dominate, whereas in several interviews glimpses of impression management, cultural scripts, and other phenomena could be discerned.

The interviews can be described as semi-structured. This means that I had some questions and themes that I wanted to cover. However, I tried not to interrupt, letting the interviewee say what she or he wanted to tell me, also when it was outside my themes or questions. Most interviews were conducted at the premises of the interviewee but, due to geographic location, nine interviews were conducted by phone.¹⁷ Even though there were some

¹⁷ Three of the interviewees in Alpha were located in Switzerland, Canada, and US. In Beta two of the interviewees were located in the south of Sweden, and due to their location and our

differences between the interviews made by phone and those taking place face to face, I did not find the outcome of them to be much different.¹⁸ Another natural reason for this was that the people I interviewed frequently used phone conferences in their daily work, as acquisition projects often involve people in different physical locations.

In terms of data provided by the interviews, Alpha turned out to be the richer case. Compared to Beta, the interviewees showed a greater openness to admitting mistakes and problems with the acquisitions (both at a personal and company level). Examples of mistakes and problems were described by, for example, an acquisition manager, a legal manager, two acquisition controllers, and the finance director of the division. In Beta the descriptions were more restrained. A reason could be that, for example, the corporate finance director and general counsel had less detailed knowledge of what was going on in acquisition-making. This could also be a matter of the company's culture. For example, the lawyer in Alpha described the culture as open, emanating from their sales orientation. If Beta's culture made the interviewees more cautious, it did not affect all interviewees. For instance, the acquisition manager in Beta willingly shared many of the documents and calculations used in acquisition projects. There were also serendipitous circumstances in Alpha. During data collection, Alpha appointed the acquisition manager to the role of managing director of the acquired company, including the responsibility for its integration work following the acquisition. This provided the opportunity to follow the integration and realization of potential synergies.

4.3.2 Documents

Document sources were both internal and external (Scott, 1990). The internal documents encompassed seller and acquirer documents (see Table 3).¹⁹ Seller documents were provided by the seller to the acquirer during the acquisition and included process letters, confidentiality agreements, management presentations, and information memoranda. These are typical documents used by sellers during auction-type processes (Hansen, 2001).

difficulty in finding a time for conducting the interviews, these interviews were conducted by phone.

¹⁸ A difference was that in face-to-face interviews the interviewees sometimes showed documents they referred to in the interview directly on their computer. In the phone interviews documents were sometimes referred to. In those cases, I asked the interviewee to send the document to me. Furthermore, in the physical meetings, on the way to the coffee machine or after the interview had finished, reflections and comments were sometimes made by interviewees that could be of use to the study. Therefore, when possible, I tried to follow up phone interviews with a physical interview.

¹⁹ There were also documents that were shown on the interviewee's computer during interviews, but were not provided as hard copies. Examples of these were target lists and follow-up reports on acquisitions. Furthermore, several decision documents were received from the Investment company.

Acquirer documents were used by interviewees to inform, evaluate, and negotiate project targets, including bid letters, project presentations with investment appraisals, financial models, and bids. Documents describing structures and processes for acquisitions in the firms were also received. Altogether the internal documents consisted of more than 400 pages written in Word and PowerPoint. The financial models were Excel-based and consisted of 18 Excel sheets for Beta and 29 sheets in Alpha. In addition, from Alpha, a standardized master plan for making acquisitions and integrations of targets was received and verbally explained. The plan was detailed and consisted of more than 100 main items (most also had sub-items).

The internal documents were important for the analyses because they showed what information decision-makers received for the formal approvals as the acquisition evolved. An example of the information obtained was documents concerning preliminary offers for approval by the CEO and information for final approval by the board. Based on the documents and the interviews, the evolvment of the information to decision-makers could be tracked. Furthermore, the interviews and financial models provided data that showed when and how the input to the financial models changed during the acquisition process.

The external documents consisted of data from company websites and business publications. For example, the documents provided accounting and operational data on each acquisition the companies had made. The companies also wrote and sent out press releases related to most acquisitions. Furthermore, making acquisitions were described as strategic for both companies. In accordance with this, acquisition activities were frequently mentioned and commented on in the companies' financial reports and investor presentations. Similarly, the business press often reported on acquisitions made by the companies.²⁰ Moreover, for one of the companies there were also theses written that provided information supporting the analysis.²¹

Table 3. Internal documents

Internal documents	Number of documents	Total number of pages
Alpha		
<i>Seller documents</i>		
Process letter	2	8
Management presentation	1	26

²⁰ Often, this was based, uncritically, on information from the companies, as described in paper I, the literature review.

²¹ In order to keep the company anonymous, these theses and what company they study are not disclosed.

Information memorandum	1	80
Non-disclosure agreement	1	4
<i>Acquirer documents</i>		
Bid letter	1	4
Decision documents	2	22
Internal M&A seminars	2	22
Other internal documents	1	46
<i>Sum</i>		212
Integration plan	1	> 100 main activities
Valuation model	1	29 Excel sheets
Beta		
<i>Seller documents</i>		
Management presentation	1	60
Information memorandum	1	71
Letter of Intent	1	4
<i>Acquirer documents</i>		
Bid letter	1	4
Decision documents	3	74
Other internal documents	1	3
<i>Sum</i>		216
Valuation model	1	18 Excel sheets

4.4 Data analysis

Data analysis is described in detail in each paper, and partially in the previous sections. Thus, this section is limited to descriptions of some general characteristics of the data analysis. To provide some background, the section starts with an overview of the research process and data analysis.

4.4.1 Overview of research process and data analysis

The research aim, also initially, centered on understanding how acquisitions are made. Another way of phrasing it was: what is going on here? This was clearly a very broad starting-point, which afforded me and my co-authors many different directions in terms of research questions and literature. This process meant that we were searching for ‘interesting’ findings in the data and moved between the data, findings, literature, research questions, and

write-up of working papers. The process was not linear but rather iterative. For example, in the write-up of a working paper, the research question and the data could be revisited. During the process ideas and working hypothesis were tested with colleagues. The working paper could then be presented at internal seminars within the Department of Business studies at Uppsala University and at conferences such as the European Group for Organizational Studies (EGOS) or the Nordic Academy of Management Research (NFF). Based on comments and questions from these seminars and conferences, the research question, data and findings, and literature were revisited and the working paper was subsequently refined. This process of refinement was done several times for each study. As a consequence, the first working paper eventually ended up in paper II and III.

4.4.2 Data analysis

The detailed data analysis is described in each article. However, much of the data analysis was similar for all studies. Beyond the first iterative way described earlier, case stories were written to understand and organize the data (Yin, 2009). Each case story contained a detailed description of the case following a chronological order, based on data from interview transcripts and documents. This write-up took place as data was collected, enabling answers on outstanding questions in the following interviews.

