



Why good things Don't happen: the micro-foundations of routines in the M&A process



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ABSTRACT

Why do organizations reject favorable opportunities - why don't good things happen? To address this question, we examine companies that fail to proceed with major opportunities for strategic renewal. By focusing upon routines in 28 cases of reverse mergers and acquisitions decisions across three continents, the research uncovers the centrality of a hitherto overlooked process, the authorization routine. The characteristics of this routine, and its nested nature, are shown to be critical to whether favorable opportunities are progressed. These findings contribute to the mergers and acquisition literature by extending prior process models and to the routines literature by showing how links and interactions between different layers of routines, and the nature of the routine enactment itself, are important in affecting strategic outcomes.

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1. Introduction

An important line of research into mergers and acquisitions (“M&As”) is concerned with the role of process affecting overall M&A outcomes. The earliest exponents of this approach focused upon developing models of the characteristics of pre-acquisition processes showing how these affected the way candidates were evaluated and how they influenced post-acquisition outcomes (Jemison & Sitkin, 1986). Subsequent research attention has tended to either extend early process models (Pablo, Sitkin & Jemison, 1996) or draw from behavioral decision theory to describe biases in M&A decision-making that affect process (Haunschild, Davis-Blake & Fichman, 1994; Puranam, Powell & Singh, 2006). Such research focuses more on the problems and dynamics of specific stages in the process; 1) when candidates are selected for evaluation; 2) due diligence; 3) formal negotiations; 4) deal announcement; 5) deal completion. Implicit in these portrayals of the pre-acquisition process is an inevitable transition, as each step is completed, from one stage to another. Yet, in practice, acquisition initiatives often fail, with some companies reporting as few as 10% of M&A initiatives completing (Johnson, Whittington, Scholes, Angwin & Regner,

2014). Researchers focusing upon the period between deal announcement and deal completion have estimated failure rates of 21% - 27% (Muehlfeld, Rao Sahib & Witteloostuijn, 2012; Wong & O'Sullivan, 2001), but this still leaves a significant gap in our understanding of other reasons for M&A terminating before completion. One part of the process which has not been examined, and where M&A termination may occur, is between due diligence and formal negotiations. This may occur even when the former stage has been judged satisfactory. It is this interruption of the pre-acquisition trajectory, when the acquirer does not proceed for some reason(s) to formal negotiations, which is the focus of this paper. We argue that the pre-acquisition decision-making process is more complex than is commonly recognized in M&A studies (Butler, 1998). Using a micro-foundational perspective (Felin & Foss, 2009), we propose that within the pre-acquisition decision-making process there are a number of activities by acquisition actors that are invisible to traditional strategy research, which may have significant consequences for acquisition outcomes.

Specifically, the objective of our study is to explain why attractive M&A opportunities, ‘good things’, may not happen, by focusing upon the micro-foundational aspects of routines comprising the pre-acquisition decision-making process. In other words, to understand what happens between satisfactory due diligence and engagement in formal negotiations, a period we conceptualize as the *authorization routine*. This routine is a key moment in the acquirer's decision-making process as it is where sponsoring entities in a corporation seek formal permission to go ahead with acquisition negotiations after internal

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investigations have given the ‘green light’ to proceed. In this paper we unpack this routine and address two questions around the pre-acquisition decision-making process: a) what is the role of the authorization routine in influencing the forgoing of attractive M&A opportunities? b) how, and by whom, is the authorization routine disrupted from proceeding in negotiation with attractive M&A candidates? Addressing these questions is important as there is a significant gap in our understanding about how and why in the acquisition decision-making routine sponsors of the acquisition of attractive candidates are prevented from proceeding to formal negotiations. This is because research focusing on ‘negative decision making’ in general has been scarce (Hickson, Butler, Cray, Mallory & Wilson, 1986) and negligible on M&A in particular.

Researching the pre-acquisition process, where multiple interacting actors at a micro-level can affect macro-level outcomes, requires sensitivity to individual practitioners and their interrelationships. Accordingly, we examine the micro-foundational aspects of pre-acquisition processes by examining the key actors and their interactions across multiple levels. In order to gather this type of data, longitudinal, in-depth rich data is necessary even though it is particularly challenging in this context due to the obvious sensitivities surrounding this high level process. Furthermore, M&As are reported at the organizational level, with publicly available secondary data failing to account for the actions of executives other than the CEO (for example senior executive directors, divisional managing directors, senior advisors). This is a gap in the M&A literature – the study of micro-level processes amongst multiple actors within and across organizational layers in the pre-acquisition period. We were able to gather such rich information as one of the authors was in a privileged position to access key stakeholders in authorization routines in many large companies across three continents. This has allowed the construction of a more nuanced picture of M&A authorization routines than was previously possible and, as such, our study is the first one of its kind. Next we outline our theoretical positioning.

2. Theoretical background

2.1. The pre-acquisition decision process in M&As

Jemison and Sitkin (1986) first alerted M&A scholars to the importance of process in affecting M&A outcomes. Their model has been refined subsequently to capture further aspects of the decision-making process including the role of risk (DePamphilis, 2008; Pablo, Sitkin & Jemison, 1996). In addition to the Jemison and Sitkin (1986) model, Haspeslagh and Jemison (1991) identify a ‘traditional view’ of the decision-making process. Their model consists of seven phases following a rational linear sequence. These phases are shown in Fig. 1. Phases One and Two concern the broad strategic objectives of the acquirer and the search and screening process for acquisition candidates. Phases Three and Four correspond to in-depth strategic and financial evaluation. After these evaluations, sufficient information is known for the internal sponsor of the acquiring firm to enter into Phase Five, negotiations with the candidate’s owners and/or make an offer for the firm. Phase Six is the successful conclusion of the negotiations in a contractual agreement to transfer ownership in exchange for payment. Phase Seven is the integration of the acquisition into the acquiring firm (see Sudarsanam (2010) for a more elaborate linear sequence).

In this phased model there is inevitability in the decision process moving forward from positive earlier phases through to conclusion. However, the costs incurred analyzing candidates are often overlooked. These costs can be very high indeed in terms of substantial managerial effort and significant out-of-pocket expenses. Krallinger states that “typically, it will take a buyer one year to find a good business” (1998, p. 236) and Ansoff, Brandenburg, Portner and Radosevich (1971) found the period from candidate identification to consummation of a deal varied from one month to five years and typically lasted ten months, although today this period may somewhat shorter. The number of candidates in an original search can number hundreds in order to find just one suitable target. To the extent that candidates are not pursued,

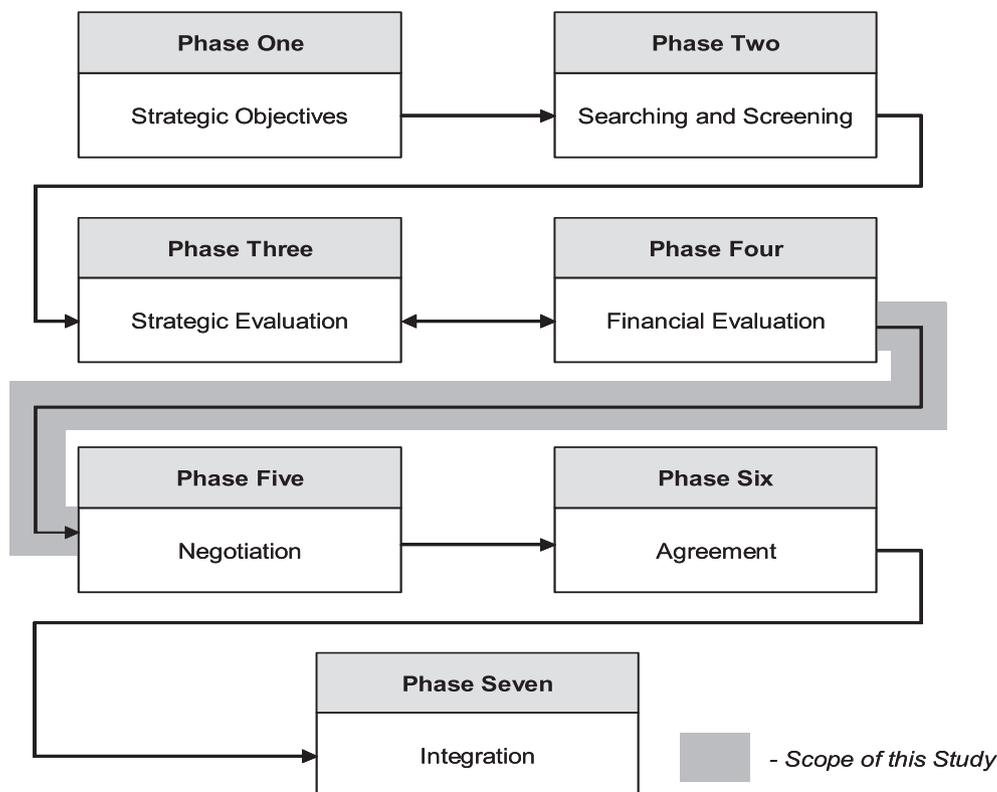


Fig. 1. Traditional view of the acquisition process. Source: Haspeslagh & Jemison, 1991.

efforts are wasted. Where attractive candidates are rejected the 'cost' may be far greater. Typically there are only a very limited number of companies in any industry which may be attractive to an acquirer and an opportunity may be lost permanently if the candidate is then subsequently acquired by another firm. Many factors may prevent the successful acquisition of a candidate firm and result in the firm incurring significant costs or missing opportunities.

