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Does merger & acquisition (M&A) strategy matter? A contingency perspective

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A B S T R A C T

This paper takes a contingency approach to investigate whether there are market performance variations for different types of M&A. Eight different types of M&A are identified in a typology based upon the conjunction of three contextual dimensions: external environmental, acquiring firm level strategy and CEO motivation. Drawing upon a sample of 1,926 domestic UK deals we evaluate the typology to determine whether the financial markets distinguish between different types of M&A. Results indicate significant market and risk-adjusted performance differences by M&A type. These confirm that a contingency approach to M&A performance has merit. We suggest that the proposed integrated typology, that recognizes the importance of multiple aspects of strategic fit to M&A performance, addresses the paradox that M&A practitioners continue to pursue deals despite widespread acceptance that they result in high failure rates.

1. Introduction

Mergers and Acquisitions are very important strategic decisions (Kastanakis et al., 2019; Thanos & Papadakis, 2012a). Strategists face a significant dilemma when considering whether or not to engage in Merger and Acquisition (M&A) deals. They realize that M&A is an enduring and major strategic mechanism for rejuvenating and realigning organizations when the environmental context is changing, with more being spent now than ever before ($22 trillion during 2017–2022). They also recognize that M&A deals should enable the acquirer to be demonstrably 'better off' (Porter, 1987). However, the overwhelming weight of M&A research, using a wide variety of performance measures, shows that between 50% and 75% (e.g., King, Wang, Samimi, & Cortes, 2021; Papadakis & Thanos, 2010), and even 90% (Christensen, Alton, Rising, & Waldeck, 2011), fail. Generally, it is the target company shareholders who benefit more than the acquiring company shareholders, due to value transfer from the acquirer and high premiums (see Thanos & Papadakis, 2012a; 2012b for an overview). Acquirer failure post-deal can also have devastating effects on company health, CEO

tenure and top management teams and employees, and acquirers may also struggle to learn from these setbacks (Meschi & Metais, 2015). Acquiring strategists therefore appear to face a considerable dilemma: they have willingly engaged in M&As in the past, which, at best, produced indifferent returns for their shareholders, and therefore should they be so willing to transact M&As in the future?

To resolve the dilemma, a great deal of scholarly attention has focused on the 'human' factor: managers and decision makers, and their frailties and sources of bias. Psychological flaws of CEOs, such as overwhelming self-confidence (or hubris) (Malmendier & Tate, 2008; Roll, 1986) and narcissism (Aktas, de Bodt, Bollaert, & Roll, 2016), have been identified as potential determinants of overpayment and underperformance (Hayward & Hambrick, 1997). This approach, on the other hand, assumes that conceptions of M&As are unproblematic. In addition, prior M&A performance research has largely focused on single variables to find associations with superior stock market returns, such as specific deal and acquirer characteristics (Gomes, Angwin, Weber, & Tarba, 2013). Despite over half a century of investigation, few clear dyadic relationships have been found, with the overwhelming conclusion being

that most dyadic relationships fail to yield clear associations with superior performance (King, Dalton, Daily, & Covin, 2004, 2021). As King et al. (2004, p.198) states, *'despite decades of research, what impacts the financial performance of firms engaging in M&A activity remains largely unexplained'*.

From the point of view of strategists, focusing upon single variables involves a level of abstraction that is far from the complexities of real-world decision making. Besides, M&As are highly ambiguous in nature, suggesting that decision makers need to gather, interpret and integrate information from multiple sources in order to perceive patterns to help them cope with the ambiguity (Rindova, Ferrier, & Wiltbank, 2010). Consequently, strategists, as well as investors, tend to view M&As as complex configurations of characteristics, rather than lists of independent variables (Campbell, Sirmon, & Schijven, 2016). The present paper argues that we should rethink our approach to a conception of M&A and its relationship to performance outcomes, and, in so doing, broaden the boundaries of M&A scholarship (Thanos, Angwin, Bauer, & Teerikangas, 2019).

Any pre-acquisition appraisal of M&A requires multiple interdependent factors to be considered to determine performance outcomes. Using a contingency perspective, this paper examines combinations of factors, from multiple layers of context, to identify different configurations or types of M&A. These types are then tested against performance outcomes to identify associations with superior or inferior market performance outcomes. This allows us to address our research question: *'Are different types of M&A, formed through various combinations of pre-acquisition variables, associated with superior or inferior market performance outcomes?'*

The answer to this question is important and interesting for practitioners and researchers because identifying performance variation by type of M&A deal may aid in explaining the continued enthusiasm of strategists for M&As as a sound performance-enhancing strategy, despite the failures evidenced in the current weight of M&A research.

Our findings reveal there are important performance differences for different contingencies and this illustrates how the use of a contingency approach to studying M&A can broaden our understanding of M&A by overcoming the limitations of silo thinking (Kastanakis, 2018). Each configuration lends itself to suggesting different managerial approaches for specific situations, can be predictive of future outcomes and allows for further theorizing about why particular conjunctions of variables give rise to particular outcomes. The contingency approach to M&A has wider applications than just the performance implications contained in this paper as it provides a promising method for examining many other configurations of overlapping and conflicting variables in M&A research.

2. Literature review and hypotheses

The pre-acquisition phase typically entails strategists and managers pondering the questions of whether to engage in an M&A (Welch, Pavićević, Keil, & Laamanen, 2020), whether the focal deal advances the corporate goals and needs (Capron & Mitchell, 1998), and which acquisition target is optimal for the acquirer (Chakrabarti & Mitchell, 2013). Underlying the choices made regarding such questions are the strategic motives of firms and their managers for initiating M&As (Angwin, 2007a).

Whilst the finance and economics disciplines have focused heavily on the maximization of shareholder wealth and profitability as the primary motivations behind M&As, the strategy literature has acknowledged that acquisition activities are driven by broader and more complex concerns (Angwin, 2007b), akin to building competitive advantage and improving organizational performance. An essential motive for engaging in M&A deals is the achievement of strategic fit between the resources and capabilities of a certain firm and the opportunities in its broader environmental context (Zajac, Kraatz, & Bresser, 2000).

Strategic fit has evolved from being a rather static conception of

environment–strategy alignment (Zajac et al., 2000) to accounting for multiple contingencies at distinct levels (e.g., broader environment, industry, strategy, leadership differences; Volberda, Van Der Weerdt, Verwaal, Stienstra, & Verdu, 2012). Similarly, the focus of strategy scholarship on M&As has shifted from opportunity as the value created for shareholders through an M&A deal, to examining the synergistic potential of an M&A deal and its likeliness to be realized (Rabier, 2017). Scholars, in turn, have started considering not only M&A tactical decisions (e.g., premiums paid or types of payment), but also factors at the level of the broader environment, the organization/firm and the management/leadership as potential drivers of M&A outcomes (Fainshmidt, Wenger, Pezeshkan, & Mallon, 2019).