Subsequently a temporal bracketing strategy (Langley, 1999) was used to divide the data into more manageable parts and to develop a process model. The temporal bracketing strategy meant that the acquisition process was divided into phases for which activities and events could be analyzed. Even though the studies concern different research questions and cases, the analyses ended up with temporal phases that were similar for all studies. An explanation could be that acquisition processes typically are of the auction type, with distinct steps based on indicative and final bids (Hansen, 2001; Boone and Mulherin, 2007; 2009), thus focusing the acquirer's activities and events around these bids.²²

Finally, the data was coded based on emerging empirical themes and ideas, iteratively as new themes and ideas surfaced. These were discussed with co-authors and subsequently developed into categories. Examples of categories were competences, confidentiality, commitment, and decision technologies (tools used during the acquisition process). The categories were described at three levels. For example, the category competences consisted of sub-categories such as accounting, legal, and due diligence, and the sub-

²² Interviewees in Alpha and Beta, and M&A experts described that the use of the auction type of processes for smaller acquisitions has been prevalent during the last two decades, and that in the 1980s and 1990s it was common to acquire a company in a less auction-like process without competition.

category accounting was divided into valuation and purchase price allocation competences. Altogether this resulted in a document of 134 single-spaced pages describing the categories with supporting data in the form of quotes from interviews or documentary data from Alpha and Beta. However, as the separate studies developed and the empirical data and literature were revisited, data was coded in new and additional categories for each paper.

4.5 Quality

Determining quality in qualitative research is ambiguous and difficult. For example, it depends on underlying philosophical assumptions that researchers suggest should affect both criteria and procedures (Easterby-Smith, Golden-Biddle and Locke, 2008; Welch and Piekkari, 2017). For example, Welch and Piekkari (2017) show that what they call qualitative positivism (exemplified by Yin, 1984; and Eisenhardt, 1989) is based on criteria and procedures from a positivistic paradigm. Similarly, Lincoln and Guba (1985) represent the naturalist paradigm, with its criteria and related processes. Welch and Piekkari (2017) adhere to a critical realist view yet without proposing criteria and related processes for good qualitative research using this particular view.²³

Based on Welch and Piekkari (2017) and empirical studies of what criteria and related processes qualitative researchers use (e.g. Easterby-Smith, Golden-Biddle and Locke, 2008; Gibbert and Ruigrok, 2010), certain quality assurance strategies were selected. In the following these are described under the subheadings construct validity, internal validity, reliability, and reflexivity and engagement. The strategies for validity and reliability are based on Welch and Piekkari's (2017) qualitative positivism paradigm and are consequently based on Yin (2009). Even though Yin's strategies are not developed for, or adopted to, explorative and inductive studies, applying these arguably contribute to rigor in the research design. Reflexivity is another criterion often described in management research (Bansal and Corley, 2011; Haynes, 2012; Welch and Piekkari, 2017). Easterby-Smith, Golden-Biddle and Locke (2008, p.423) state that it is important that "researchers get close to the life worlds of those studied" for high quality research (see also Collins, 2004). These criteria will now be discussed in turn, whereas, external validity or generalization is discussed in Section 6.3.

²³ Welch and Piekkari (2017, p.2) describe a critical realist view as: "it recognizes that our attempts of understanding the social reality external to us necessarily remain partial and imperfect. Knowledge is inherently fallibilistic: because we cannot observe the world free from our own and others' preconceptions, we can only improve the quality of our own conclusions by constantly testing them against data, against rival explanations, and against the judgments of colleagues in our own scientific community."

4.5.1 Construct validity

Construct validity is described by Yin (2009, p.40) as “identifying correct operational measures for the concepts being studied.” Are we empirically studying what we want to study? This thesis uses two strategies suggested by Yin (2009) to assure construct validity. These are: use of multiple sources of evidence (providing multiple measures for the same phenomena), and establishing a chain of evidence.

The studies use data triangulation, meaning that observations or data were supported by more than one single source of evidence (Yin, 2009). This was done within and across the different sources of data. This consisted of using data from the transcribed interviews with several respondents, and several documentary sources. For some findings, evidence could be considered as very strong, as it was supported by several interviewees, internal documents, and post-study interviews with M&A experts. An example of this is from the second paper and the finding of how the PAO collects, analyzes, and provides information to decision-makers. For other findings evidence was weaker; for example, there were distortions in information provided to decision-makers. This was primarily supported by interviews with some of the respondents and M&A experts. An explanation could be that providing distorted information to decision-makers (intentionally or unconsciously) is a sensitive issue that interviewees might be reluctant to discuss. However, I had known the M&A experts for some time, so they were more willing to share this type of information more freely with me.

Establishing a chain of evidence concerns the steps between data and findings and the ability to trace these in a “forensic” manner (see Yin, 2009, p.123). Even though the analyses were highly iterative, the research process and its different steps were extensively documented, as further described in the paragraph on reliability. Arguably this helped avoid losing or failing to accord appropriate attention to original data.

4.5.2 Internal validity

Internal validity concerns the confidence with which we can make causal inferences. In a case study we make “an inference every time when an event cannot be directly observed” (Yin, 2009, p.43). In other words, this concerns the data analysis and how it is done.

As described in section 4.4, coding of concepts and themes were made iteratively in each study. Furthermore, the temporal bracketing strategy made it easier to analyze the data. In the analysis work, I tried to look for counter-evidence and alternative explanations. Obviously, an important part in this was discussions with and reviews by my supervisors and other colleagues.

The transcripts and draft analyses were reviewed by peers. For papers II and III, transcripts and draft analyses were, at an early stage and later on,

read and commented on by two other researchers (who were not co-authors). Furthermore, all papers with analysis and data were read and commented on by other researchers during conferences and seminars. These comments and questions provided valuable input to the analysis and reflections on interpretations and alternative explanations for what I had observed in the data. An example of this is from the development of paper III on the production of strategic and financial rationales. In a draft version we presented findings showing ‘What was going on here,’ although without being able to connect the findings with theory, or, described in another way, to answer the broader question of “What is this a case of?” (Langley et al., 2013, p.8). After readings by and discussions with a senior researcher, the idea of searching for literature on intuition was introduced. Subsequently based on intuition literature, it seemed that the intuition construct (Dane and Pratt, 2007) to a large extent matched the data. However, intuition did not completely fit, as it emphasized emotions and speed, which did not match the data. By delving more deeply into foundations of the intuition construct, emanating largely from psychology, we ultimately found the concept of intuitive expertise.