2.2. Factors preventing the pursuit of M&A candidates

During the decision process an acquisition candidate may fail and not be considered further at each of the phases after Phase Two shown in Fig. 1. In particular it may be rejected *before* it is fully evaluated (before Phase 4 in Fig. 1) or *after* it has been evaluated and negotiations have begun (during Phase 5). There are a plethora of decision-specific reasons why a candidate may be rejected before it is fully evaluated. For example, during the screening phase, candidates may be eliminated for failing to meet basic size and profitability criteria, and hygiene issues such as business and legal integrity. For instance the identification of 'black – holes' (Angwin 2007a) – unlimited liabilities, may be deemed deal breakers due to unacceptable risk. Most acquisitive firms also have internal criteria that any proposed acquisition candidate would have to satisfy to be considered, for instance being number one or two in a market (c.f. GE's criteria for acquisitions). At the end of the screening phase or the beginning of the phase in which strategic evaluations take place (in practice these often overlap), rejection often occurs because of a lack of strategic fit – where assessment is made about the potential for acquiring firms to realize synergistic gain from the candidate (Cameron, 1977; Echen & Bresser, 2005; Jemison & Sitkin, 1986; Salter & Weinhold, 1979). The candidate may also be rejected on the grounds of a lack of organizational fit: the extent to which the firms can come together structurally, administratively, culturally (Jemison & Sitkin, 1986; Pablo, Sitkin & Jemison, 1996). Candidates may be rejected after successful evaluation and negotiations have begun. This can be for many reasons including: rejection of an offer that was too low (Jemison & Sitkin, 1986); legal and regulatory obstacles including anti-trust objections by the government (Evenett, 2001); negative reaction from the general public or capital markets (Puranam, Powell & Singh, 2006); or failure to perform in a critical business area identified during due diligence (Angwin, 2001; Hubbard, Lofstrom & Tully, 1994).

Over-arching the internal decision-making process of the acquiring firm, contextual changes may also render the consideration of an acquisition candidate redundant (Angwin, 2007b). Alternative and more attractive acquisition candidates may emerge; a competitor may act more rapidly; changes in the macro-economy may alter the priorities of the acquirer; movements in financial markets may disrupt deal terms, regulators may intervene, and in a few cases, such as the proposed merger between BAe and EADS in 2012, political differences between Governments may prevent closure. Contextual changes such as these can directly affect the consideration of an M&A candidate throughout the pre-acquisition decision-making process and specifically during the authorization process. Whilst potentially highly significant for the conduct of M&A, contextual pressures are largely beyond an acquiring firm's control. Unlike the candidates above which are rejected for failing to meet certain criteria, discovering disconfirming evidence, or become unattractive due to contextual changes, many prospective acquirers withdraw from acquisitions before negotiations begin even though the candidates remain *attractive* in the context in which they could be acquired. It is this 'negative' decision-making, where firms stop pursuing candidates which have been evaluated as attractive and are sponsored internally, which this paper aims to explain.

2.3. Strategic decision-making (SDM) process in M&A

Widely diverse views of strategic decision-making (SDM) are advanced in the broader decision process literature including the rational

model, the political model, the garbage can model and various hybrids (Eisenhardt & Zbaracki, 1992). Despite many studies about individual decision-makers' cognitive and information processing limitations (Carter, 1971a, 1971b; Duhaime & Schwenk, 1985; Huff & Reger, 1987; March & Simon, 1958; Pfiffner, 1960), rationality remains one of the primary lenses through which decision-making is examined empirically. The rational model is based on the assumption that man is purposive and rationally pursues predetermined objectives throughout his or her decision-making. The limitations of its assumptions notwithstanding, parts of the rational model, variants of it (e.g. the 'boundedly' rational model, Eisenhardt & Zbaracki, 1992) or the model in its entirety are supported in various studies (Butler, 1998; Hitt & Tyler, 1991; Mintzberg, Raisinhanani & Theoret, 1976; Nutt, 1984) and a number of models "map" the rational analytical process (Ansoff, 1965; Pfiffner, 1960; Shrivastava & Grant, 1985). Some of these 'maps' conceptualize decisions as passing through a series of stages until they are implemented, much like the acquisition decision process 'maps' described above.

While such structural models may imply that decisions follow a linear sequence, this may be an oversimplification. Hickson, Butler, Cray, Mallory and Wilson (1986) find that the linearity of decision processes is highly variable and depends on the extent to which decisions are complex and political in character. Pfiffner (1960, p. 129) states the "decision-making process is not linear but more circular.... it resembles the process of fermentation in biochemistry rather than the industrial assembly line." Mintzberg, Raisinhanani and Theoret (1976) observe decisions being recycled to previous phases or being subjected to processes through which they had already passed. They note that when decision approval is withheld, opportunities may exist for it to be recycled and redeveloped such that it receives approval in a subsequent pass through the decision cycle. In some instances however, approvals are withheld indefinitely or permanently. These 'negative' decisions are under-researched (Hickson, Butler, Cray, Mallory & Wilson, 1986) Although M&A decision models acknowledge that real world decision-making is far more complex than the 'step by step' analytical model depicted in Fig. 1, pre-acquisition M&A decision models have not fully unpacked the process, failing to recognize fully interrupts and delays which may occur. Important parts of the process such as routines that may exist between completing internal target evaluations and the decision to engage in formal contract negotiation, what we term the 'authorization' routine, have been ignored. M&A process researchers have also tended to ignore decisions not to acquire, being overly concerned with decisions to engage in formal contractual negotiations. In the light of this research, M&A decision models may need to be refined to acknowledge the existence and importance of additional phases and processes such as the 'authorization' routine in order to further the understanding of the M&A decision-making processes as a whole.

2.4. Authorization routine: the Pre-acquisition process from a micro-foundational view

This paper investigates reasons for apparently irrational organizational decisions not to acquire in the pre-acquisition decision-making process. The focus is upon the period in which authorizations ordinarily occur to uncover whether it is the authorization process itself that is important in influencing M&A decision outcomes. This authorization period may be defined as an organizational routine as it is a temporal structure used as a way of accomplishing organizational work (Feldman, 2000). It is repeated whenever there is a significant strategic decision to be made and this often includes deciding whether an M&A opportunity may proceed. They are characterized by social interaction across multiple levels – the stitching together of different actors and interdependent actions into a recognizable core pattern that can be talked about as an organizational routine (Pentland & Feldman, 2005).

Routines are a primary means by which organizations achieve much of what they do (Cyert & March, 1963; March & Simon, 1958). Routines were originally perceived as repetitive patterns of activity (Nelson &

Winter, 1982). They have been narrowly defined as merely the sequential organizing of productive effort of a number of independent productive agents and these interdependent efforts can be repeated (Cohen et al, 1996). The theoretical bases for routines in these terms are to: i) maximize efficiency, through reducing variety, ii) increase legitimacy and iii) to minimize or suppress conflict. As such, routines are perceived as “essentially automatic, executed without explicit deliberation or choice” (Pentland & Rueter, 1994, p. 488). Because of their fixed structure, routines can also result in organizational inflexibility, as they “can create inertia, tunnel vision, rigidity” (Miller & Shamsie, 1996, p. 495). Such understanding of organizational routines, provides a convincing explanation of stability in organization (Feldman & Pentland, 2003).

Criticisms have been growing of the automacity of this view, its unchangeability, rigidity and over-emphasis upon ‘habit’ (Foss, 2006). Its conception of routine as an unvarying procedure draws attention away from conscious rational choice. Within routines, Pentland and Rueter (1994) focus upon variability, where the routine is not a single pattern but a set of possible patterns from which members enact particular performance (ibid, p. 491). Feldman and Pentland (2003) also suggest that an organizational routine as a repeated, recognizable pattern of interdependent actions, can be decomposed into two components i) the structure of the routines (the abstract understanding of the routine) and ii) the actual performance of the routine. The former is referred to as the ‘ostensive’ aspect of the routine. It is generative – participants draw upon their understandings of it, to reproduce it, to plan, guide and account for their actions in respect of the routine (Feldman & Pentland, 2003). It is a road map for activity. The latter component is the ‘performative’ aspect that relates to know-how, it consists of specific actions, by specific people, in specific places and times. They are carried out against a background of rules and expectations and can be improvisatory (Orlikowski, 2000) showing ‘adjustment and variation in order to get things done in diverse circumstances’ (Pentland & Feldman, 2007). These two aspects interact with each other and with artefacts to constitute “the routine in practice” (Feldman & Pentland, 2003, p. 101). Thus routines are not mindless but rather effortful accomplishments. They are emergent – work in progress and can be associated with organizational change as well as stability.

Routines themselves can change even though they are often defined as unchanging. Interruptions are not perceived as negative and to be controlled for but rather that they could change routines and even create new ones. In this way routines are not inert but full of life. They can be altered as new ideas and opportunities are presented. Understanding the internal structure and dynamics of organizational routines is important for the study of core organizational phenomena such as stability and change (Pentland & Feldman, 2005). As it is these interacting parts and what actors do to bring about change or stability, our focus in this paper is on routine dynamics, or inside the box of routines, rather than taking a dynamic capabilities perspective which leaves the black box intact (Zollo & Winter, 2002).