2.1. Factors considered at the pre-acquisition phase

When contemplating making M&A transactions, strategists and managers consider an array of acquirer-, target- and deal-specific factors (Campbell et al., 2016). Such factors are employed by strategists and managers to assess whether the context is suitable for engaging in an M&A transaction (Welch et al., 2020), and whether the focal deal is the optimal one given the current situation, needs and prospects of the acquiring firm (Volberda et al., 2012). When these factors are also visible and readily available to investors and market participants, they shape their perceptions and responses, including their short-term market reactions, which primarily assess the potential value of the deal (Haleblian, Devers, McNamara, Carpenter, & Davison, 2009).

A sizeable body of literature has examined various factors that intervene and are considered at the pre-acquisition phase as determinants of M&A deals and their outcomes. These factors are largely situated at three different levels of context: (a) the *macro-level* (or broader environmental level), (b) the *meso-level* (or organizational level), and (c) the *micro-level* (or management/leadership level) (Krug, Wright, & Kroll, 2014; Rouzies, Coleman, & Angwin, 2018).

At the macro-level, several factors capturing different characteristics and dynamics of the broader environmental context have been examined. The most important and commonly studied among them is the occurrence of particular M&A deals during M&A waves. Gort's (1969) economic disturbance theory of mergers supports the idea that M&A waves are generally precipitated by environmental disturbances, such as economic, regulatory or technological disruptions (Martynova & Renneboog, 2008), and coincide with periods of sustained high economic growth rates and a rising stock market (DePamphilis, 2019; Thanos, Papadakis, & Angwin, 2020).

Macroeconomic conditions are particularly salient for strategists and managers, as they encourage or discourage M&A transactions, while they are also attended by investors, shaping their perceptions and assessments regarding these transactions. It has been observed that higher levels of M&A deals are recorded during economic booms than in economic recessions, when deal volumes are significantly lower. Attesting to that fact, when relating M&A activities to capital market cycles, it can be readily observed that M&As are a procyclical phenomenon (Eisenbarth & Meckl, 2014). Economic booms are associated with an optimistic market atmosphere (McNamara, Haleblian, & Dykes, 2008), where firms are prompted to imitate each other (i.e., the *bandwagon effect*) and managerial empire-building motives are encouraged (Angwin, 2007a). Under such conditions, market participants are more likely to focus on the completion of deals, and less likely to pay attention to their value-creation potential or the financial risks associated with them. In contrast, recessionary periods are characterized by much less market appetite for M&A activities and greater conservatism in deal valuation. Under such circumstances, it is far harder to do deals, and such deals are likely to come under significantly more scrutiny from investors and market participants than during boom periods.

At the meso-level, several acquirer- and target-specific factors, which are crucial for the pre-acquisition phase and the respective decision-making processes, have been examined. Such factors pertain to the

prior M&A experience of the acquirer (Haleblian et al., 2009), the similarity between the acquirer and the target in structural characteristics and product and market portfolios (Yu, Umashankar, & Rao, 2016), the complementarity in resources and capabilities (Miozzo, DiVito, & Desyllas, 2016), and even cultural/ideological similarity (Chow, Louca, Petrou, & Procopiou, 2021).

During the pre-acquisition phase, strategists and managers identify potential targets and evaluate them in terms of strategic fit. The related literature has identified two distinct approaches towards strategic fit: (a) the similarity between the target and the acquirer in business activities, product and market portfolios, and strategic orientations, and (b) the complementarity between the target and the acquirer in terms of resource endowments and capabilities. Although both similarity (Finkelstein & Haleblian, 2002) and complementarity (Bauer & Matzler, 2014) are considered as contributing to the achievement of strategic fit (King et al., 2004), evidence regarding their performance and value-creation effects has been rather inconclusive (King et al., 2004, 2021).

Strategic fit between the acquiring and target firms constitutes only one among the aspects considered by strategists and managers, in their search for opportunities to exploit through M&A transactions. At the pre-acquisition phase, of even greater importance are the underlying strategic motives of the acquirer, which in turn shape the selection of the target firm (Krug et al., 2014).

Two well-known strategic motives for engaging in M&As – or orientations of M&As – are exploration and exploitation (Bauer, Strobl, Dao, Matzler, & Rudolf, 2018). The twin concepts of exploration and exploitation, underpinned by theories of rational choice and limited rationality, were introduced by March (1991), and represent two distinct types of organizational learning and strategic behaviour and are considered important drivers of M&A strategies and activities (Bauer et al., 2018; Dao, Strobl, Bauer, & Tarba, 2017). According to March (1991, p.71) exploration is associated with *'search, variation, risk taking, experimentation, play, flexibility, discovery, and innovation'*, and exploitation with *'refinement, choice, production, efficiency, selection, execution, implementation'*.

While scholars have studied certain means for exploration/exploitation extensively, such as strategic alliances, M&As are another method of both exploration (i.e., developing new competences and sources of competitive advantage) and exploitation (i.e., reinforcing existing operations and competences). Exploitative M&As are intended to refine and strengthen a firm's established businesses and operations, to increase efficiency and to reduce variance in the firm's income streams (Phene, Tallman, & Almeida, 2012). In contrast, exploratory M&As are intended to expand a firm's established business and operations, to access new markets, to enter new product or service categories and to build new competences, thus introducing uncertainty in income streams (Bauer et al., 2018; Luger, Raisch, & Schimmer, 2018).

Although exploratory and/or exploitative motives behind and orientations of M&A deals have been discussed and examined in the literature (e.g., Phene et al., 2012; Zhang, Lyles, & Wu, 2020), this critical aspect of M&A deals has not been tested against short-term market reactions. Moreover, M&A scholars have largely looked at exploration and exploitation at the level of the acquiring firm, although there have been calls to explore the situation at the deal level as well, and to investigate the explorative or exploitative motives for acquisitions (Zhang et al., 2020). We follow these calls and investigate the exploratory or exploitative motive (or purpose) of M&A deals as a critical meso-level factor considered by strategists and managers (Angwin, 2007b). At the same time, the exploratory or exploitative motive of an M&A is a salient and informative cue for investors, who use such cues and signals to inform their assessments of the value-creation potential of M&A deals (Campbell et al., 2016; Zhang et al., 2020).