Furthermore, as earlier described, I made post-study interviews with two M&A experts to understand if the findings, in the second and third study, were descriptive of their experiences. The M&A experts validated the findings.

4.5.3 Reliability

Reliability is described by Yin (2009, p.45) as “if a later investigator followed the same procedures as described by an earlier investigator and conducted the same case study all over again, the later investigator should arrive at the same findings and conclusions.” Throughout the thesis work I created case-study protocols and databases (Yin, 2009). For example, the collected data was organized in a database, both physical and electronic. For each study, I kept a chronological record of various themes and analyses. I also kept a record of the different literatures I visited and reviewed. This included several literature reviews that I conducted and documented. I also documented my research process chronologically throughout the thesis work, writing down comments on research questions, status of analysis, feedbacks from meetings, etcetera.

4.5.4 Reflexivity and engagement

During the work with the thesis I have applied reflexivity (Haynes, 2012), in the form of thinking about my experiences and questioning my way of doing research. For example, I have reflected on my own assumptions brought into the research and how I am connected with the work of this thesis (in terms of

both experience and emotions). Furthermore, I have kept a research diary reflecting on thoughts about the research and research process.

I have engaged deeply with the phenomena and data (Easterby-Smith, Golden-Biddle and Locke, 2008; Bansal and Corley, 2011). The engagement with M&A has, as earlier described, a background in my previous work as an M&A professional. Furthermore, I have had extensive contacts with the case companies and interviewees over a long period of time. For example, the first contact and interviews with Alpha took place four years ago, with the last interview made one year ago. Taken together the engagement with the case companies and interviewees and my background has provided me with “proximity to the life worlds of those studied” that is an important criterion for good qualitative research (Easterby-Smith, Golden-Biddle and Locke, 2008, p.423).

4.6 My pre-understanding as a researcher

All researchers have different backgrounds, and an endless number of circumstances and coincidences have shaped us into what we are. This is something we bring with us when we do research, formulate problems, conduct interviews, analyze and interpret data, and write our papers.

Research methods and practices can help us be aware of these influences and avoid ‘unwanted’ subjectivity (hereinafter called biases). At the same time, it can be argued that the background knowledge brought by a researcher is a unique asset, which may dispose her or him to contribute to science in ways not available to others. It is another matter that such personalized contributions should be scrutinized and critically examined. Thus, I regard research as inevitably subjective when it comes to methodological issues and recognize that we as researchers cannot escape ourselves and our subjectivity. This is especially valid in social sciences and the field of business studies (Brunsson, 1982; Starbuck, 2006).

My background as a practitioner in the subject of my research can lead to biases, but also has advantages. Biases may concern, for example, research questions, data collection, and analysis. With respect to research questions, a risk can be a pre-conception of a research question maybe even including an idea of an answer. I am comfortable to have dealt with this, in general by my development as a researcher, and specifically by having research questions well-grounded in the academic field.

In data collection, and especially regarding interviews, there are several ways my background in the M&A field could influence my work. This includes the interviewee holding back or staging answers, given their knowledge about my background. However, this knowledge can also influence the interviewee to open up and provide more details and personal accounts. It can also be that I use questions that are based too much on my

background, seeking a certain answer to confirm my own view. In the interviews I have been conscientious in dealing with this. This is also helped by general interview techniques like asking interviewees to describe what happened during a certain project from the initial idea until closing. Also, in interviews I have tried not to interrupt but rather pause and let interviewees continue their account. My impression is that most of the time they have treated me as a researcher and not an M&A professional. For example, interviewees have repeatedly explained very basic elements of M&A transactions that a person working in the M&A field would know.

Another risk of subjectivity is that I might not pose questions in areas because I already assume I know the answer. My pre-awareness of this and the use of another researcher looking into the questions and part of the interviews have probably limited these types of problems.

Advantages of my background are that it has helped me to gain access to interviewees. For example, one of the interviewees asked one of my former colleagues for an opinion of me before having the interview. Another advantage is that I have managed not to bother the interviewee with too basic questions. In the interviews I tried to create a relaxed atmosphere, something I believe my age and experience contributed to. Being a former M&A professional probably influenced me to be more relaxed in comparison with a person new to the settings, such as the persons involved, meeting rooms, dress codes, language, and terminology.

Furthermore, my background in the field facilitated communication with interviewees “in ways that engage them in sharing what they know, its technical content, and what is going on in the setting” (Langley et al., 2013, p.6). This kind of interview is encouraged for obtaining high-quality process data (Langley et al., 2013) and requires empirical or interactional knowledge (Collins, 2004) about the field of study, especially as acquisition processes involve a variety of specialists (Jemison and Sitkin, 1986a; 1986b; Haspeslagh and Jemison, 1991).

5. Summary of the individual papers

This chapter summarizes the findings from the four papers of this thesis. In the following, each of the papers with their findings and main contributions are presented, introduced by a short recapitulation of why the study was done. Table 4 provides an overview of the respective paper including research problem, main literatures, and data-collection methods.

Table 4. Thesis overview

Paper and research problem	Main literatures	Data collection methods
<p>Paper I. Mergers and acquisitions as multitude of processes – A review of qualitative research</p> <p>What do these papers research empirically about M&A processes?</p>	<ul style="list-style-type: none"> • Qualitative process research 	<ul style="list-style-type: none"> • Systematic literature review
<p>Paper II. The role of the professional acquisition organization in acquisition decision-making</p> <p>What is the role of the PAO in acquisition decision-making?</p>	<ul style="list-style-type: none"> • M&A literature 	<ul style="list-style-type: none"> • Fourteen semi-structured interviews with representatives from Alpha. • Four semi-structured interviews with representatives from an Investment company. • Post-study interviews with two M&A experts. • Documents used by the company to inform, negotiate and evaluate acquisitions. • Other archival data from the company and external sources.

<p>Paper III. The production of strategic and financial rationales in capital investments: Judgments based on intuitive expertise</p> <p>How are strategic and financial rationales produced?</p>	<ul style="list-style-type: none"> • Capital investment • Strategy – resource-based theory and synergy theory • Dual process theories • Expertise 	<ul style="list-style-type: none"> • Fourteen semi-structured interviews with representatives from Alpha. • Documents used by the company to inform, negotiate and evaluate the acquisition. • Other archival data from the company and external sources.
<p>Paper IV. Management control in secret organizations: A multiple case study of professional acquisition organizations</p> <p>What is the role of management control systems in secret organizations such as PAOs?</p>	<ul style="list-style-type: none"> • Sociology of secrecy • Management control 	<ul style="list-style-type: none"> • Fourteen semi-structured interviews with representatives from Alpha and eight semi-structured interviews with representatives from Beta. • A post-study interview with an M&A expert. • Documents used by the company to inform, negotiate and evaluate acquisitions. • Other archival data from the company and external sources.