Limitations of the studies on routines are that they still seem to focus upon their existence in periods of stability being affected by occasional external change. What has not been examined is the nature of routines designed for dealing with uncertainty: situations where external changes are not momentary periods of flux but frequent occurrences. There may need to be routines that are flexible in nature to cope with constant unpredictable change. This paper argues that the *authorization routine* may be one such routine, characterized by an unfolding process of continuous adjustment and conflict, whilst being guided by the grammar or rules about what actions go together. The authorization routine may come into existence whenever decisions are needed regarding substantial strategic commitment, such as an M&A decision. Here major stakeholders argue their positions and maneuver within a set of organizational, social and cognitive structures (Pentland & Rueter, 1994). As such the pre-acquisition process, and the authorization routine in particular, is a relevant context for the study of the micro-foundational aspects of routines and the way a number of routines are interrelated (Angwin & Urs, 2014). As Felin and Foss note: “the current intuition around routines jumps directly to the collective level, but there is much opportunity to carefully specify, model and illustrate how routines aggregate and emerge from micro-foundations and individual interaction.” (2009, p. 166). Accordingly, this paper takes the position that intentional human action and interaction causally produces a strategic outcome. Through looking inside the black box of the authorization routine, focusing particularly upon the ‘performative’ aspects of key strategic actors (for example: CEOs, advisors, Board members, finance and other

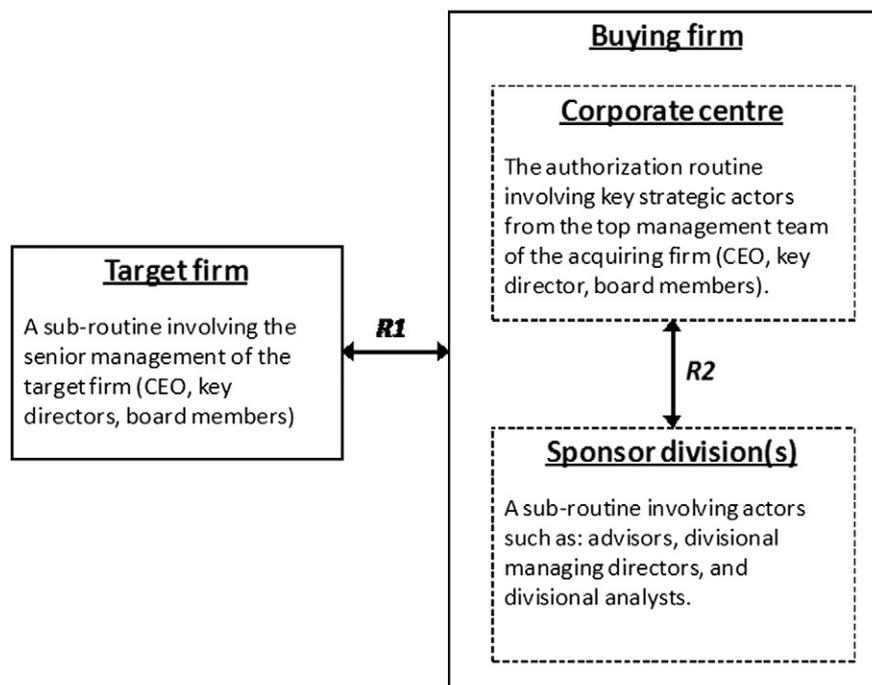


Fig. 2. Our preliminary model of the key routines in the Pre-acquisition process.

internal directors, shareholders), this paper examines a micro-foundation, of individual action and interaction, as explanatory mechanism in a strategic outcome (Coleman, 1990; Hayek, 1952). In so doing our study is distinctive in two key ways: a) we extend our examination to actions beyond the CEO and his or her TMT/Board and b) we use the notion of the authorization routine to demonstrate how routines are related to firm level outcomes (Abel, Felin & Foss, 2007; Argot & Ingram, 2000). Fig. 2 below presents visually the main routines comprising the pre-acquisition decision-making process. While most M&A studies focus on the target-buyer firm relationship (R1 in Fig. 2) we argue that another significant relationship that tends to be overlooked is between the corporate centre and the sponsor divisions involved in the pre-acquisition process (R2 in Fig. 2). Overall, we utilize a distinctive, for M&A studies, micro-foundational approach to address two key questions: a) What is the role of the authorization routine in influencing the forgoing of attractive M&A opportunities? b) How and by whom is the authorization routine disrupted from proceeding in negotiation with attractive M&A candidates? Next we present our method.

3. Method

The authorization routine in the M&A pre-acquisition decision-making process has not been studied previously. This may be due to this process being very secretive in companies, as it deals with market sensitive information about the future(s) of firms and their stakeholders. Using our privileged access to these deals, we were able to deal with the restrictions that have hindered this kind of study in the past. Also, due to the lack of studies on this issue, we chose an exploratory inductive method in order to allow findings to emerge from raw data, without the constraints that would be imposed by structural methodologies. Furthermore, to achieve a rich understanding of the routine, key informants were selected across a wide range of acquiring companies. This approach was adopted to maximize variation to enable a more complete understanding of the complexity of the authorization routine. From subsequent analysis of the raw data key themes emerged which appeared important in the routine. These are subsequently developed into a model that captures the main elements of the authorization routine.

3.1. Data collection

In order to maximize variation in our sample of authorization routines, we selected acquiring companies of variable size (sales between \$300 m and \$20bn), based in different geographies (Australasia, Europe, USA) and in different industries. In total, 26 companies were studied during 2001 to 2005. All were acquisitive and had reversed decisions to pursue attractive candidates (See Table 1). In these 26 acquiring firms 28 reversed decisions were investigated – where due diligence had given the green light for proceeding to formal negotiation and yet a decision was made to stop the deal. In the first round of investigation it became apparent that 4 of the reversed decisions exhibited causes of reversal independent of the acquiring firm's authorization routine. For instance a shock in the external environment can affect the acquirer thus invalidating the M&A strategy and making the authorization routine redundant. In some cases the acquiring firm's strategic goals, to be achieved by a specific M&A, may be reached by alternative means and so prevent the unfolding of the authorization routine. Sometimes the bidder becomes the target and this may shift acquisition priorities, and in some cases another bidder makes a preemptive move, removing the target opportunity from consideration. 'Non-authorization routine' causes of reversed decisions are shown in Table 2. The remaining 24 reversed decisions, in 24 acquiring companies, that were not the result of external factors, became the focus of the second round of research. In this phase, 60 semi-structured interviews of key informants were conducted to uncover the reasons for these reversals. These informants were selected from the senior executives in the acquiring firm involved in the final

Table 1
The 26 companies studied.

Company	Industry	Geography
Dilbaco	Private Equity	OECD
Foodam	Food Ingredients/Branded Food Products	Europe
Pharmco	Health Care/Consumer Products	Europe
Indusco	Packaging	Scandinavia
Levco	Food and Beverages	Greece
Foodex	Food/Retailing	Europe
Sasco	Diversified Industrial	USA
Babco	Health Care/Food	Europe
Angloco	Diversified Industrial Products and Services	UK
Bootco	Retailing	Europe
Indco	Diversified Industrial	South Asia
Sovco	Chemicals (candidate)	Not applicable (two suitors)
Transco	Industrial Products	Europe
Adco	Management Consulting	USA
Ensco	Printing	USA
Denco	Health Care	USA
Suco	Energy	USA
Zenco	Pharmaceuticals	USA
Merco	Pharmaceuticals	USA
Munco	Food	USA
Sogenco	Private Equity	France
Norco	Metals	Scandinavia
Sanico	Sanitary Ware	Europe
Hoco	Chemicals	Germany
Pico	Telecoms	Germany
Finco	Manufacturing	Scandinavia

reversal decision as well as external advisors present at the time, such as consultants, bankers and lawyers.

Interviews lasted about 90 minutes and were semi-structured in-depth in nature with respondents being asked to describe and explain the process by which individual acquisition decision reversals were made. An interview protocol was prepared as a guide for the researcher (Cresswell 1998) with questions designed to open-up general lines of enquiry (Strauss and Corbin 1998) (see Appendix 1). The basic questions of the protocol remained throughout the research but departures were possible allowing the researcher to explore serendipitous responses. Through this exploratory approach, the key factors that led to decision reversal might be revealed. In addition, further interviews were conducted with senior members of staff to collect information about the firm's objectives, strategies and modus operandi to provide thick, rich contextual description in order to locate decision-making processes, outcomes and influencing factors. It is these key participants in the authorization routine that can describe what they do, the performative aspect, of the routine (Feldman & Pentland, 2003). Interviews were supplemented with secondary data in the form of internal company memoranda, including Board presentations and minutes, and plans documenting the kinds of acquisition candidate analysis undertaken. These contained written rationales for the acquisitions used at authorization decision points.

Table 2
Decisions reversed for reasons other than lack of strategic disconnect.

Case	Reason for reversal
Adco	Company planned to generate funds required for acquisition from a divestiture. There were no buyers. Candidates that were in the consideration set all became less attractive due to an environmental change (burst in the Telecoms bubble).
Denco	Candidates were identified by SBU, but parent decided to sell SBU after a significant "shock" in its environment making the industry sector unattractive
Zenco	Acquiring company became target and shifted its priorities to take-over defense
Sovco	Competing acquirer made preemptive bid and won

3.2. Data analysis

The first round of analysis of data occurred concurrently with fieldwork and involved structuring information into themes. In the second round, we then followed an iterative process between the themes and our preliminary explanatory model (refer to Fig. 1 above), which developed following the Emergent Model – Data – Emergent Model stages (Eisenhardt, 1989; Yin, 1994). As new data was collected, and themes of micro-foundational processes emerged, from repeated readings of the transcripts and field notes by all three authors, the model developed until no new themes emerged, which suggests that major themes are identified. The trustworthiness and verifiability of findings was enhanced by using data point triangulation, securing member checks of data, and undertaking peer debriefings (Guba & Lincoln, 1994; Lincoln & Guba, 1985; Yin, 1994). In this way, the inductive method is used to further understanding of a complex phenomena, the authorization routine, through the development of summary themes and an explanatory model.

4. Findings

Before revealing how authorization routines can disrupt favorable M&A, the qualitative dataset allows for the creation of a synthetic case study to show how micro-foundational ostensive and performative aspects of the authorization routine contribute to M&A being sanctioned.