At the micro-level, several psychological and behavioural attributes of CEOs and other upper-level decision makers have been examined as key factors shaping M&A deals and their outcomes. Among them are

prior work experience and human capital characteristics (Chen, Kor, Mahoney, & Tan, 2017), personality types (Malhotra, Reus, Zhu, & Roelofsen, 2018), and psychological attributes such as regulatory behaviour (Gamache, McNamara, Mannor, & Johnson, 2015), overconfidence (Malmendier & Tate, 2008), hubris (Hayward & Hambrick, 1997) and narcissism (Roll, 1986).

Of particular interest for scholars and practitioners alike is how the differences in terms of psychological characteristics and motivations of CEOs and other key decision makers are linked to interest alignment between them and the shareholder (Nyberg, Fulmer, Gerhart, & Carpenter, 2010) or to likely agency problems (Dhir & Mital, 2012). Agency theory argues that managers' and owners' goals should be aligned, but separation of ownership and control gives rise to information asymmetry and provides more latitude for managers (agents) to engage in self-interested behaviour – an agency problem (Shleifer & Vishny, 1997). From earlier work on M&As (Roll, 1986) to more recent contributions (e.g., Malmendier & Tate, 2008), it has been argued and shown that self-centred, overconfident, and even hubristic and narcissistic executives are more likely to prioritize their individualistic interests and goals over those of the organization (Pfeffer & Fong, 2005), and consequently to engage in M&As for status-enhancing and empire-building reasons (Zhu & Chen, 2015). Accordingly, such M&As are more likely to be associated with higher premiums paid (Hayward & Hambrick, 1997) and poorer market performance (Angwin, 2007b).

Information on the psychological and behavioural attributes of CEOs, on their behaviours and motivations, and on whether they tend to advance their own goals and interests instead of those of the organization is highly salient for M&A strategists, as they seek to evaluate the value-creation potential of M&A deals. Such information is also salient and informative for investors, who look for cues and signals regarding the quality of M&A deals and their actual value-creation potential (Campbell et al., 2016). Due to their prominent position within firms, CEOs are highly visible executives, and their behaviours and choices are scrutinized by various market participants (Harrison, Thurgood, Boivie, & Pfarrer, 2020). In this study, we consider the motivations and behaviours of CEOs and their linkages to the interest alignment with shareholders and the existence (or not) of agency issues as our micro-level variable of interest for assessing the outcomes of M&As.

2.2. Towards a configurational perspective

The tensions that may arise between factors at the macro-, meso- and micro-levels of analysis make the issue of gauging M&A performance a multidimensional problem. Evidence suggests that performance determinants of M&A deals cannot be adequately captured by single factor analyses (Campbell et al., 2016). This explains – at least partly – why numerous studies examining the influence of single factors on M&A performance have generated inconclusive (King et al., 2021) but also 'puzzling' findings, as the acquirer returns seem to be around zero (Campbell et al., 2016).

Both empirical evidence and practical experience suggest that the performance of M&A deals is influenced and driven by multiple factors, rather than single ones, given the inherent uncertainty and complexity associated with these transactions. Yet, attempts to investigate how combinations of different factors, across several levels of analysis, having an impact on M&As and their outcomes, have been limited. A notable exception is the work of Campbell et al. (2016), who examined configurations of acquirer characteristics and tactical decisions as determinants of M&A performance. However, their study did not consider the broader environmental context or the critical role of CEOs, despite their representing two essential levels of analysis in strategy and management scholarship. This paper suggests there is interest and relevance in examining the M&A performance effects of different combinations of important factors from the macro-, meso- and micro-levels of analysis.

A contingency approach is appropriate for developing a conceptual typology of M&As and drawing from multiple levels of analysis is

important to strategy and M&A research. Drawing on the three levels of analysis and on the factors of interest identified earlier, a typology of eight distinct types of M&A deal results, derived from different configurations of key contingencies considered at the pre-acquisition phase, which are highly salient for strategists, managers and investors alike. This paper builds on this typology, which augments the typology presented by Angwin (2007b), to test whether there are differential performance outcomes for each M&A type. It recognizes that there has been a marked decline in the use of typologies in M&A research, and in strategy and management research more broadly (Poulis & Kastanakis, 2020), although *'typologies present a particularly attractive form of theorizing'* (Delbridge & Fiss, 2013, p.329), because the systematic ordering of the core elements of a phenomenon provides the initial building blocks for theory development (Snow & Ketchen, 2014).

2.3. Contingency perspective, M&A conceptual framework and hypotheses

Through adopting a multi-perspective approach to M&A performance, this paper takes a strategic contingency view, positing that there is no single 'best' way to initiate and manage M&As. Instead, this is contingent upon the context, at the macro- (macroeconomic conditions), the meso- (strategic motives and orientations of deals) and the micro-levels (different behaviours and motivations of CEOs). This contingency view holds that the acquirer needs to achieve a fit with multiple layers of context, so that the latter are aligned to achieve superior M&A performance. M&A strategists, while at the pre-acquisition phase, need to make decisions and commit to doing a deal without the privilege of knowing ex-ante whether the post-acquisition integration phase will work out and whether the entire deal will be successful. At the same time, investors and market participants assess M&A deals and their value-creation potential at the time they are announced, based on the information cues and signals available at the time.

Our key proposition here is that where the broader environmental conditions (economic boom or downturn), the strategic motives of the

acquirer (exploration or exploitation) and the motivations of the CEO ('good' or 'bad agents') are well aligned, the acquirer may perform better than in cases where the aforementioned factors are not aligned, drawn from the strategic fit view (Volberda et al., 2012).

These three dimensions made it possible to identify eight M&A archetypes from which hypotheses were generated in order to test which M&A types are associated with superior or inferior short-term market performance outcomes (see Fig. 1). Fig. 1 shows these archetypes along the three selected dimensions:

Type 1: i) External context: Here the acquiring firm is conducting M&A during an economic boom period, which might be construed as a propitious contextual driver for deal activity, since markets are likely to welcome M&A announcements (Di Giovanni, 2005); ii) Acquiring firm strategy: The acquirer's strategy is to realize efficiency gains through an exploitation strategy that focuses upon cost reduction; iii) CEO motivation: The CEO of the acquirer is acting as a good agent for shareholders, making decisions in order to maximize shareholder value. Type 1 deals show alignment between all three levels, which suggests that these M&As should achieve the desired superior returns.

Hypothesis 1. Acquirers acquiring in a favourable economic context, with top managers acting as good agents, and pursuing an exploitative strategy (Type 1), will outperform the market.