Paper I: Mergers and acquisitions as multitude of processes: A review of qualitative research.

This paper takes its starting point from the process perspective that was introduced in M&A research by Jemison and Sitkin (1986a; 1986b). Even though M&A research early on had discussed acquisitions as activities and events over time (e.g. Mace and Montgomery, 1962), Jemison and Sitkin (1986a) introduced it theoretically by drawing on research in psychology and sociology. Since then a growing body of qualitative, empirical literature on M&A processes has emerged and been theorized upon. Although this

research has the potential to increase our knowledge of M&A processes, the step of examining and consolidating extant knowledge is absent.

This paper identifies and examines all qualitative process research published during 2002–2010 in 94 top-ranked journals (4 and 4* on the ABS list) across the fields of business studies. Based on analysis of these, a detailed examination of 51 studies is made. The findings reveal a variety of M&A processes relating to the environment, structure, and people. Furthermore, the review shows that there is a lack of studies examining how acquisitions are made.

The findings identify a multitude of M&A processes based on different research traditions (positivistic, interpretive, critical), temporal characteristics, and outcome(s). The paper shows, in a fine-grained manner, how processes in organizational environments shape and are shaped by M&As, how coordination processes inside acquiring and acquired organizations take place, how leader processes highlight difficulties of change and unexpected actions, how employee processes involve power, and politics, and how identity processes problematize identity change. Moreover, the findings show that each study had its own temporal characteristics, even though it could be difficult to determine when they start or end. Examples of this are processes of identity change and emotions (Ford and Harding, 2003; Vaara, Tienari and Säntti, 2003).

Furthermore, the findings show that each process has its unique outcome, even though outcome can be difficult to operationalize and measure. Examples of outcomes are how the transfer of technologies and capabilities is realized (Ranft and Lord, 2002; Bresman, Birkinshaw and Nobel, 2010), or how the choice of language policy affects power (Vaara et al., 2005). The findings also reveal how acquisitions can play an important role for companies' long-term development across decades (Higgins and Toms, 2006; Jones and Miskell, 2007), and hence, to understand this, we need to move our view of acquisitions from the outcome of a single activity to the outcome of several acquisitions as a long-term development (Laamanen and Keil, 2008). An example of a process in which it does not seem meaningful to discuss outcomes is how media (re)construct meaning around issues such as composition of top management and staff reductions, which in its turn affect the merged organizations (Hellgren et al., 2002). In summary, the findings show that outcome(s) is a multifaceted concept and much broader than the typical financial outcomes studied (e.g. Cartwright and Schoenberg, 2006; Haleblan et al., 2009).

In particular, the paper shows that there is a lack of studies concerning processes of how acquisitions are made, i.e. how activities and events lead to an acquisition. The review only identifies three studies (Graebner and Eisenhardt, 2004; Graebner, 2009; Vaara and Monin, 2010), of a total of 51 studies, relating to processes of how acquisitions are made.

Paper II: The role of the professional acquisition organization in acquisition decision-making

This paper investigates the role of the PAO in acquisition decision-making. Previous research has primarily studied acquisition decision-making as typically something the CEO or board of directors does (e.g. Duhaime and Schwenk, 1985; Jemison and Sitkin, 1986a; 1986b; Malmendier and Tate, 2008). Therefore, it might not be surprising that most research has the decision-maker in focus. However, research suggests that the decision-making process is highly complex, because an acquisition involves many different tasks such as negotiations, strategic analyses, financial analyses and valuation, organizational analyses and integration (e.g. Dionne, 1988; Haspeslagh and Jemison, 1991; Angwin, 2001). These tasks need to be carried out, in secrecy, by different experts, during a short time span and in a competitive process. This suggests that people involved in the actual making of the acquisition, namely the PAO, play an important role. However, there is limited knowledge of this organization's role in the decision-making process.

In an inductive case study, the role of the PAO in acquisition decision-making is explored. The setting is a successful serial acquirer. The findings show that the PAO plays a vital role in acquisition decision-making. This emanates from a division of labor between the PAO and decision-makers. The role of the PAO is to collect and assess information about the target and produce information used by decision-makers. The collection and assessment of information is a demanding task that involves a quantum of information and a myriad of issues to assess. This is an intensive task done by many people having different areas of expertise. By contrast, the role of decision-makers is concentrated around approval meetings and reviewing and discussing information provided by the PAO. Thus, decision-makers have a limited involvement in the acquisition process and instead use information produced by the PAO.

This division of labor enables the PAO to enhance the perceived benefits of an acquisition in information to decision-makers in order to receive approval for an acquisition, or downplay the perceived benefits in order to show improved performance after an acquisition has been made. The paper also provides examples of mistakes in the analyses of information by the PAO due to lack of expertise, which resulted in distorted information provided to decision makers. Taken together the findings suggest that seemingly rational decisions by decision-makers are traceable to distortions at the level of the PAO, leading to unpredictable and sometimes poor outcomes.²⁴

²⁴ The term distortion is used to describe enhancements or attenuations of benefits made by the PAO, regardless of whether they are made consciously or not.

These findings contribute to acquisition research in three aspects. First, previous research has shown how decision-makers influence acquisition decision-making (e.g. Duhaime and Schwenk, 1985; Jemison and Sitkin, 1986a; 1986b; Malmendier and Tate, 2005; 2008), ignoring the role of the PAO.²⁵ My study shows that the activities of both the PAO and decision-makers need to be included if we want to understand how acquisitions are made. Second, the findings on the division of labor and how its impact on how information about the target and acquisition process is collected and assessed by the PAO, and on what information decision-makers base their decisions, add to our knowledge about how acquisition decision-making takes place. Third and finally, the findings highlight the importance of the alignment of objectives between the PAO and decision-makers.

Paper III: The production of strategic and financial rationales in capital investments: Judgments based on intuitive expertise

This paper investigates the production of strategic and financial rationales. These are key rationales used when assessing capital investments (Carr and Tomkins, 1996; 1998; Shank, 1996; Slagmulder, 1997; Abdel-Kader and Dugdale, 1998; Alkaraan and Northcott, 2006; Carr, Kolehmainen and Mitchell, 2010) and acquisitions (e.g. Rappaport, 1979; Salter and Weinhold, 1979; Jemison and Sitkin, 1986a). Capital investment research has brought important insight into the use of these (e.g. Haka, 2007; Harris and Elmassri, 2011; Clancy and Collins, 2014), especially on the use of financial techniques and criteria for capital investments (e.g. Graham and Harvey, 2001; Verbeeten, 2006; Jagannathan et al. 2016).