4.1. Synthetic case study of M&A authorization

A sponsoring group, such as a division of a large multi-business company, may have considered numerous acquisition candidates over time. Anecdotally IBM is reported to have assessed around 500 potential acquisition targets in order to acquire 50 during the period 2002–8 (Uhlener & West, 2008) and case data in this paper on Levco (see later) reports 300 targets being assessed in order to negotiate with just 1 target. Progressively, the acquirer will narrow the field of potential targets until focused upon one company for full investigation. Often with the help of consultants, accountants and lawyers, an extensive due diligence process will take place (Angwin 2001). If the candidate company is found to satisfy all internal criteria for a formal bid, a presentation is prepared for the executive committee with a recommendation of 'buy', for authorization. Authorization is an essential hurdle to overcome for all significant investment proposals. The presentation to the executive committee tends to include a briefing document and a substantial set of power point slides – for instance around 60 – 70 slides, which are likely to include a macro-evaluation (such as industry structure, market outlook, target's competitive position), micro evaluation (target's strengths and weaknesses in terms of structures, products/services, management) and financial evaluation (including internal rates of return, purchase and exit prices, cash flows, sensitivity analyses and synergy estimations). In so far as it is possible to be precise about when the authorization routine begins, for our purposes it is when the candidate company is deemed to be satisfactory by the internal sponsors based upon all internal criteria and is poised to be presented to the executive committee for approval. In the run up to the authorization meeting there is likely to be pre-selling of the project through lobbying of key individuals. The executive committee could consist of the main board of the company but in many cases will generally be made up of the three most powerful people in the company (normally the CEO, Finance Director and one other executive director, perhaps a Senior Strategy Director). Present will also be the sponsor of the project (a divisional Managing Director) and directors with knowledge of the candidate's history. In addition there will generally be external advisors present that can include investment bankers, lawyers and consultants. All executive directors receiving the documents have opportunities to ask for further information and clarification about details of the proposed acquisition before the authorization meeting.

When the authorization meeting convenes there may be an opening power point presentation of the proposed acquisition from the lead sponsor or consultants. In one of our cases the opening presentation was from the Director of Planning and lasted just 15 minutes. He did not use slides but there was a written memorandum that the committee had to hand. In this case the deal was small, uncontroversial, and there was little subsequent debate. The CEO just polled directors about whether to bid or not for the candidate and they all agreed within a short space of time to proceed. However, for more strategically significant deals, the authorization routine can be much more complex, consisting of several meetings taking place over several months. For one acquirer the proposed acquisition would be the largest in their history and the executive committee was understandably nervous. The sponsor, anticipating reticence, had commissioned consultants to carry out a thorough analysis of the candidate company and its competitive environment. This took three months and when completed the consultants made a substantial power point presentation of their findings to the executive committee with a recommendation to proceed. In a two-hour meeting the executive committee asked a large number of questions of the consultants and the sponsor. They then asked the scope of the enquiry to be extended, even though this caused significant cost overrun. The consultants returned two months later with findings confirming their original analysis. In the next day-long meeting they were continuously challenged by all members of the committee about the veracity and depth of data. 'How do you know this?' 'Did you actually talk to this guy?' During the session 'back of the envelope' calculations were made using flip charts and marker pens to arrive at a bid price. 'There were flip charts all over the board room floor'. Debates ensued about the opportunities to increase revenues through cross selling; the market share gains which could result from using new technology; the likelihood of reducing costs through eliminating agency agreements and closing overlapping sales and administration offices for instance. 'Everyone chipped in with their bit on how revenues could be increased and costs reduced'. Between these executive committee meetings numerous informal contacts took place between the advisors and the CEO of the acquirer. *The consultants continuously drip fed positive information on the proposed deal to Board members.* A third and final meeting then took place without the consultants at which the CEO articulated the main three reasons for making the acquisition. A charismatic individual, described by one Board member as 'someone who could sell refrigerators to the Eskimos', managed to cajole the committee into reaching consensus in a meeting lasted 90 minutes. The meeting was described as very low key but tense. The outcome was that they would engage in formal negotiations with the candidate company.

4.2. Locus and reasons for strategic disconnect

The reasons why attractive acquisition candidates are not subsequently pursued are shown by the 24 cases where emergent findings show departure from the synthetic case. These are i) lack of specific knowledge at board level; ii) personality differences within the board; iii) lack of consensus amongst the board regarding strategy; iv) lack of a credible champion at board level; v) work load, lack of time, saturation at board level; vi) routine as a pantomime – lack of seriousness about consummating deals; vii) CEOs not seeing eye to eye; viii) poorly communicated antecedent changes across levels of the organization; ix) lack of sponsoring momentum due to slow decision making and substantial bureaucracy across multiple levels; x) lack of agreement between divisions and board; xi) negative change or anticipated negative change in an external contingent sub-routine (see Table 3 for summary).

Inductive research seeks to condense varied raw data (Thomas, 2006) and so these reasons can be categorized into i) within authorization meeting(s) and those ii) affecting key authorization routine linkages. *Within authorization meetings*, i) a lack of knowledge at board level, ii) personality differences within board, iii) lack of consensus amongst the board regarding strategy, iv) lack of a credible champion,

Table 3
Exemplar case firms showing reasons for decision reversal.

Case	Industry/location	Apparent reason for strategic disconnect	Locus of failure internal/external
Angloco	• Diversified industrial products • UK	Poorly communicated changes in financial evaluation criteria at sponsoring level in a culture of secrecy. Anticipating a decline in division's cash flow. viii. Communication linkage xi. Anticipated negative change	External
Bootco	• Pharmaceutical Retailing • Europe	Lack of agreement about industry between top management team and board and within the board. i. Lack of knowledge in Board iii. Lack of Board Consensus	Internal
Dilbaco	• Private equity • USA	Finance became unavailable after bankers re-evaluated their view of the candidate company. i. Lack of knowledge in Board xi. Negative external contingent routine change	External
Foodam	• Food ingredients • Europe	Lack of agreement about industry and geography within board. No real champion for the deal. iv. Lack of champion at Board iii. Lack of Board Consensus	Internal
Foodco	• Diversified food company • USA	Shortage of organizational functional resources (board time) leading to lowering in priority placed on all acquisitions (geography played a secondary role). v. Lack of time	Internal
Transco	• Industrial Products • Europe	Board split about priority that should be placed on acquisitions in general compounded by geography of specific candidate(s). vi Pantomime	Internal
Sasco	• Diversified Industrial • USA	Division lost momentum/ motivation when unable to achieve quick authorization from head office. The deal need agreement between two strategic business units, Sector management, the Geographic Division and at Corporate levels. The Sponsors were worn down by the bureaucracy. ix. Complexity of interactions / Slow decision making ix. Dis-synchronous timing	External
Foodex	• Food retailing • Europe	Lack of agreement between international division and board about priority that should be placed on acquisitions (driven by questionable capability of likely post-acquisition manager) iv. Lack of credible champion x. Lack of agreement across levels	External
Levco	• Food and beverages • Europe	Price suspected of being too high. Poor "chemistry" between CEO of acquiring company and candidate. Personality differences. vii. Lack of agreement amongst key actors across organizations	External
Norco	• Metals • Scandinavia	One division out of a four-division group wanted to acquire the 'perfect' candidate. However the Board was worried that the General Manager of the Division would then become too powerful. So to maintain strategic balance, the acquisition proposal was rejected, even though it met all other criteria ii. Personality differences at Board Level	Internal

v) work load and lack of time, vi) routine as pantomime, are all played out in the Board Room and led to failure in pursuing the acquisition opportunity. Reasons *affecting key authorization routine linkages* include vii) quality of interface between CEOs of acquiring and candidate companies; viii) secrecy and unwitting mis-communication of standards throughout a company by its board which can prevent alignment across routines so critical information is not supplied in an appropriate form for the authorization procedure to take place; ix) lack of sponsoring momentum - substantial bureaucracy across multiple levels of an organization making interaction between parts of the business unintentionally cumbersome and consuming more time than is feasible for bidding for M&A deals which are often highly time constrained, particularly when a bid is contested. Entropy amongst contingent sub-routines may result in an authorization routine 'running into the sand' as sponsoring divisions may also lose momentum, showing the importance of synchronicity in effort and timing amongst interconnected levels of routines; x) lack of agreement between divisions and the board about the strategic value of the acquisition candidate – for instance the perspective of corporate strategy may differ from the perspective of competitive strategy; xi) negative change or anticipated negative change in an external contingent sub-routine undermines the deal. For instance the sudden withdrawal of finance by a bank through changes in its own internal perspectives of the deal prevented one firm from financing its intended acquisition.

4.3. Within authorization meetings

4.3.1. Lack of specific knowledge at board level

Lack of specific knowledge was a major reason for authorization routine disruption at Bootco. It was also cited in a further 4 cases (see

Table 4 for summary of cases and reasons for reversed M&A decisions). Bootco is a \$5bn turnover European-based retailer of ethical pharmaceuticals, over-the-counter drugs (OTC) and health and beauty aides. It had set a high priority on entering the US market through acquisition(s) and retained management consultants to examine opportunities in retailing and OTC manufacturing. After an extensive search, a candidate with a heavily branded OTC line and a commanding market share was identified. "*The company was a perfect deal. We had done all the right things after Bootco said yes, [the candidate] is the right one to go after - and the timing was right* (Vice-President of consulting firm). However the Board of Bootco decided to delay and eventually another bidder bought the target. The Vice President of the consulting firm attributed Bootco's decision not to pursue the candidate to the fact that its core business was retailing and all of its board members had no experience of this activity. "*They needed time to learn and adjust their thinking to encompass product manufacturing and marketing activities*" (Vice-President of consulting firm). The M&A opportunity revealed a disconnection between the strategic vision of the Board and their actual competencies and capabilities. They recognised that more time was needed for them to really learn and understand the new business area.

Explanations of lack of specific knowledge at Board level were also given for Dilbaco, Hoco, Indusco and Transco (see Table 4). At Indusco, there was a perceived lack of MIS knowledge amongst Board members that made them uncomfortable with the deal and at Dilbaco there were concerns that they did not have a good understanding of how Post Merger Integration could proceed.