Type 2: i) External context: Here M&A is being conducted during a downturn, which is likely to be less conducive to deal-making activity. In this context, markets are less encouraging of M&A deals, with overall M&A deal volumes significantly reduced from boom times (Mauboussin, 2010). It is likely that markets will be more critical of deals than during boom periods; ii) Acquiring firm strategy: The acquirer's strategy is to realize efficiency gains through an exploitation strategy that focuses upon cost reduction; iii) CEO motivation: The CEO is acting as a good agent for shareholders, making decisions that maximize shareholder value. Although the external context is likely to be more critical of M&As and it may be more difficult to launch a deal, as the CEO and firm are focused on achieving superior returns for shareholders through
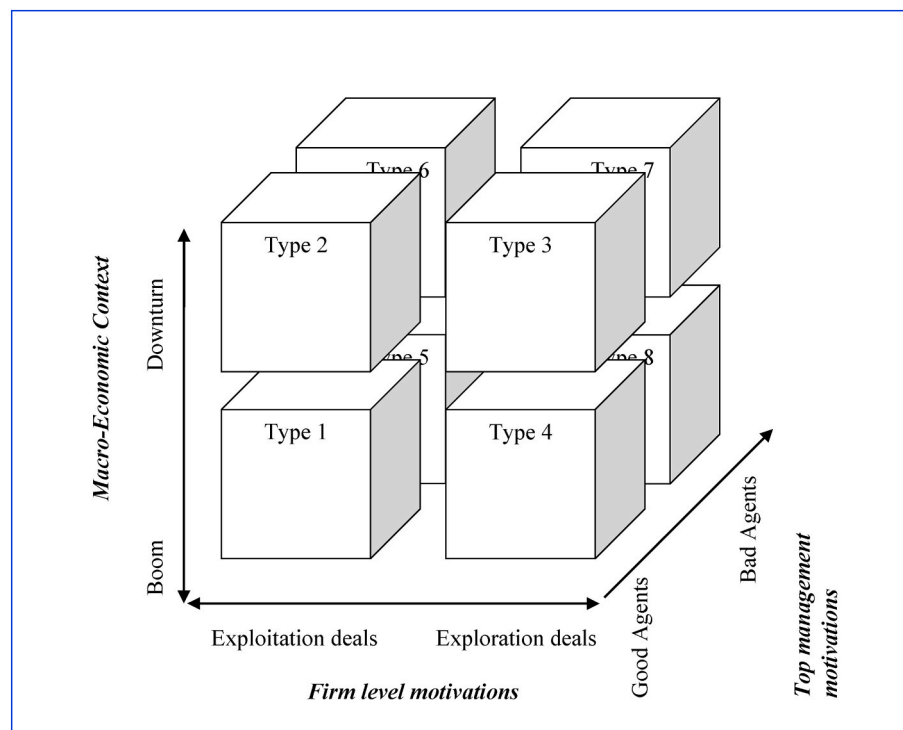

Fig. 1. Typology of M&A deals.
Source: Adapted from Angwin (2006).

shorter-term efficiency gains, which is less risky than exploration, it is likely that those deals that are transacted will result in superior market returns.

Hypothesis 2. Acquirers acquiring during an economic downturn, with top managers acting as good agents, while pursuing an exploitative strategy in spite of higher market scrutiny (Type 2), will outperform the market.

Type 3: i) External context: Here M&A is being conducted during a downturn, which is less conducive to deal-making activity. However, it may be acknowledged that the macro context requires new approaches to strategy; ii) Acquiring firm strategy: This is an exploratory strategy aimed at achieving gain through discovery and experimentation. In these deals acquirers will be focusing upon admission into new markets and territories and accessing new technologies; iii) CEO motivation: The CEO of the acquirer has a track record of acting as a good agent for shareholders and hopes that this deal may provide long-term share-holder value. Although the external context is less supportive of deals in general, the situation cannot remain 'business as usual' and that acquirers may need to pursue exploratory deals, even though those returns may not be achieved as quickly as for exploitative deals. It is likely that these exploratory deals will need to be led by CEOs who are good agents in order to give confidence to the markets. Therefore Type 3 deals will outperform the market.

Hypothesis 3. Acquirers acquiring during economic downturns, with top managers acting as good agents, while pursuing an exploratory strategy (Type 3), will outperform the market.

Type 4: i) External context: Here the acquiring firm is conducting M&A during an economic boom period, which might be construed as a propitious contextual driver for deal activity; ii) Acquiring firm strategy: This is an exploratory strategy aimed at achieving gain through discovery and experimentation. In these deals acquirers will be focusing upon entering new markets and territories and accessing new technologies; iii) CEO motivation: The CEO of the acquirer is acting as a good agent for shareholders, making decisions to maximize shareholder value. Type 4 deals operate in a context that welcomes M&As, but the markets are hungry for repetitions of rapid gain acquisitions that emphasize exploitation synergies as industries consolidate. Markets looking for 'cookie cutter' deals with quick returns may therefore not welcome exploratory M&As with longer time horizons. As there may be less emphasis on the value-creating abilities of the CEO and more on her/his ability to get deals done and value-capturing capability, markets may not welcome good agents pursing an exploration strategy.

Hypothesis 4. Acquirers acquiring in a favourable economic context, with top managers acting as good agents, while pursuing an exploratory strategy (Type 4), will underperform the market.

Type 5: i) External context: Here the acquiring firm is conducting M&A during an economic boom period, which might be construed as a propitious contextual driver for deal activity; ii) Acquiring firm strategy: The acquirer's strategy is to realize efficiency gains through an exploi-tation strategy that focuses upon cost reduction; iii) CEO motivation: The CEO's motivation is self-centred rather than oriented towards shareholders and may therefore present an agency problem. Type 5 deals operate in a supportive context and the firm is aiming to maximize value through efficiency gains. The market may be encouraging 'cookie cutter' exploitative deals and be less concerned about the type of CEO, rewarding deal doers rather than longer-term integration management. Therefore, whilst agency issues exist, a more tolerant context and a strategy for maximizing shareholder returns in the short term is likely to result in superior returns for these deals.

Hypothesis 5. Acquirers acquiring in a favourable economic context, with top managers acting as bad agents, while pursuing an exploitative strategy (Type 5), will outperform the market.

Type 6: i) External context: Here, the deal is done during a downturn, which is not considered a propitious context for M&As in terms of encouraging deal activity; ii) Acquiring firm strategy: The acquirer's strategy is to realize efficiency gains through an exploitation strategy that focuses upon cost reduction; iii) CEO motivation: Here the CEO seeks to benefit personally from the deal, rather than acting purely for the shareholders' benefit. Given the external context is not conducive for deal making, market may be sensitive to the acquisition strategy. An exploitation strategy is more likely to be supported and perhaps welcomed, even when the CEO is more motivated by personal gain.