However, these studies have taken for granted and left unexplored the origin of the cash flows used in financial models (Shank, 1996). As the output of financial models depends on the input, understanding how the cash flows have been produced and their quality is of critical importance in interpreting the output of financial models. Strategic rationales have been an important topic in strategy research. This has been oriented towards how synergies in the form of similarities and complementarities between firms affect the performance of acquisitions (Larsson and Finkelstein, 1999; Wang and Zajac, 2007; Kim and Finkelstein, 2009; Bauer and Matzler, 2014). Further, strategy research suggests that value creation in acquisitions correspond to the value of the synergies (Bradley, Desai and Kim, 1983;

²⁵ This is not to disregard early research on decision-making that has shown how elements such as politics (Pettigrew, 1973) and bargaining (Bower, 1970) within organizations influence decision-making. However, this research has not examined acquisition decision-making, or investment decision-making as an organized event with two organizations.

1988; Seth 1990; Seth, Song and Pettit, 2002). However, how individual firms assess and value synergies is missing.

Informed by literature on capital investments, strategy, and intuitive expertise (Kahneman and Klein, 2009) this study examines the production of strategic and financial rationales. The setting is an acquisition by a successful serial acquirer. The findings reveal that the production of strategic and financial rationales, including the origin of the cash flows used in financial models, involves judgments of a myriad of factors and data. The paper suggests that, provided the task complexity and inherent uncertainties in estimating synergies and their economic effects, these judgments are, to a large extent, based on expertise and intuitive processes (e.g. Ericsson, 2006; Kahneman and Klein, 2009; Evans and Stanovic, 2013).

Consequently, these types of expertise-based (e.g. Ericsson, 2006) intuitive processes (e.g. Evans, 2008; Evans and Stanovic, 2013) play an important role in the production of financial rationales, including the origin of cash flows. Cash flows are used as inputs in financial models, which leads to the conclusion that this intuitive process affects the outcome of the models, and hence the evaluation of capital investments (e.g. Haka, 2007). This adds to and contrasts with literature that emphasizes the models and techniques used in the evaluation of capital investment (e.g. Verbeeten, 2006; Clancy and Collins, 2014; Koller, Goedhart and Wessels, 2015).

Furthermore, the findings show that the production of strategic and financial rationales is de-coupled from how the rationales are presented in approval documents. The exactness and logic prevailing in the approval documents are different from how judgments based on intuitive expertise have affected the strategic and financial rationales.

Taken together the findings add empirical evidence and theory to the suggestion (Alkaraan and Northcott, 2006) that judgments and intuitive processes play a significant role in capital investments. These findings also add to a large literature on techniques and methods in strategy and capital investment by emphasizing the role of judgments by expert practitioners, hence showing that the design of concepts and tools might not be as important as previously assumed.

Paper IV: Management control in secret organizations: A multiple-case study of professional acquisition organizations

This paper examines the role of management control systems in secret organizations. Secrecy is an important and critical context for making acquisitions (Harwood, 2006). A PAO can be viewed as a secret organization in which its members intentionally and routinely conceal

activities and information to its members (Simmel, 1906), such as the Central Intelligence Agency in the US and secret societies. However, we know little about the role of management control systems in secret organizations such as PAOs and, specifically, how such organizations control secrecy. This is important not only for our broader understanding of how secrecy is controlled during acquisitions, but also for the management control literature, as it typically addresses control in the context of non-secret organizations.

Informed by literature on secrecy (e.g. Simmel, 1906; Costas and Grey, 2014) and management control systems (Malmi and Brown, 2008), this study examines the role of management control systems in secret organizations. The setting is two PAOs in successful serial acquirers. The findings show that a broad range of controls are used to manage different types of secrets (such as project information, price and negotiation activities, and key terms and conditions). Of the controls included in the framework of Malmi and Brown (2008), almost all were used. In particular, the findings suggest that administrative controls such as organization and governance structures, and policies and procedures, were especially important. The findings also suggest that the less experienced acquirers used more complex organization and governance structures to control secrecy.

Furthermore, the findings suggest that management controls handled secrecy by creating minimal secret structures in PAOs. This draws on Harwood's (2006) use of a bubble metaphor for secrecy in which acquisition projects create information bubbles. By minimizing the number of individuals involved, the surface of the bubble is minimized, thus significantly reducing the risk of leakage, similar to the scientific concept of bubbles optimizing their surface as a function of their content (Harwood, 2006). Furthermore, the findings show that members of the PAO need to justify their secret work without revealing the secrets. Thus, the findings add to the management control literature on 'minimal structures' (e.g. Van der Meer-Kooistra and Scapens, 2008, 2015; Varoutsas and Scapens, 2015; Carlsson-Wall, Kraus and Karlsson, 2017). In this literature a central argument is that a minimal set of controls create a "room for manoeuvre as combining firmness and flexibility" (Van der Meer-Kooistra and Scapens, 2008, p.70). Our study extends this literature by showing that 'minimal' management controls are insufficient in secret organizations, as such organizations need controls that can limit knowledge of activities to its members.

6. Conclusions and discussion

The aim of this thesis is to further our understanding of how acquisitions are made. In order to fulfill this aim, I have completed four studies: a literature review of qualitative process research in M&A; a study of the role of the PAO in acquisition decision-making; a study of how strategic and financial rationales are produced by members of the PAO; and a study of how secrecy is controlled in the work of the PAO during acquisition -making. A summary of each of these studies including their respective findings has been presented in the previous chapter.

In this chapter I discuss how the findings together contribute to our understanding of how acquisitions are made. This is followed by a section on how the thesis contributes to practice. The chapter ends with limitations and suggestions for future research.

6.1 Findings and contributions of the thesis

The thesis contributes to our knowledge about how acquisitions are made in three aspects. First, it shows that the PAO has a critical role in acquisition-making and how it affects decision-making. Second, it discloses how two main reasons for making acquisitions, strategic and financial rationales, are shaped by judgments based on intuitive expertise. Thirdly, it reveals how management control systems are vital for the concealment and visibility of secrets in acquisition-making. The following discusses these findings and what they mean for our understanding of how acquisitions are made.

6.1.1 The critical role of the PAO in acquisition decision-making

Research on acquisition decision-making typically focuses on the individual decision-maker. This research shows that behavioral traits of decision-makers affect acquisition decision-making and acquisition outcomes (e.g. Roll, 1986; Haunschild, Davis-Blake and Fichman, 1994; Hayward and Hambrick, 1997; Malmendier and Tate, 2005; 2008). However, I show that acquisition decision-making is not only about decision-makers but also the PAO. In particular I reveal how the PAO affects acquisition decision-making. This concerns the role of the PAO in acquisition decision-making and how judgments by individuals in the PAO affect it.