4.3.2. Personality differences at board level

Norco is a large metals company in Scandinavia. It is one division out of a four-division group and wanted to expand through acquisition.

Table 4
Findings 24 reversed M&A decisions.

Themes	Angloco	Bootco	Dilbaco	Foodam	Foodco	Tranco	Sasco	Foodex	Levco	Sogenco	Pharmco	Indusco	Babco	Indco	Norco	Sanico	Hoco	Ensco	Suco	Mercos	Munco	Marko	Pico	Finco	Total
Within																									
Authorization Meetings																									
i) Lack of specific knowledge at Board level		✓	✓			✓						✓						✓							5
ii) Personality differences at Board level						✓						✓			✓										3
iii) Lack of Board consensus on Strategy		✓		✓		✓								✓		✓	✓			✓					7
iv) Lack of credible champion				✓				✓				✓								✓			✓		5
v) Work overload/lack of time in the Board/saturation					✓					✓	✓							✓					✓		6
vi) Pantomine External Routine Linkages						✓																			1
vii) Interface quality between CEOs of protagonist companies			✓						✓																2
viii) Poorly communicated antecedent changes at Corporate Level	✓																	✓		✓			✓		4
ix) Lacking of sponsoring momentum							✓																✓	✓	3
x) Lack of agreement between organization levels							✓	✓												✓			✓	✓	5
xi) Anticipation of negative environmental change	✓		✓								✓		✓								✓	✓	✓		7

Following a search process it identified ‘*the perfect candidate*’ (Divisional General Manager). The target met all the acquisition criteria of the division and the group but the Board would not give approval to go ahead. The reason given by a Board member was that the Board was worried that the General Manager of the Division “*would have become too powerful*” (Board Member). “*The GM needed to be slapped down*” (Board Member). So, to maintain strategic balance, the acquisition proposal was rejected, even though it met all other criteria.

Personality differences at Board level were also drawn upon to explain failure receive approval for an acquisition at Indusco and Transco (see Table 4). At Indusco the Board felt the champion was manipulating the Executive Committee. They were alienated by the acquisition being presented as a *fait accompli* and they felt they “*were being rail-roaded*” (Board member). The Board members then raised sufficient technical questions about the deal to plant doubts in the minds of other Board members, so that the approval was withheld. At Transco (see later) a father and son relationship occluded the son’s attempts at making acquisitions.

4.3.3. Lack of board consensus on strategy

Foodam is a \$1bn turnover European food ingredient and consumer foods company. It was cash rich with aggressive growth targets. The board was unsure how they would be achieved and retained management consultants identifying the best means to achieve growth. Following “*situation analysis*” which yielded four broad options to support individual product-market strategies, the Board agreed acquisition was the only realistic way to achieve growth targets.

Potential candidates were screened and ranked by size, complementarity of product lines, plant capacity, market share, channel relations and other factors indicative of candidate strengths and weaknesses or areas in which synergies were possible. Profiles of three candidates were presented to the board with estimates of their acquisition prices with the following recommendation, that “*A first round of talks should ideally take place over the summer... with the possibility to take the decisions for which candidate(s) to buy ideally in September*” (Report to the Board). The board agreed the candidates were attractive and there was ample opportunity to open a dialogue with them, but the acquisitions were not pursued. The Foodam’s board and Divisional Head, for whom the strategy was developed, attributes the lack of pursuit to “*The group didn’t have a consensus about its strategy. There was no shared corporate view of what product areas and geography should have priority and whether the company should be in private label or branded products*”. Without this consensus the concept of acquirer – candidate “*fit*” becomes meaningless and no progress can be made.

This reason was also cited at Bootco, Indco, Sanico, Hoco, Merco, Transco (see Table 4). For instance at Sanico, strategic priorities could not be agreed. At Hoco the acquisition was dropped as the Board decided it wanted to remain flexible to exploit future unforeseen opportunities

4.3.4. Lack of credible champion

Foodex, a \$1½bn European-based producer and marketer of branded up-scale food products, was making heavy losses in the US market and wanted to make a large acquisition to reverse this fortune. After a sophisticated screening process involving 800 candidates that resulted in a short list and a primary candidate to begin negotiations with, the process stalled. According to the Vice President, International, the son of the chairman, who was responsible for US operations and sat on the Board, had little credibility with his father or other board members. Areas of the business for which he had had responsibility in the past had not performed well under his management. The chairman’s son also wanted to play an operating role in any acquisition successfully consummated in the US and is possible that the chairman wanted to avoid this (or the conflict that might have been associated with eliminating the risks of this outcome) by simply not making an acquisition even though

he (and the board) agreed in principle to the acquisition strategy and the candidates. Indirect support for this possibility may be found in two key actions the group took in the years following the search. In the early 1990’s, the chairman’s son was asked to cede his operating role in the group. He resigned but retained his position as a non-executive director. Following this change, but not necessarily directly linked to it, Foodex made a significant acquisition in the US selecting a company from the original list of acquisition candidates. Foodex illustrates how a board split may develop about whether to proceed with acquisitions at all as a result of insufficient (or inappropriate) championing. It also suggests a negative variant of the post-acquisition manager variable. That is, authorization to proceed with an acquisition may be withheld if the person to whom it will report is deemed inappropriate as well as when the availability of a manager with the appropriate skills and knowledge to manage the company on a day-to-day basis is lacking or questionable.

Lack of credible champion was also given at Foodam (see above), Indusco, Suco and Pico (See Table 4). At Suco the champion lost political power base and at Pico the champion did not have a “*real voice*” (Board Member) at Group level.

4.3.5. Board saturation

Foodco is a global, publicly traded, \$3bn turnover diversified food company. Following the appointment of a new Managing Director, priority was placed on rationalizing the corporate portfolio by divesting unattractive businesses, building strong competitive positions in core businesses through acquisitions, achieve growth through synergistic “*bolt-on*” acquisitions and improve profitability through cost reduction by rationalizing (and sharing) physical and other assets of different businesses in the portfolio. After a year and a half into this 5-year plan, 10 acquisitions, from \$20 m to \$400 m in size, had been consummated. They all fitted the company’s acquisition criteria of revenues \$20 m +; EBIT of \$5 m; participation in designated sectors of the food industry in high priority geographic areas; an IRR hurdle. Ranking considerations included the candidate’s market share relative to competitors, and opportunities for brand and operating synergies. A further opportunity for a significant acquisition arose which met all screening and ranking criteria. It had sales of over \$150 m, was in the group’s largest core business and was located in a geographic region in which the group wanted to expand but had no presence. The candidate was performing poorly financially and Foodco believed that it had the knowledge and skills to turn it around. Foodco management was sufficiently confident about the attractiveness of the opportunity to secure proprietary operating information from the candidate and, according to the Director of Corporate Development, “*to authorize an investment bank to prepare to execute a transaction. The investment bank worked for two to three months to develop the offering price.*” When formally presented to the board, which had heretofore rubber stamped all of the previous acquisitions, final approval was withheld. The Corporate Development Director said, “*turning it [the candidate] down wasn’t consistent with other things the board had let through.*” His explanation was two-fold; “*Brain Scope*” (informant’s words): “*The board had looked at and approved so many acquisitions and divestitures in the preceding 18 months (than it had historically) that it simply couldn’t wrap its head around another*”; and Work-load: gaining a controlling interest in the target company’s equity would have required extensive contacts between individual members of the board and major shareholders over an extended period of time. The candidate’s owners needed to be “*romanced*”. Travel distance between the head offices of the two companies was significant (over an eight hour flight), and the informant thought that some of the board directors simply weren’t willing to undertake the substantial effort required to ultimately consummate the deal. Simply put, the Board had reached saturation and could not take on any more M&A work.

Saturation was also cited at Ensco, Pharmco, Sasco, Sogenco, Finco (see Table 4). For instance at Ensco, a Board member remarked

“we had other things on our plate....acquisitions are now on the backburner”. At Pharmco (described later) saturation was imposed by the CEO “who only wanted to embark on an acquisition of this size after a period of, say, a year”(Vice President Consulting Firm) – after a prior one of similar size. At Sasco “I couldn’t get the acquisition proposal added to the Board agenda in time to get approval to make a bid because the Board were busy with other matters” (Sasco Acquisition champion).

4.3.6. Pantomime

Transco is a \$250 m European based manufacturer of transportation equipment components. With a large portion of its sales in the US and wanting to be “closer” to its customers, Transco decided to make a US acquisition. It sought candidates that had sales of less than \$40 m, served its existing customer base, would be willing to make a majority of their equity available and would not require a total investment in excess of \$80 m (\$40 m for purchase; \$40 m for investment). Over a two-year period, Transco had a “serious look” at about 50 candidates. Although many met the criteria, none was acquired. A non-executive member of the board explained the lack of deals to the two key decision makers in this family-owned company - the father (CEO) and his son. The father didn’t want to make any acquisitions, as he was risk averse, “as he had made a number in the past that had not worked out” (Non-executive director). The son did want to make acquisitions. Added to the father’s concern was that he didn’t speak English which he thought would be required if a candidate was bought in the US. The non-executive director, in characterizing the CEO’s behaviour noted that, “[He] continually either shoots down candidates or presents them to the board in an unfavourable light.... He gives the impression he wants to pursue the agreed upon strategy by constantly seeking and evaluating new candidates. He has even negotiated with some to show momentum in the process... but nothing happens.” As the non-executive director remarked, “it’s ‘Window dressing’ - so management can be seen to be doing something - pantomime if you will.”