Hypothesis 6. Acquirers acquiring during an economic downturn, with top managers acting as good agents, while pursuing an exploitative strategy (Type 6), will outperform the market.

Type 7: i) External context: Here M&A is being conducted during a recession, which is less conducive to deal-making activity; ii) Acquiring firm strategy: This is an exploratory strategy aimed at achieving gain through discovery and experimentation. In these deals acquirers will be focusing upon entering new markets and territories and accessing new technologies; iii) CEO motivation: Here the CEO seeks to benefit personally from the deal, rather than acting purely for the shareholders' benefit. Type 7 deals are unlikely to outperform the market since the context is not conducive to deals in general, and although it may support an exploratory deal recognizing that business cannot be the same in the changed environment, it is unlikely to trust a CEO motivated by personal gain rather than the interests of shareholders.

Hypothesis 7. Acquirers acquiring during an economic downturn, with top managers acting as bad agents, while pursuing an exploration strategy (Type 7), will underperform the market.

Type 8: i) External context: This may be propitious for M&As in terms of encouraging M&A activity since the deal is done during a boom period; ii) Acquiring firm strategy: This is an exploratory strategy aimed at achieving gain through discovery and experimentation. In these deals acquirers will be focusing upon entering new markets and territories and accessing new technologies; iii) CEO motivation: Here the CEO seeks to benefit personally from the deal, rather than acting purely for share-holders' benefit. Type 8 deals are likely to outperform the market because the context is supportive of transacting deals, even though CEO as a bad agent is motivated to benefit personally from the transaction at the expense of shareholder value. However, the strategy of exploration is likely to be less attractive to the market than an exploitative one.

Hypothesis 8. Acquirers acquiring in a favourable economic context, with top managers acting as bad agents, while pursuing an exploration strategy (Type 8), will outperform the market.

3. Research methods

3.1. Sample

We tested our hypotheses based on a sample of UK completed and domestic deals from the SDC database which took place between 1 January 2004 and 31 December 2013. We focused on the UK to ensure that all deals were subject to the same contextual economic pressures. Our initial sample amounted to 16,525 deals. Of these, 3,276 were completed deals, 661 of which did not disclose the transaction value. We considered only those deals where full information about the value of the deal, the declared strategic purpose and the completion date was publicly available, in line with our conceptualization of the three di-mensions and the typology developed; hence, we reduced our sample to 2,876 deals. We then searched publicly available information on the acquirers' senior executive teams and their CEOs' compensation, which further reduced our sample size to 2,108 deals. We analysed these data using Datastream and found a small number of errors in the dataset, leaving us with a final sample of 1,926 deals.

3.2. Variables

3.2.1. Market performance of M&As

We used standard event study methodology (market- and risk-adjusted model) to assess the market reaction to the announcement of an M&A deal (Brown & Warner, 1985). A 21-day (−10, +10) window was selected.

The daily excess return of firm *i* for day *t* (AR_{it}) was estimated by the following formula:

$$AR_{it} = R_{it} - \alpha_i - \beta_i R_{mt}$$

R_{it} is the observed individual firm (*i*)'s return for day *t*, and R_{mt} is the return on a market index for the same period. From this pattern, we calculated the average abnormal return (AAR) and cumulative average abnormal return (CAAR) of the event. This calculation represented the return that was unexpected or different from the return that would have been expected if the event (the M&A announcement) had not occurred. Coefficients a and b were calculated over a 200-day period and the benchmark given by the firms listed on the FTSE all-share was used.

3.2.2. Macro-level context – macroeconomic conditions

To assess the macroeconomic context, we distinguished an M&A boom period of 2004–2008, in which the sixth M&A wave took place (Martynova & Renneboog, 2008). The financial crash occurred towards the end of 2008 with the collapse of Lehman Brothers and there would have been some inertia in M&As occurring immediately after this event. Therefore we decided that 2009 would be clearly within our economic downturn period of 2009–2013. This gives two five-year periods for comparison.

3.2.3. Meso-level context – acquiring firm's strategic motives

To examine motives, we classified M&A deals based on their stated purposes and ambitions. We followed Bauer et al. (2018) in classifying deals as exploratory or exploitative. Exploitative deals were recognized by stated purposes that clearly aimed at maximizing shareholder value, through strengthening existing activities and operations, improving product-market efficiencies and reducing costs. Exploratory motives for deals were identified as those with stated purposes to enter new product-market domains and develop new competences. The motives and purposes were coded by two researchers working independently through carefully examining the press releases at the time the deals were announced, with the results compared to ensure the validity robustness of the classification.

3.2.4. CEO motivations

To assess the CEO motivation(s) behind M&A deals, we used two methods. First, we followed Hayward and Hambrick (1997) and Malmendier and Tate (2008), positing that CEO hubris – and thus agency problems – can be proxied through the relative compensation of the focal CEO, and the media praise for her/him. CEOs whose compensation is significantly greater than that of the next highest paid executive, and that receive significant praise from the media, are likely to develop hubristic tendencies, and seek to advance their own particularistic interests rather than those of the shareholders. Then, we drew on Brown and Sarma (2007), who argued that CEO dominance is the natural logarithm of the ratio of the CEO's total annual remuneration to the firm's total assets. A high ratio of CEO compensation to total assets indicates that the firm expects a very large contribution from this person compared to the size of the firm and/or that the CEO has considerable influence over the decisions of the board. Based on agreement between the results of these two methods we classified deals of two types: 1) acquirer CEOs acting in alignment with shareholder interests ('good' agents), and 2) acquirer CEOs with agency problems ('bad' agents).

We used the BoardEx database to obtain details of the compensation of the CEO and that of the second highest paid executive in the acquiring firm and complemented the information with publicly available data on the M&A deals from media sources. For each deal in our sample, we studied media reports, press releases and annual reports of the acquiring and target firms to obtain insights on how the focal deal was done, the real motive(s) behind it and whether there were any agency issues. Then, we studied the annual reports for the year during which the focal deal was announced (year t), the year before (year t–1) and the year after (year t+1) to capture variations in total executive compensation and compared the level of compensation of the CEO of the acquiring firm with the compensation of the second highest ranked executive and industry-level trends, to capture potential agency issues.