The findings show that there is a division of labor between the PAO and decision-makers (see Figure 2). The role of the PAO is to collect and analyze information about the acquisition (see X in Figure 2) and prepare and provide information to decision-makers (Y).²⁶ Furthermore, the findings suggest that the PAO can provide distorted information to decision-makers (Y'), by enhancing or downplaying the perceived benefits of an acquisition. These embellishments or attenuations can be made consciously or subconsciously. A special case is when the PAO, due to a lack of proper expertise, acquires incomplete or misleading information (X'), resulting in unintentionally distorted information to decision-makers. In summary, these findings show that the PAO has an important role in decision-making and can distort the information provided to decision-makers.

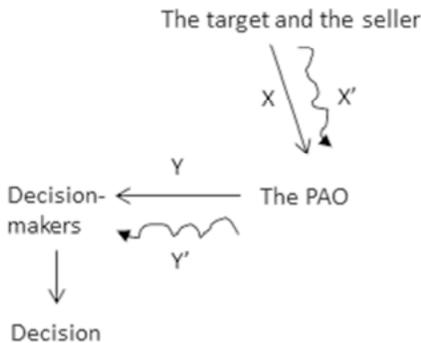


Figure 2. The role of the PAO

The findings that PAOs can have their own agenda and distort information to decision-makers are in line with previous studies of investment decision-making (e.g. Bower, 1970; Pettigrew, 1973) and acquisition integration processes (Vaara, 2003). However, I add to this by showing how distortions are enabled also in acquisition decision-making through the division of labor between decision-makers and the PAO.

The critical role of the PAO in acquisition decision-making is also salient in the third study, which examines some activities of the PAO in a more

²⁶ Obviously there is communication and interaction between the seller and target and the PAO and between the PAO and decision-makers. However, the Figure is based on the assumption that decision-makers base decisions on information they receive, regardless of whether it is provided by the PAO in the form of a decision document or in interactions with decision-makers. Furthermore, the PAO obviously interacts with the seller, for example in the negotiations, which also is a source for information. In summary, this explains why there are no arrows going in the opposite direction in the figure.

fine-grained manner. This study investigates how two main reasons for making acquisitions, strategic and financial rationales, are produced. The study shows that these rationales are based on judgments by members of the PAO. In the paper we argue that these judgments were based on intuitive expertise, leading to a successful outcome. Consequently, lack of expertise would likely lead to poor judgments and distorted information to decision-makers.

Taken together, I argue that these findings of the PAO contribute to our understanding of how acquisitions are made in two ways. First, they add to research that has the decision-maker in focus by showing how the PAO is instrumental in acquisition decision-making. This shifts the emphasis from behavioral traits of decision-makers to behavioral traits of the PAO. It also draws attention to the relation between the PAO and decision-makers, including agency issues.

Second, it adds to previous research about the people involved in the PAO. Previous research has argued and showed that an acquisition function in acquirers is important for making acquisitions, especially for serial acquirers (Haspeslagh and Jemison, 1991; Laamanen and Keil, 2008; Chatterjee, 2009; Trichterborn, Knyphausen-Aufseß and Schweizer, 2016). However, this paper provides a detailed examination of the PAO and its role in acquisition decision-making and shows how it affects acquisition decision-making through the division of labor between the PAO and decision-makers.

6.1.2 Strategic and financial rationales are made by judgments based on intuitive expertise

Strategic and financial rationales are key to making acquisitions (Jemison and Sitkin, 1986a; 1986b; Haspeslagh and Jemison, 1991) and other strategic investments (Carr and Tomkins, 1996; 1998; Shank, 1996; Slagmulder, 1997; Abdel-Kader and Dugdale, 1998; Alkaraan and Northcott, 2006; Carr, Kolehmainen and Mitchell, 2010). However, we have limited knowledge about how and by whom these rationales are produced. The paper shows that these rationales are shaped by judgments based on intuitive expertise (Kahneman and Klein, 2009). Thus, it reveals the importance of judgments and individual competences and expertise in acquisition-making.

The paper shows that the production of strategic and financial rationales is a judgmental task “for which there does not exist a demonstrably correct answer” (Laughlin and Ellis, 1986, p.177). The reason is that an almost incalculable number of factors and data are involved in identifying and estimating synergies. This does not lend itself to an analytical solution but rather requires judgments by those identifying and estimating the synergies. It is likely that several other tasks in acquisition-making are of a similar

character. For example, due diligence involves a large number of variables with complex relationships. The conclusion would be that having people with the right expertise relating to different judgmental tasks in acquisition-making is of the utmost importance.

The importance of expertise in judgments is also supported by the second paper, which shows examples of overpayment due to lack of expertise. This draws attention to the fact that expertise is found at the individual level, meaning that even for serial acquirers a high acquisition frequency at the firm level is not sufficient when individuals in the PAO do not have sufficient expertise. This is related to how the PAO is organized. Here, the lack of expertise in the production of strategic and financial rationales is illustrated by Alpha, a company considered a successful acquirer. A reason for this is that Alpha consists of more than 20 divisions, with a largely decentralized PAO. As the acquisition frequency at the level of the division could be low, acquisition managers of the different divisions could lack experience and expertise. In contrast Beta consisted of fewer divisions and even though it too had a decentralized acquisition organization, arguably each division and acquisition manager had experience and expertise.

Our findings contribute to our understanding of how acquisitions are made by showing and conceptualizing how judgments and expertise play an important role in acquisition-making. The findings show that production of strategic and financial rationales and arguably other tasks in the making of acquisitions have a judgmental character. This places the focus on the experience and expertise of those making these judgments and adds knowledge by showing how experience, in particular expertise,²⁷ plays an important role in judgmental tasks such as production of strategic and financial rationales, whereas previous research, typically, has emphasized the requirement of experience and expertise in acquisition-making without examining or conceptualizing it at the task or individual level (e.g. Jemison and Sitkin, 1986a; 1986b; Haspeslagh and Jemison, 1991; Trichterborn, Knyphausen-Aufseß and Schweizer, 2016).