4.4. Key authorization routine external linkage effects

4.4.1. Interface quality between CEOs of protagonist companies

Levco is a family-run European food and beverages group that wanted to make an acquisition in the juices business. It hired management consultants to search through over 300 potential targets, reducing the list to 12 candidates for which 2-3 page memorandums were created and from these a candidate company was identified. Both the consultants and the acquiring CEO ‘teleconferenced’ the candidate company’s CEO and then spent a day visiting their business. The intention was to allow the candidate company to remain autonomous post-deal as this was important to the candidate CEO. Upon leaving the company, the acquiring CEO decided in the airport lounge not to progress the acquisition. The acquiring CEO was a very soft spoken, analytical, modest character who would go to the local pasta restaurant with staff. A very informal unpretentious character, well liked by his employees, he viewed the candidate CEO with distrust, as he appeared arrogant and boastful, and continuously name-dropped. “The [candidate company CEO] really thinks highly of himself because he met Gorbachov (as part of a trade delegation to Russia)...I wonder how many other people were in the trade delegation?” (Levco CEO). This jarred with the acquiring CEO who needed to like and trust people. He felt their personal chemistry did not work and that they would not be able to work together post deal. The Dilbaco case also reveals the importance of personal chemistry.

4.4.2. Poorly communicated antecedent changes at corporate level

Angloco, with sales of \$500 m, is a highly diversified division of a \$2bn turnover European-based industrial holding company. The division’s (and parent’s) acquisition decision-making is driven by profitability calculations. The overall objectives of the parent are to keep its profits and share price growing by following a strategy that involves

opportunistically buying and selling companies depending on their recent performance and short-term outlook. The responsibility for identifying potential acquisitions is dispersed throughout the organization (parent, division and SBU levels). The CEO of one of the SBU’s identified and evaluated an “ideal” candidate and presented his findings to the Angloco board whose Chairman was also the CEO of the parent company. The acquisition was not approved even though the sector in which it participated and its profile had been discussed with, and provisionally approved by, the sponsoring CEO’s boss (the Angloco board Chairman). The reason why the candidate was eliminated from further consideration was on the basis that, while its returns on free cash flow exceeded the division’s hurdle rate, the return was negative in the first year. This particular financial criterion had not been communicated to the championing SBU CEO prior to the meeting or in the detailed discussions of the candidate that the champion had had with his boss. “We had spent thousands of hours on this, evaluating the candidate. I really wish I had known the criteria had changed” (Divisional CEO). The acquisition champion explained the reason why approval wasn’t gained as “there was a general failure to communicate a change in financial criteria to the operating companies and the company is characterized by a culture of secrecy”. For example, SBU CEOs’ were not apprised of the performance of sister companies or the division as a whole. Changes in the financial objectives for all acquisitions had not been communicated. The absence of consensus between the evaluators and champion at the SBU level and the approval authorities at the divisional level was therefore inevitable.

Poor communications of changes in Group strategy were also cited at Ensco, Merco, Pico (see Table 4) for ‘good’ acquisitions not being approved. For instance at Ensco, a Board member remarked “we had other things on our plate...acquisitions are now on the backburner”. At Merco the Board changed its objectives without informing the Divisions. At Pico the Group decided to change its strategy so, although acquisition criteria in financial terms remained the same, they did not communicate the new technical orientation they wished to pursue.

4.4.3. Lack of sponsoring momentum

Sasco, a \$20bn chemicals and industrial products conglomerate, had an opportunity to purchase a recently privatised state owned enterprise in Germany that produced a product similar to that of Sasco’s for use in the manufacture of synthetic fibres. This company was either a potential competitive threat or opportunity for Sasco. Over a year Sasco carried out evaluations of the candidate and discussions of price went through three iterations to adjust for due diligence findings. A competitor then put in a counter offer and Sasco had a limited amount of time to respond. However it couldn’t act quickly enough to formulate a response and have it approved at the appropriate level(s) in his firm. “The [seller] finally lost patience and sold the company for \$350 million to [a non-industry participant] who calculated its value on the back of an envelope” (President of Sasco’s European division). The President of the European division explained the missed opportunity as “we had slow decision-making to get approval for the bid and there was little consensus and motivation”. In this large bureaucratic organization, the project needed to be supported at by two SBUs (one that was championing the bid as it manufactured the product and the other which would serve as a major customer for the output) and at Sector, Geographic Division and Corporate levels. Independently of the technical and price issues with which the staff teams dealt, “building consensus in support of the acquisition horizontally and vertically in the organization was time consuming” (President of Sasco’s European division). The motivation of the acquisition champion to consummate the acquisition, declined as the time devoted to the project increased. The bureaucracy of the company and the prolonged consensus building effort wore him down. This case suggests that elapsed time and the number of organizational units involved in a decision may be important organizational influences. The complexity of coordinating multiple sub routines disrupted flows into the authorization routine preventing Sasco from participating further in the acquisition process.

Lack of sponsoring momentum was also cited at Pico and Finco (see Table 4). For instance at Pico there was some demoralisation of the sponsoring champion as the Board seemed to be *'starving Peter to pay Paul'*.

4.4.4. Lack of agreement between organizational levels

Pico is a \$3bn division of a European telecoms operator with over \$20bn in revenues. The divisional performance was lagging behind that of other divisions in the group and there was a wide recognition that it needed to have a stronger international presence. Having examined around 65 targets, the list was narrowed to 12 for further investigation and the target that emerged as the strongest was deemed an excellent fit with Pico. It had a strong footprint in the core business area and its regional footprint opened up a major new market in which Pico wanted to belong. The target was growing strongly and was also well run and profitable. It fitted all the screening criteria at corporate and divisional levels. However when approval was sought from the Board, it was withheld on the basis that the proposal did not fit with corporate objectives. In the feedback received at the time, the Board said the *'proposed acquisition no longer fits with Group objectives'*. This may mean that the Board had not communicated its strategy very effectively to the Division, but also raises the issue of what the alternative would be for the Division, which clearly needed to grow through acquisition to address its strategic weaknesses.

Lack of agreement between organisational levels was also cited at Merco, Finco, Foodex, Sasco (see Table 4). For instance at Merco there was divergence between the Board and Divisional management, with the latter wishing to strengthen other areas of the business and the Division needing to invest in their area to strengthen their contribution to the Group. At Finco the proposed acquisition was needed for the division to survive and yet the Group preferred to invest elsewhere. There was also a fear at Board level that the acquisition might be a threat to the core business. At Sasco five teams representing different SBUs, Sectors, Geographic and Corporate interests had been sent to evaluate various aspects of the candidate's operations and were described by the European President as: *"Nay-sayers all with different requirements"*.

4.4.5. Negative change or anticipated negative change externally

Dilbaco, a local subsidiary of one of the largest private equity firms in the US, carried out extensive analysis of a diagnostic laboratory business. Dilbaco is financially driven and focuses upon acquisitions as standalone entities needing to generate sufficient cash flow post deal to cover financing costs and generate profit in the first year. During the evaluation process, obstacles, opportunities and changes in financial assumptions were continuously assessed in ad-hoc meetings within the wider group. These forums provided the deal team with feedback and expertise of senior staff not directly involved. At this stage pre-selling of the project occurred to the Group's senior credit team and this consensus was critical to getting approval for detailed due diligence using external experts. Following the completion of this evaluation and confirming their earlier analysis, a formal presentation was given to the three most senior executives in the group and members of the Credit Committee, for final authorization to proceed. At this stage parts of the evaluation document had been converted into a proposal requesting debt funding from a Hong Kong based bank. *'A hand shake agreeing to the provision of the debt was given to me'* (Dilbaco Vice President). However before the Committee finished reviewing the materials a senior executive at the bank overruled the earlier decision to provide debt funding as, *'the senior guy didn't like the (candidate) company's CEO'* (Dilbaco Vice President). Although the project champion continued to fight for the project, authorization was withheld. In this case the reason for the authorization routine not leading to formal acquisition negotiations came from an external sub-routine, concerning bank perceptions of risk.

The anticipation of negative change in terms of the proposed acquisition was also a reason given for non-authorization at Angloco, Babco,

Marko, Munco, Pico, and Pharmco (see Table 4). In Marko's case there was a growing concern about the costs involved for the acquisition and a realisation that the same overall aims could be achieved at lower cost through an alternative mechanism. At Pharmco for instance *"the board became aware of a competing opportunity and wanted to see how that competing opportunity shook out before committing to the proposed acquisition"* (Pharmco Board Member). At Babco there was a growing concern that the acquisition might leave them vulnerable to being acquired themselves.

5. Discussion

5.1. The authorization routine

The data in this paper provides evidence for the importance of the authorization routine in determining whether potential M&A candidates will proceed towards actual negotiation. Defining the beginning of the authorization routine is *'like trying to isolate the Gulf Stream from the Atlantic Ocean'* (Feldman & Pentland, 2003). As the process diagrams illustrate one could go back to the original strategy meetings as the origin of the decision to acquire, or begin where there is an explicit mandate to begin a search process. In this paper the routine is bounded on the one hand, when only one candidate firm is being seriously considered, when due diligence analysis has been undertaken and the intended deal is now being presented to the main board for approval for formal negotiations to begin, and on the other by the outcome of the authorization process – of approval or non-approval for negotiation. In all cases we examined there was an authorization routine which either allowed further pursuit of a candidate through to direct negotiation or prevented further action. The significance of this routine cannot be underestimated as it can be shown to prevent the progress towards acquisition of a candidate that matches all the acquiring firm's criteria and is supported by internal sponsors. For this reason the authorization routine is an important aspect of pre-acquisition decision-making that should be recognized explicitly in M&A decision process models. Even with the recognition of the authorization routine as a critical part of the pre-acquisition process, this could be a hurdle with possibilities of iteration with earlier stages in the process so that proposals for candidates may be recast and represented. However in an M&A context, time pressures mean the opportunity to do this in practice is limited as candidates are often acquired by other firms and acquirers generally cannot sustain the level of commitment necessary for long periods of time.