Based on information collected on these two indicators of CEO hubristic tendencies, and on qualitative assessment of publicly available informational material by the authors, we were able to classify M&A deals as being primarily driven by the firm and shareholders' interests or by those of the CEO, and thus facing agency issues.

Following our classifications, our deal sample was then allocated into archetypes across the three axes of external context, acquirer firm's motives and CEO motivation, as shown in Fig. 2. Table 1 shows the characteristics of each type.

4. Results

The CAAR results, along with their significance levels, are shown in Fig. 3.

A positive CAAR demonstrates that this type of deal outperformed the market index by the CAAR percentage indicated at that particular significance level. A negative CAAR indicates the opposite.

Type 1 deals outperformed the market by 1.07% ($p < 0.01$), Type 2 deals by 1.56% ($p < 0.05$), Type 3 deals by 0.92% ($p < 0.05$), Type 5 deals by 2.93% ($p < 0.01$) and Type 6 deals by 2.86% ($p < 0.1$). These results support Hypotheses 1, 2, 3, 5 and 6.

Type 4 deals underperformed the market by 0.68% ($p < 0.01$) and Type 7 deals by 2.04% ($p < 0.1$). These results suggest that Hypotheses 4 and 7 are confirmed.

Finally, Type 8 deals outperformed the market by 0.18% but this is statistically insignificant ($p > 0.1$). Thus, Hypothesis 8 is not confirmed.

For each type we also calculated the number of deals with positive and negative CAAR. This is also shown in Fig. 3. For example, 316 deals
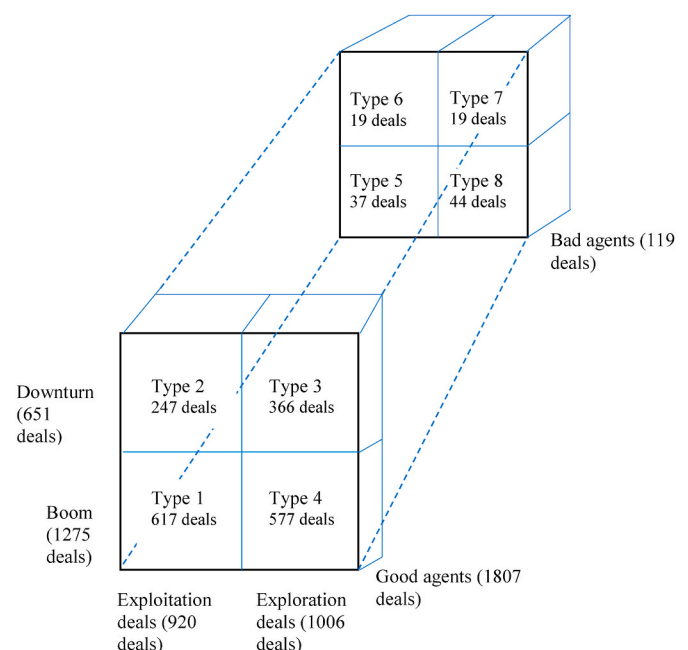

Fig. 2. Summary of data for each type of M&A.

Table 1

Archetype characteristics.

	Type 1	Type 2	Type 3	Type 4	Type 5	Type 6	Type 7	Type 8
Nos of Acquirers	617	247	366	577	37	19	19	44
Number of employees	6,222	6,973	14,824	7,245	5,973	4,827	18,580	11,191
Asset to employee	449	1,736	1,419	754	1,350	2,811	1,295	2,012
Total assets	£6,118m	£4,435m	£2,563m	£6,210m	£15,652m	£12,774m	£75,623m	£5,900m
Debt to equity	101	78	80	74	31	18	132	81
Debt to capital	27	25	25	25	40	46	30	33	69
ROA	2.26	0.51	0.69	1.82	1.03	−2.04	6.57	4.73
ROE	8.49	10.50	−102.63	11.69	10.13	−3.72	16.43	7.74
Revenue	£1,541m	£1,757m	£2,142m	£1,926m	£3,063m	£1,990m	£8,034m	£2,925m

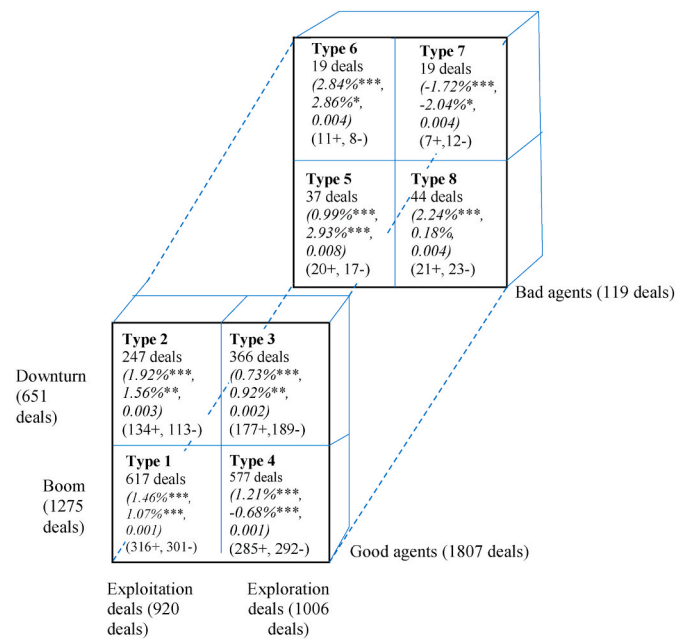**Fig. 3.** CAAR results for each type over a 21day window (−10, +10)

Notes:

* *t*-test ≥ 10% significance level, ** *t*-test ≥ 5% significance level and ***t ≥ 1% significance level

In the first parenthesis, the first number refers to the *AAR % (Average Abnormal Return),* the second to the *CAAR % (Cumulative Average Abnormal Return) and* the third number refers to *Standard Deviations.* In the second parenthesis, number of counts with positive (+) and negative (-) CAAR on the day of announcement are reported.

of Type 1 had positive CAAR while 301 deals had negative CAAR. A total of 134 deals of Type 2 had positive CAAR while 113 had negative CAAR, and so on. In summary, out of 1,926 deals, 50.4% outperformed the market and 49.6% underperformed the market. Table 2 provides a synopsis of all our findings and the descriptive statistics for M&A success per type.

In addition to the results presented above, we conducted three robustness analyses (results are available upon request). First, we ran a regression analysis in which the dependent variable was the CAAR for the (−10, +10) period. M&A Types 1–8 were the independent variables. We controlled for the effects of deal value, firm size (number of employees), profitability (ROE of the acquiring firm in the previous year), cash to total assets, leverage and industry. Second, we estimated abnormal returns and ran the regression model using a five-day period (−2, +2). The results in both cases were similar to those reported in Fig. 3. Third, we checked for the possibility that outliers could shape the results by winsorizing our data at the 1% percentile. We obtained no evidence that outliers had a significant impact on the results.