The findings also have implications for the large amount of prescriptive literature focusing on analytical tasks “for which there exists a demonstrably correct answer within a verbal or mathematical conceptual system” (Laughlin and Ellis, 1986, p.77). For example, there is a great deal of prescriptive literature on how to apply concepts and tools for computing the value of an acquisition based on inputs provided by someone else (e.g. Sudarsanam, 2012; Koller, Goedhart and Wessels, 2015). This task is also typically taught in finance courses in MBA programs (Womack and Zhang,

²⁷ In paper three we argue that the production of inputs is not necessarily about achieving superior performance (Ericsson and Smith, 1991) but to reach a sufficient level of performance. However, the point is that it is experience translated into competences, requiring not only experience but also a learning process (Ericsson, 2006).

2005). Consequently, the literature rests on the assumption that the production of inputs used in the evaluation is uncomplicated and unambiguous. This is arguably not the case, and the attention needs to be shifted to the judgmental parts of acquisition-making. Regardless of how meticulously concepts and tools are applied, the output from the models will certainly be ambiguous if the inputs are distorted.

In summary, we argue that research needs to pay more attention to the judgmental tasks of acquisition-making and should view the making of acquisitions as a combination of analytical and judgmental tasks requiring people with expertise for each specific task. This thesis is a first step in that direction, examining the task of producing strategic and financial rationales and introducing the framework of intuitive expertise (Kahneman and Klein, 2009) into acquisition-making.

6.1.3 Management control systems are important for how confidential information is concealed and made visible in acquisition-making.

Secrecy is essential in the making of acquisitions, especially in the sense of the need to keep secret that a possible acquisition is going on (Mace and Montgomery Jr, 1962; Hunt, 1990; Haspeslagh and Jemison, 1991; Pablo, Sitkin and Jemison, 1996; Very and Schweiger, 2001; Harwood, 2006). Whereas Harwood (2006) has contributed knowledge about secrecy during integration, we have limited knowledge about secrecy in the making of acquisitions. This paper shows that there are several categories of secrets. They are concealed not only from other people within the acquiring organization and outside the acquirer, but also from different members of the PAO at different points in time during acquisition-making. Furthermore, the thesis shows how this is managed through the management control systems.

The paper shows that it is not only important to keep secret that a possible acquisition is going on but that there are also other types of key secrets in PAOs, such as price in bids to the seller and negotiation activities. Another example is information about the target, such as market information and financial accounts. For each type of key secret there are different insiders and outsiders, and these individuals vary as acquisition-making evolves. For example, in the initiation phase, the acquisition manager and a senior manager typically are insiders to information that a possible acquisition is about to happen, whereas other members of the PAO are outsiders. As the acquisition proceeds, other members of the PAO become insiders. On the other hand, information on price and negotiation activities has few insiders throughout the making of the acquisition, typically including the acquisition manager, the senior manager, and a few other members of the PAO. Some key secrets, such as price and negotiation activities, remain concealed also

after closing of the acquisition. Consequently, managing and controlling different secrets throughout the acquisition-making process is complex and cumbersome.

The paper shows that there is an elaborate management control system for maintaining and safeguarding secrecy. Administrative controls (organizational structure, governance, and policies and procedures) play a prominent role. However, other systems such as planning, rewards and compensations, and cultural controls are also important. The paper argues that the management control system creates minimal structures of secrecy, based on the bubble metaphor introduced by Harwood (2006). For each secret there is a bubble. Inside is confidential information and the people who know it, outside are the outsiders from which the information is concealed. The management control systems minimize the number of people inside the bubble, thus creating minimal bubbles with minimal surfaces, limiting the risk of leakage.

The findings show that key secrets are kept within a limited group of people in the PAO. By doing so, they relate to the second study on the role of the PAO in acquisition decision-making. For example, only a small number of people in the PAO are insiders to the secrecy of price and negotiation activities. Consequently only a few can provide decision-makers with the information, and, perhaps more importantly, only a few can question this information and its quality. Hence, a conjecture is that secrecy can facilitate distortions of information by the PAO to decision-makers.

Taken together, by showing how secrecy is a salient characteristic of acquisition-making, these findings contribute to our knowledge about the role of secrecy in PAOs. Previous acquisition literature has identified secrecy as an important characteristics and requirement in acquisition-making (Mace and Montgomery, 1962; Hunt, 1990; Haspeslagh and Jemison, 1991; Pablo, Sitkin and Jemison, 1996; Very and Schweiger, 2001). However, it has not provided any deeper analysis of secrecy. This paper contributes by showing that there are different categories of secrets to which there are different insiders and outsiders throughout the acquisition-making process. Furthermore, the paper shows the importance of management control systems for how confidential information is concealed and made visible in acquisition-making.

6.2 Contributions to practice

For practitioners, this thesis shows how dependent decision-makers are on the PAO and the importance of the alignment of interests between the PAO and decision-makers. This is particularly relevant when the PAO includes external financial advisers, as these normally have remuneration structures that yield higher fees when the acquisition is completed (McLaughlin, 1990;

Song, Wei and Zhou, 2013). At the same time the thesis shows that it is vital to have people with the right expertise in the PAO. Thus, a key message to firms making acquisitions is to pay attention to agency issues while at the same time being aware of the requirement of expertise, especially for judgmental tasks. Furthermore, given our knowledge of behavioral effects like escalating momentum (Staw, 1981; Staw and Ross, 1987; for an overview see Meyer, 2014), the findings imply that it is crucial for decision-makers to keep themselves informed about the acquisition project early on in the process, as the PAO is likely not as committed to the acquisition as during later stages.

Another contribution is the framework of intuitive expertise and task characteristics that suggests that certain types of tasks are suitable for intuitive expertise. Even though the importance of expertise is not new to firms, the framework gives a rational explanation for something that was previously hidden. Thus, it provides a well-grounded tool when arguing for the need of expertise. Previous studies show that managers are reluctant to reveal that they use intuitive processes (Agor, 1986; Hensman and Sadler-Smith, 2011) and solve this by 'hiding' their judgment behind 'objective data' (Hensman and Sadler-Smith, 2011). Furthermore, several of the interviewees in the case companies and in particular the M&A experts stated that there is a tendency for firms to rely too much on developing processes and structures for acquisition work and too little on the experience of the people working with it. The framework of intuitive expertise can also be helpful for firms when discussing how to develop and retain expertise in the company. As the thesis shows, this also concerns how firms organize their M&A function and the frequency of acquisitions at the level of the acquisition manager.

The findings on secrecy are also of use for practitioners. The thesis reveals how management control systems conceal and make visible different categories of secrets in acquisition-making, which firms are not fully aware of. With the insights provided in the thesis, they can better understand and analyze how they should manage secrecy in acquisition-making. This should not least be the case for firms with little experience of acquisitions. A recommendation for them could be that they apply a short-term focus on implementing administrative controls (organizational structure, governance, and policies and procedures) and take longer-term perspective on how to create a culture of secrecy, as in the case of Beta.