5.2. Reasons for attractive candidates failing

Within the authorization routine all firms were strikingly similar in their ostensive aspects with a narrative process that would be familiar to all acquiring firms. Executive directors and key sponsors of the candidate all received the same briefing documents in advance of the full board meeting. All had the opportunity to ask for further information and clarification although this tended to be very limited indeed due to the secrecy surrounding the proposed transaction. When the meeting convened in the Boardroom there was an opening presentation, almost always with Powerpoint slides, of the proposed acquisition from the lead sponsor often with technical support. There followed a detailed Q&A session before the participants began to discuss whether the proposed acquisition should be pursued in direct negotiations. The length of debates varied significantly before a decision was reached. In a number of cases the board had to reconvene due to lack of time or needing additional detail. In all cases the routine was performed in the boardroom with the same executive committee members. It is in the performative aspects of the routine where reasons can be found for the authorization routine failing to allow a sponsor to formally negotiate an acquisition.

The findings show the importance of differences amongst individuals within the board, tensions vertically across organizational levels

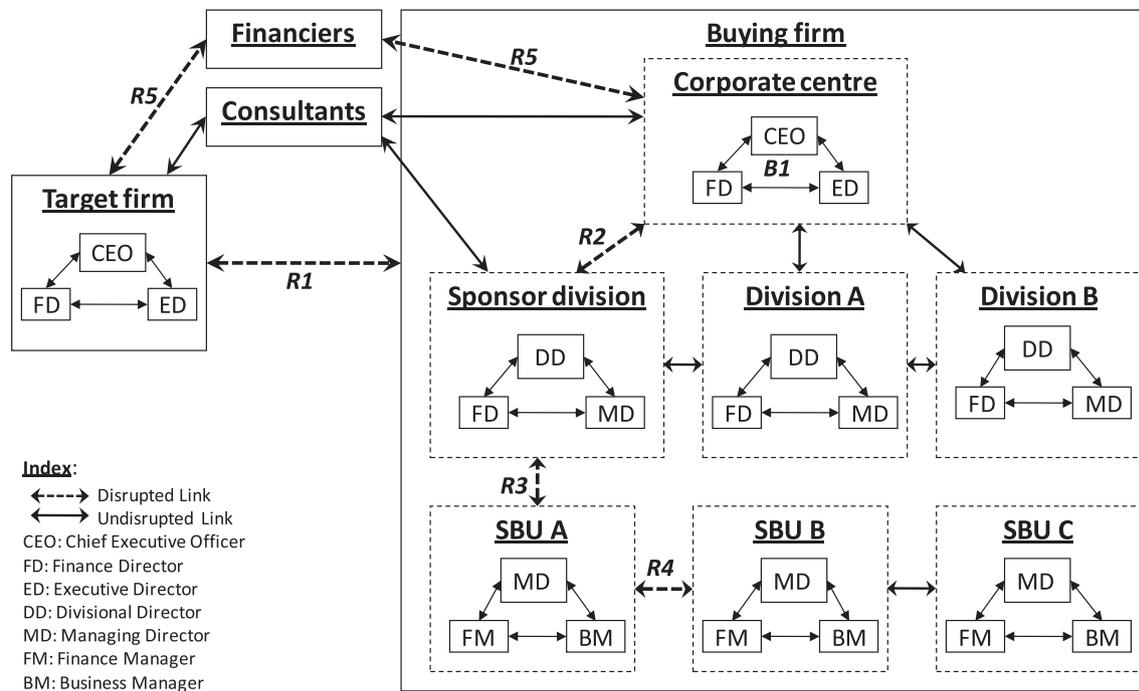


Fig. 3. Strategic disconnects in the authorization routine.

and horizontally across organizational boundaries. At the individual level, tensions might be due to personality differences as well as political tensions from different participant perspectives. In each of the cases presented these tensions were sufficient to cause the authorization routine to flounder as interested parties became disconnected from the general consensus to authorize an M&A. These disconnects are 'strategic' as no other reasons for decision reversal were evident in the cases. In other words the disruption of participant consensus on attractive acquisitions had strategic consequences for the firm. The multiple loci of the strategic disconnects are shown in Fig. 3 below. This figure provides an extension of key routines in the preliminary model (Fig. 2). Attention focuses upon the disruption to linkages between header and sub-routines, although for completeness B1 is marked to locate the six internal 'within-meeting' causes of Authorization routine disruption listed above (p. 9).

The main linkage disruptions are: R1 which shows the potential for the authorization routine to stall due to significant personality differences between the two CEOs as illustrated by the Levco case. Whilst objective data and rational internal analysis may indicate a satisfactory candidate, personality clash at the top of companies can prevent deals from taking place. R2 shows the importance of strategic alignment between divisions and head office. In the Pico case, differences in perspective on the candidate company resulted in the initiative stalling. Amongst the data in this study it is the difference in strategic views of candidate companies between head office and divisions that are a common cause of authorization routine disruption (c.f. Merco, Finco and Sasco in Table 4). R3 illustrates how poor communications between sub-routines can disrupt the header routine, leading to the Authorization routine failing as shown in the Angloco case. R4 depicts the problems that can arise with insurmountable complexity. The Sasco case illustrates how the involvement of many SBUs, divisions, head office teams causes routines to become intractable, resulting in demotivated sponsors and missed opportunities. R5 shows the importance of the routines of external parties to the transaction. In the Dilibaco case, changes in the banks internal officers managing the financing of the proposed deal, resulted in the authorization process being derailed. These multiple levels of connection and disconnection (R1-R5) show how the smooth running of the authorization routine within the

Boardroom maybe disrupted by the level of coherence with its sub-routines both within and outside the organization.

Strategic disconnect amongst participants in the authorization routine appears to result from a large number of elements over and above the purely content aspects of the M&A decision. Whilst there may be differences of view over the nature and attributes of the candidate, where the candidate satisfies all content considerations, the interrupting characteristic of many organizational, psychological and behavioral elements becomes clearer so that in some instances personality clashes, communication effectiveness, time pressures, and knowledge differences may serve to override M&A content. It shows how different participants deploy individual repertoires of actions based upon preceding actions and experiences such as having lived through previous M&A failure, or social constraints such as family relationships. This provides evidence of agency operating within routines to affect strategic outcome.

In theory an M&A proposal which has been rejected in the original authorization routine may be (re)passed through prior phases, redefined and recast. However "re-looping" of the authorization routine only occurred in terms of re-attempting to make another acquisition rather than re-bidding for the same candidate company again. The reasons for not re-looping could be the result of; 1) time pressure; 2) secrecy; 3) factors inherent in the nature of M&As; 4) resourcing issues; 5) the inability to adjust the nature of the candidate prior to acquisition. 1) Time pressure is critical in M&A (Angwin, 2004) as most acquisition candidates do not remain as opportunities for long, being a conjunction of many acquirer, candidate and contextual variables. Where there may be other potential purchasers, there are advantages to being the first to seize the initiative, for example, by being able to shape an approach to the candidate firm. When the opportunity is in the open, or public, such as in an auction process, the decision time available can be very short indeed; 2) related to time pressure is the need for secrecy in the decision-making process. Whilst the candidate for acquisition is 'secret' to all but a few executives, time pressure is less than when news of a potential deal leaks out, whereupon time pressure becomes extreme. In order to keep the investigation of a candidate secret, the numbers involved in the decision process will be limited and re-looping discouraged to maintain secrecy; 3) the inherent nature of M&A as an opportunity is

also likely to preclude re-looping in the majority of cases as once a firm has been bid for it is likely to be acquired and so removed from further possible action. M&A therefore requires a kind of take-it-or-leave-it commitment (Agastya & Daripa, 2002); 4) re-looping might also be absent due to the sustained and large commitment of time and resources necessary to continue to promote the investigation of the candidate company (Angwin, Meadows, Yakis-Douglas, 2012); 5) unlike other types of strategic decisions where the scale and timing of commitment to initiatives can be varied, acquirers rarely have the luxury of influencing the key characteristics of candidates (e.g. geography, industry) prior to acquisition. Arguably this may be a reason why there can be so much re-looping activity once a firm has been purchased.

The authorization routine may be re-enacted for all subsequent significant acquisition candidates as they emerge. It is possible that learning and adjustment occurs in these subsequent authorization routines as suggested by Feldman (2000). In the Foodex case the next time the authorization routine took place the outcome was the successful sanctioning of formal negotiations as one of the original sponsors had been removed from the scene. The ostensive aspects of the routine were the same but the performative dynamics had changed. In the Angloco case the poor communication of financial criteria for acquisition was remedied so that future acquisition candidates were not presented which failed on this particular hurdle. This was not an instance of the rules themselves changing, for acquisition candidates will always have to meet internal hurdle rates, but rather the communication of the rules which altered.

Overall the cases illustrate the ways in which the authorization routine can be disrupted due to: i) internal clash of participant performances, where the routine cannot lead to further action due to lack of participant agreement, as well as ii) unaligned external linkages, where the participants in the routine are coherent but the inputs to the decision process are not aligned. In all cases it seems the performative aspects of the authorization routine determine outcome rather than the ostensive ones which appear to be a broad framework or set of rules within which tensions and differences are either worked out or disrupt the process. There was no evidence that the ostensive aspects of the routine changed in terms of its generalized pattern. In the authorization routine it is the performative aspects that exhibit the surprising and novel improvisatory practice.