Table 2

Synopsis and descriptive statistics by M&A type.

TYPE	CONTEXT	STRATEGY	AGENCY	RESULT
Type 1	Boom	Exploitation	Good	51% of the deals were successful and significantly outperformed the market by 1.07% (sig. >1%). H1 is confirmed.
Type 2	Downturn	Exploitation	Good	54% of the deals were successful and outperformed the market by 1.56% (sig. > 5%). H2 is confirmed
Type 3	Downturn	Exploration	Good	48% of the deals were successful and outperformed the market narrowly by 0.92% (sig. > 5%). H3 is confirmed
Type 4	Boom	Exploration	Good	49% of the deals were successful and marginally underperformed the market by 0.68% (sig. > 5%). H4 is confirmed.
Type 5	Boom	Exploitation	Bad	54% of the deals were successful and significantly outperformed the market by 2.93% (sig. >1%). H5 is confirmed.
Type 6	Downturn	Exploitation	Bad	58% of deals were successful and outperformed the market by 2.86% (Sig. > 10%). H6 is confirmed.
Type 7	Downturn	Exploration	Bad	37% of these deals were successful and underperformed the market by 2.04% (sig. > 10%). H7 is confirmed.
Type 8	Boom	Exploration	Bad	About 48% of these deals were successful but the CAAR was not significant. H8 is not confirmed.

5. Discussion

A contingency approach to M&A performance has revealed significant differences by M&A type depending upon (a) whether a deal is being struck during an economic downturn or a boom; (b) the acquirer is pursuing an exploitation or exploration strategy; and (c) the CEO is motivated by acting in the best interests of shareholders ('good agent') or his/her personal agenda ('bad agent'). The results above support this contingency approach, with 7 out of 8 hypotheses being confirmed.

When the external context encourages M&A activity, the deal takes place during a period of economic boom, and the CEO is a good agent, focused on maximizing value for shareholders, a strategy that focuses on exploitation for short-term efficiency gains produces good results. Perhaps counterintuitively, where the CEO exhibits an agency problem during an economic boom (Type 5), exploitation deals produce even greater outperformance of the market, which may be symptomatic of markets rewarding 'cookie cutter' deals that produce rapid returns at a time of increasing short-term pressures. In this context, a market may regard CEOs in a positive light when they stand to gain more personally

from an M&A deal.

In boom times when acquirers are seeking to transact exploratory deals, the market seems to punish their efforts with negative returns or returns no different from those of the market. In a context that has a strong appetite for M&As and fast returns, exploratory deals are not so welcome; indeed, the negative returns for good agent CEOs suggests that these deals, in a booming economy where speed of transactions matters, are perceived by the market to be unnecessarily risky and long-term.

In times of economic downturn, a strategy to deal with diminishing returns and reduced opportunities is likely to be one that seeks out new opportunities to improve organizations' fit with the environmental context. Type 3 with good agents outperformed the market while Type 7 with bad agents underperformed the market. This shows that markets reward firms seeking new and exploratory directions where they can place trust in the CEO's motives. Where CEOs are perceived to be bad agents, the markets are unlikely to trust them to engage in less familiar types of acquisition.

During an economic downturn, when acquirers follow an exploitation strategy, performance is better than the market (Types 2 and 8). Interestingly, markets seem to overlook CEO motives in this instance, rewarding efforts by good and bad agents alike to improve shareholder returns.

Examining all three dimensions, there are no statistically consistent patterns for M&A performance effects for deals that are made in either booms or recessions, whether acquirers use exploitation or exploratory deals or whether the CEOs are good or bad agents, which supports and legitimates the value of a contingency approach. During boom times, exploitation deals as opposed to exploratory deals are the clear winners, irrespective of agency issues. Similarly, during a downturn, exploitation deals are still the winners, though the market is sensitive to agency issues. Therefore, markets generally ignore agency issues in the context of exploitation deals, but they do scrutinize the CEO in exploratory deals. Our results clearly indicate that strategy matters, irrespective of the context.

From our findings and our discussion, we propose the M&A strategy decision-making framework shown in Fig. 4.

The framework indicates that exploitation M&As are effective in all contexts, achieving above-market returns for the acquirer. Interestingly, during a boom period, the markets do not seem to favour good agent CEOs over bad agents. Indeed, the returns to acquirers with bad agents, if they pursue exploitation strategies, are higher than those for acquirers with good agents. So, while boom times undoubtedly witness hubris, markets are less concerned with this exuberance than with companies pursuing the same exploitation strategies. This also seems to be the case for exploratory deals: those pursued by good agent CEOs underperform the market while bad agents achieve average returns. Perhaps the optimism of the markets during boom times inclines them to be more supportive of hubristic CEOs even when transacting exploitation M&As – perpetuating a 'bandwagon' effect. This may reflect a market that is hungry for more deals of the same type, and even when the supply of such deals may dwindle, more hubristic CEOs may be eager to promise continuation. In boom times, then, the context is supportive of repeating successes rather than supporting exploratory deals, even though one

might expect greater tolerance of the M&As that have more pluralistic objectives, such as exploration. Similarly, we have a counterintuitive finding for M&A strategy during economic downturns. Again, exploitation deals perform well, whether the CEO is a good or a bad agent, for both achieve superior returns for their deals. This fits with markets being more conservative about acquirer strategy during a recession. There is also some support from markets for exploratory deals led by good agents, which suggests that there is a perceived need for companies to do something different to survive and prosper – that more of the same will not improve the situation. This suggests that markets are more tolerant of risk by good agents than might be expected. However, this tolerance does not apply to acquirers with an agency problem, suggesting greater conservativeness when an exploratory strategy is being led by a bad agent; the market, then, is less likely to trust hubristic CEOs with exploratory deals during a recession.

Hubristic CEOs seem to fare well, however, with exploitation deals in both boom and recessionary times. During booms, there may be less market scrutiny of CEOs and a general sense of optimism may make hubristic CEOs consonant with the times. In addition, during booms and recessionary times it may be that markets feel that they understand exploitation deals and are therefore better able to evaluate them (Litov, Moreton, & Zenger, 2012). However, when it comes to supporting novel, exploratory deals, especially during recessions, market analysts may struggle to evaluate uniqueness (Zenger, 2013) and require much greater assurance about the motives of the CEO. Hubristic CEOs are generally portrayed as leaders in negative terms and often blamed for overpaying for acquisitions (Hayward & Hambrick, 1997) and other catastrophic strategy decisions (Cormier, Lapointe-Antunes, & Magnan, 2016). However, the findings of this study show hubristic CEOs being valued differently, depending on the context in which they operate, with greater tolerance for their overconfidence in boom times, for instance, than in economic downturn. In M&A terms, the positive or negative effect of CEO hubris is context-dependent.