6.3 Limitations and suggestions for future research

Given the lack of research on how acquisitions are made and the exploratory nature of the empirical studies in this thesis, the findings should be interpreted with caution. Given that the thesis is based on two single-case

studies and one multiple-case study, a suggestion is to undertake additional single- or multiple-case studies of serial acquirers and to compare such findings with those of this thesis.

Examining the relation between the PAO and decision-makers would be of interest. For example, this thesis indicates that choices and hence acquisition decision-making primarily is made by the PAO; thus the role of decision-makers and the formal decisions concern something other than choice. Consequently, examining what role decision-makers have in this process is a suggestion for future research.

Another research direction is based on the framework of intuitive expertise. This could entail examining which tasks have a judgmental character, and what areas of expertise these tasks require. Another question related to this is to examine how acquirers obtain and develop this expertise. For example, do they have experts within their own organization or do they rely on external advisers?

The setting of the studies in this thesis is successful serial acquirers. One future research direction is to examine other contexts, such as large acquisitions of publicly listed companies. Large acquisitions are more ad-hoc in comparison to serial acquisitions, and are, typically, less successful. There are also other differences from an acquisition-making perspective, such as larger involvement of top management and decision-makers (Lander and Kooning, 2013), greater use of advisers (Wasserstein, 2008), and more extensive regulatory requirements (Lu, 2010). Moreover, the strategic fit can be more complex, as there is likely less chance of finding a company that fits 100%. Furthermore, the gathering and analysis of data are likely more extensive as larger acquisitions involve more data and likely more complex businesses, for example, buying a company consisting of several business areas, several legal entities, etc.

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Appendix A: Definitions of mergers and acquisitions

There are different definitions of mergers and acquisitions. From a legal perspective, merger has the meaning of a statutory merger, i.e. an absorption by one corporation of another.²⁸ Consequently, only one of the companies involved survives as the legal entity of the merged business. An acquisition means that one entity takes ownership of another entity's stock, equity interests, or assets. In financial research a merger can mean a combination of businesses or that 100 percent of the company's stock is acquired (see Netter, Stegemoller and Wintoki, 2011, p.2321). In organizational research, a merger typically has the meaning of combining two previously separate organizations. In practice mergers are sometimes described as being "merger of equals" as described below (Wulf, 2004, p. 60):

friendly mergers generally characterized by premerger negotiation between two firms closer in size that result in approximately equal board representation in the merged firm. In addition to price and postmerger corporate governance, these negotiations determine additional 'social issue' including company name, location of headquarters and plans for asset restructuring.

Merger of equals are rare. Zaheer, Schomaker and Genc (2003) identified only 45 mergers of equals among a total of 90,480 European M&As, and only 100 merger of equals among 108,879 M&As in the US, between 1985 and 2001. However, although mergers of equals do not occur often, they can involve large companies and attract attention in media and research. Mergers of this type are the Traveler's Group and Citicorp (Maguire and Phillips, 2008), Telia and Telenor (Meyer and Altenborg, 2007; 2008), and a series of bank mergers in the Nordic countries leading to the creation of Nordea (e.g. Vaara, Tienari and Sääntti, 2003; Vaara et al., 2005).

Research focusing on the specifics or character of mergers of equals is rare. Among the few studies are Zaheer, Schomaker and Genc (2003), Wulf (2004), and Meyer and Altenborg (2007). Zaheer, Schomaker and Genc (2003) study how organizational identity is influenced by framing a merger

²⁸ <https://www.merriam-webster.com/dictionary/merger#legalDictionary>, Accessed: October 10, 2017.

as a MOE. Wulf (2004) examine the relationship between CEO power and merger premium, in which the CEOs trade power, i.e. negotiate shared control in the merged firm, in exchange for lower premiums. Hence, the merger premium is typically low in a merger of equals. Meyer and Altenborg (2007), examine how equality, based on social justice theory (distributive and procedural equality) affected the merger between Telia and Telenor. This is interesting, as it shows that equality, i.e. the E in MOE, is a complicated concept in both practice and research.

To conclude there are many different definitions of the terms merger and acquisition. For example, a transaction characterized as a merger in financial research is not necessarily a statutory merger or a merger of equals, but can rather be described as an acquisition. Another example is that an acquisition in organizational research often is portrayed as a merger, because the research perspective is about the combination of two organizations. Thus, it is not surprising that the terms mergers and acquisitions, M&A, or acquisitions, typically are used interchangeably (e.g. Haspeslagh and Jemison, 1991; Haleblan et al., 2009; Faulkner, Teerikangas and Joseph, 2012; Risberg, King and Meglio, 2016). As the interest of this thesis is in the broad phenomenon of M&As and not a particular type of merger the terms mergers and acquisitions, M&A, and acquisitions are used interchangeably.

Appendix B: M&A performance

M&A research indicates that the return on M&A investments on average is negative (King et al., 2004; Tuch and O'Sullivan, 2007). However, measuring the financial outcome of M&As is complex (Zollo and Meier, 2008; Meglio and Risberg, 2011; Very, 2011). For example, it is hard to know how the acquirer would have performed if the acquisition had not been made (the contrafactual problem). Because of the inherent complexity of M&A, numerous contextual factors can influence the financial outcome (e.g. Haleblan et al., 2009; Teerikangas, Joseph and Faulkner, 2012, pp. 668–669), making it difficult to compare different studies (Meglio and Risberg, 2011; Very, 2011). Studies also use different measures for financial performance measured at different points in time, e.g. market price reaction +/- one or three days after announcement or accounting measures years after the acquisition has been completed (Meglio and Risberg, 2011). Moreover, there are instances when the outcome should not be measured only for a single acquisition but rather as the outcome of a program of several acquisitions (Laamanen and Keil 2008; Chatterjee, 2009). Furthermore, financial research, which typically applies more consistent ways of measuring M&A performance than management research, generally uses biased samples that oversample larger deals (Netter, Stegemoller and Wintoki, 2011). This can lead to faulty conclusions. For example, a large sample, studying M&A transactions over the period 1992–2009, showed that acquirers gained in most takeovers in comparison to a loss for acquirers when using a typical sample restriction (biasing large deals) and that patterns of merger waves attenuated in comparison to earlier research (Netter, Stegemoller and Wintoki, 2011). Regardless of the complexities of how to measure the outcome, it is evident from numerous studies that many acquisitions have negative returns. At the same time, there are studies arguing that for example serial acquirers in general show positive returns (Laamanen and Keil, 2008; Chatterjee, 2009) which may indicate that learning, synergies, and strategies are important.