The importance of the external linkages into the authorization routine cannot be underestimated as they can prevent it from achieving its intended outcome. In these instances routines fail in their performative aspects due to problems of operating across different organizational levels and contexts – where differences in organizational, social, physical and cognitive structures can cause disruption. We can conceive of the authorization routine as an example of a ‘header routine’ that engages with many sub-routines. The authorization routine itself may be acted out in its locus in the Board Room, but the evidence presented here is that in many cases a positive outcome is jeopardized by problematic external links with other sub-routines. The authorization routine may therefore be conceptualised as a ‘header routine’, being a set of interactions around a boardroom that connect up aspects of ‘feeder-routines’ which are both within and across the boundaries of the firm. These feeder routines include a due diligence process (which will include external advisors and interactions with the candidate company), a set of interactions between senior management teams of acquiring and candidate company, interactions amongst divisions / units of the acquiring company itself, and interaction with a broader strategy process. The authorization routine is a nexus where elements of ‘feeder’ routines can be brought together for debate and resolution. This requires coherence and synchrony between routines – a ‘connectedness’ (Angwin & Vaara, 2005), in order that the authorization routine may be performed, all the while bearing in mind that changes in the wider context may affect routines differently and destabilize the structure. It is therefore not sufficient merely to look inside routines for explanation

of outcomes but external connectedness (Angwin & Vaara, 2005) to ‘feeder’ routines is also an important explanatory factor.

6. Conclusion

Anecdotal and empirical evidence suggests that only a small percentage of acquisition candidates evaluated are acquired (Johnson, Whittington, Scholes, Angwin & Regner, 2014; Muehlfeld, Rao Sahib & Witteloostuijn, 2012; Wong & O’Sullivan, 2001). Amongst those rejected candidates there is evidence to suggest that even some which satisfy internal criteria are rejected. Conventional pre-acquisition decision process models indicate that unless candidates fail on strategic or financial criteria, they proceed through to negotiations. However this does not explain those candidates that do not proceed to negotiations and yet satisfy internal criteria. This paper has sought to explain this situation by drawing upon decision models in strategic management and by focusing on the micro-foundational aspects of the routines surrounding the pre-acquisition process. We find that the authorization routine plays a central role in determining which candidates proceed to negotiation and which do not; such role has been overlooked in the existing M&A literature. In order to explore the authorization routine, multiple case studies across three regions were used. The case results summarized in this paper explain how a lack of consensus about whether or not to proceed with an acquisition can result in a decision to halt the pursuit of an attractive candidate in the authorization routine. In particular the findings confirm that a) strategic disconnect, where M&A authorizations to negotiate are withheld, does result in a failure to pursue attractive M&A candidates and b) strategic disconnect during authorization may occur between or within any sponsoring and authorizing level or entity of a firm. Strategic disconnect is therefore important to the enactment of the authorisation routine, and it may also play an important part in other critical parts of the M&A process (Gomes, Angwin, Weber & Tarba, 2013). For instance a strategic disconnect, ‘a wall’, has been identified between successful deal conclusion and subsequent management of an acquired company (Angwin, 2000).

The reasons for strategic disconnect are highly varied. They can be related specifically to the M&A decision and candidate characteristics, and be the result of more general organizational, inter-organizational and personal tensions. Disconnects over specific M&A aspects range from fundamental differences of opinion about how a business should grow (such as whether to pursue M&A’s at all) to disagreements over where compromises can be made about specific aspects of the M&A candidate. More general organizational and personal tensions can be between the ways different levels of an organization. For instance initiatives being presented from one level to another level suffering from initiative overload; expertise on one level being absent at another; time for presenting candidates at one level may be in short supply at another. In short the nature of the interactions between levels can, in of itself, be the cause of strategic disconnect. At the personal level, personality differences and power struggles may all play a role.

In terms of authorization as a routine, it exhibits the key characteristics outlined by (Feldman (2000)): i) the routine is repeated whenever there is an decision about whether to negotiate a large M&A (and this could be extended to any large corporate renewal decision); ii) there is a recognizable pattern of action which involves determining the firm’s overall strategic goals, collating documents relevant to the candidate acquisition (financials, pro-formas, market intelligence etc), circulating documents, fielding questions, full board meeting (including power point presentations, questions and answers, debate); iii) there are multiple participants who may have access to similar information but will interpret this in quite different ways based upon their prior experiences and professional location within the firm; iv) there are inter-dependent actions which are not limited to just the participants in the board meeting but are enmeshed in far-reaching complex webs of inter-dependence such as receiving advice from a range of external stakeholders (investment bankers, consultants etc.).

The reasons given for decision reversal illustrate the role of the authorization routine, emphasizing the importance of the performative and agentic aspects of the routine, rather than the ostensive ones, in influencing strategic outcome. As observed by Pentland and Feldman (2005) it would seem that the ostensive aspects of the authorization routine are relatively stable (unchanging) whilst the performative aspects are highly variable. The cases show the authorization routine is about actual performances by specific people, at specific times, in specific places. With multiple participants from different perspectives, often possessing different knowledge, diversity is the essence as this routine unfolds. In a way it can be likened to a dance (Feldman and Rafaeli, 2002), or even a pantomime, as participants maneuver to achieve a strategic outcome. The cases show how different personal agendas in the boardroom can cause tensions and ultimately disrupt the routine. The cases also show how the routine, being embedded in far reaching webs of interdependence, can be dislocated by vertical and horizontal links. In other words authorization routines are nested within a series of interlocking routines that may bring about failure. For authorization routines it would seem that there was little variation in the ostensive aspects which suggests the routine itself is unvarying, but there is considerable performative variation within the decision making forum as well as along its broad set of external linkages which can disrupt the intended outcome.

Routines in general have been associated with maintaining the status quo in firms and more recent research has suggested that they are dynamic resulting in strategic change. However in this paper the authorization routine can be seen as designed to proceed with an acquisition or reject a proposal. The routine itself does not lead inevitably to strategic change or stability but is a contested arena in which either outcome is possible. However, when the routine itself fails the firm remains the same – as a large acquisition is not consummated. In this case routine failure is about keeping the status quo, whereas routine completion is about strategic change. Failure in the routine may not be only the political activity of different interest groups struggling to achieve preferable outcomes but also the failure of other performative aspects. For example, the lack of communication between head office and subsidiary was not a politically motivated action, but it resulted in a failed routine. Similarly the lack of time, amount of bureaucracy and entropy all serve to undermine routines. The implication of these findings for practitioners is that their organizations may be strategically disadvantaged by unintentionally poor alignment (Angwin & Vaara, 2005) between header and multiple feeder-routines – across the ‘hierarchy’ of routines. Dislocation may result in failure to seize strategic opportunities that competitors may seize, and for large companies in M&A there are often few acquisition targets which can be purchased as alternatives.

The research presented here provides insights into a phase in the M&A decision-making process that has heretofore been largely ignored (Puranam, Powell & Singh, 2006). The authorization routine can be seen to be a critical determinant of the progress of acquisition candidates to the negotiation phase and should be clearly identified in pre-acquisition decision-making. It also provides a nuance to consider in conjunction with broader research into strategic antecedents and motivations of M&A (Huyghebaert & Luybaert, 2010; Peng & Fang, 2010; Worthington, 2004). A wide range of reasons have been identified for strategic disconnect in the authorization routine showing that psychological, behavioral and organizational factors may have contributed as much to the inability to arrive at a consensus about an M&A candidate as elements of content. By unpacking the black box of the authorization routine to reveal social complexity across multiple dimensions, further insight is gained into part of the dynamic practice of making acquisitions that can influence the relationship between pre-acquisition strategies and M&A outcomes.

In order to unpack the authorization process, we have adopted an exploratory approach to gain access to rich information from senior executives and advisors at a highly sensitive time – where information

leakages in M&A have been shown to move stock prices dramatically. This means getting access is very difficult indeed and may be why this routine has not been studied to date. Whilst every effort has been made to maximize variety through case choice, and the data shows repetition of reasons for attractive acquirers being rejected, to confirm their veracity, future research using quantitative methods, such as structured equation modeling, could provide generalization about the occurrence of decision interrupts and their causes. This line of research may also uncover associations between authorization routine interruption and firm performance outcomes.

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Appendix 1. Interview protocol

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- Introduction
 - a. The research
 - i. Background to researcher and interest in acquisitions
 - ii. Description of project and inductive approach
 - iii. Nature of assistance required
 - iv. Assurances of confidentiality
 - b. Interviewee's details
 - i. Confirm level and title, length of time with company
 - ii. Extent of M&A experience
 - iii. Roles played/tasks undertaken
 - c. Interviewee's firm
 - i. Confirm main business activities
 - ii. Experience in M&A
 - *'Please would you take me through your firm's general approach to the M&A process'*
 - a. *What do you perceive as the key activities necessary in order to allow an acquisition target, which has been evaluated as attractive, to proceed to completion?*
 - *'Now can we turn to the M&A process in the case of acquisition candidates which your firm has deemed attractive but subsequently were not pursued'*
 - a. *'What are your overall impressions of the reasons and factors that;*
 - i. *Result in attractively evaluated acquisition candidates not being pursued*
 - ii. *Unattractive candidates being pursued'*
 - b. For each factor and reason
 - i. Explore nature
 - ii. Suggest importance in the process
 - iii. Describe interactions
 - iv. Describe time frames
 - c. *'Take me through a case of an attractive acquisition candidate which was not subsequently pursued'*
 - i. Prompts
 1. Characteristics of the target company
 2. Process used to identify the target
 3. Organizational levels of people involved and nature of involvement
 4. Which factors intervened and when
 5. (negative cross check – would the acquisition have proceeded if the factor(s) had not intervened?
 6. Iteration between case and responses to open ended questions earlier
 - When exhausted, discuss tentative framework as a prompt
 - a. Iterations between responses and open-ended questions
 - b. Iterations between responses and cases
 - Additional data sources
 - a. Who else might I contact (internal/external)?
 - b. why?
 - c. Contact details?
 - Next steps
 - a. Provide a case summary write up to be sent to the interviewee for comments and verification
 - b. Possible requirement for supplementary interview
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Thank you.

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