The strategic decision-making framework in Fig. 4 therefore indicates that the markets prefer exploitation M&A strategy in both boom and recession contexts and with good or bad agents. This observation also sheds light on the apparent paradox that around 50–75% of M&As are doomed to fail and yet managers persist in carrying out this activity very often. Our contingency approach shows that the failure rates for our eight M&A types over a +10/−10-day event window range from 39.27% to 68.42% (see Table 2), with an overall failure rate of 49.6%, which is consistent with findings in earlier research that around half of all M&As fail. However, it also shows that 52.3% of exploitation deals outperform the market whereas just 48.3% of exploration deals show superior performance. Exploitation deal outperformance ranges from 51% to 58% of all exploitation deals, no matter what the external context or CEO type. This helps inform a theoretical tension between explanations for the ability of M&As to achieve superior market returns and behavioural explanations suggesting that more complex motivations may result in suboptimal performance. The findings in this paper suggest that managers are right to believe that most exploitation M&As succeed, even though overall failure rates for M&As show that around 50% of M&As underperform the market.

Where there is greater performance variation is in the pursuit of exploratory deals, among which outperformance ranges from 36.8% to 49.4%. The market prefers exploration deals during a downturn, provided they are managed by a good agent. This suggests that the market prefers more a risky strategy to let acquirers do something different but minimizes the risk through preferring good agent CEOs. However, during boom times, the markets are less supportive of exploratory deals, perhaps because there is a strong desire to see a currently successful formula continue. Therefore, it may be more accurate to say 'bounded optimism' about M&A booms than 'boundless optimism'. And when we speak of M&A downturns and risk aversion, we may say there is also some 'risk spreading.'

		CEO Motivation	
		Good Agent	Agency Problem
External Environment	Boom (supportive context)	Exploitation deals Not exploratory deals	Exploitation deals
	Downturn (Un-supportive context)	Exploitation and exploratory deals	Exploitation deals Not exploratory deals

Fig. 4. M&A strategic decision-making framework.

5.1. Theoretical contributions

The apparent paradox of strategists continuing to engage in M&A transactions in ever increasing dollar amounts, while research suggests that 50–75% fail, requires explanation. Rather than focus upon human frailties, such as hubris and narcissism, or, for instance, whether deals are related or unrelated, this paper has argued for rethinking the way that we conceptualize M&As. By reconceiving M&A deals in terms of intersecting layers of context, in an eight-deal typology, and recognizing that the real world consists of conjunctions of factors, deal configurations have revealed significant performance variations. The typology allows us to theorize about the performance of each type of M&A with intuitive findings of alignment between boom conditions, exploitative strategy and good agents generating superior returns, and recessionary conditions, exploratory deals and bad agents producing negative returns, showing alignment between these three layers of context. For this kind of M&A, strategic fit and consonance across levels matter. The typology also reveals complexities whereby each variable, and its underlying theory, have a different degree of importance depending upon the combination with other pre-acquisition variables. This both justifies bringing contingency theory into the study of M&As and explains why single variable associations with M&A performance have struggled to achieve consistent findings.

5.2. Managerial implications

This paper aims to help strategists make decisions about which types of M&A to engage in. To date, the common view is that most M&As fail. By considering the different levels of determining factors in M&A success, this study has revealed that there are performance variations across different types of M&A. So, while the overall success and failure rate of the M&A deals studied here remains at around 50%, different M&A types show clear over- and underperformance in relation to the market. Where a booming context, a firm-level strategy of exploitation and a CEO acting as a good agent are aligned, a description which fits the most popular category of M&A deals in our study, those deals are likely to outperform the market. This is reassuring to strategists taking a rational view of M&As and legitimates their use of M&A as a major method for rejuvenating their organizations. The typology also reveals other types of M&A that can result in superior returns, as well as identifying those where suboptimal results are more likely. While engaging in M&A deals will always be risky, this study indicates which combinations of contextual, strategic and CEO motivation variables are likely to produce superior outcomes and which are likely to result in underperformance, thus enabling strategists to choose superior M&A strategies.

6. Limitations, suggestions for future research and conclusions

Our study has three limitations. First, the companies used were selected from the population of M&A deals that took place between 2004 and 2013. Thus, results cannot be generalized to other periods. Future studies could extend our findings to different time periods.

Second, to capture M&A performance we assessed market reactions through the event study method. Market reactions are valuable indicators of market expectations of deal success at the time of transaction but the event study method has received criticism in the literature because it does not capture realized integration outcomes which occur after the completion date, and often years later (Teerikangas & Thanos, 2018). Future studies could employ other methods of M&A performance evaluation such as accounting-based measures or managerial perceptions.

Third, each dimension of the typology rested upon specific variables that were acting as proxies for other variables mentioned in the literature review. Future studies could examine other variables and refine the typology presented here. Such variables can be derived from the meso-level of analysis, including the previous M&A experience of the acquirer

(Cuypers, Cuypers, & Martin, 2017), structural similarity (Bettinazzi, Miller, Amore, & Corbetta, 2020), and compatibility in terms of political ideology (Chow et al., 2021). At a more micro-level of analysis, studying the psychological and behavioural characteristics of CEOs (e.g., personality traits, regulatory behaviour) could provide important insights. In addition to the above, future M&A studies could use other methods such as meta-analyses (e.g., King et al., 2021; Samba, Tabesh, Thanos, & Papadakis, 2021) or bibliometric analyses (e.g, Bhukya, Paul, Kastanakis, & Robinson, 2022).

Concluding, this paper argues that researchers need to rethink their approach to M&As. Rather than continuing to pursue regression-based approaches to analysing single variable antecedents of M&A performance, this paper has drawn upon contingency theory in order to create a typology that examines the relationship between configurations of interdependent factors and performance outcomes. This approach is capable of being adjusted and extended to embrace a wide range of interdependent factors across multiple levels of analysis and also allows for the theorizing of types (Snow & Ketchen, 2014). A typological approach to understanding M&A also resonates with strategists and investors who, in situations of great deal of uncertainty, such as M&A, use a holistic approach to perceive and evaluate phenomena.

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