Portfolio Restructuring: A Decision-Making Perspective

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The President:

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1. INTRODUCTION TO THE THESIS

While recent M&A activity slowed down in the face of the current financial crisis (Hall, 2008) the trend is unlikely to prevail: mergers, acquisitions as well as divestitures are considered key vehicles these days to re-define the strategic scope of firms’ businesses, adjust the basis for their competitive advantage and to free cash essential to nurture core operations in times of tight credit markets (BCG, 2009). Despite strategic importance and high popularity, however, research does not uniformly support managers’ enthusiasm for the practice, with the impact of acquisitions and divestitures on the restructuring performance remaining somewhat inconclusive (e.g. King et al., 2004). Even though on the acquisition side, some studies have shown that strategic and organizational fit enhance acquisition performance (e.g. Haspeslagh and Jemison, 1991; Ramaswamy, 1997), existing empirical research has not consistently identified antecedents that can be used to predict post-acquisition performance (Hitt, Harrison, and Ireland, 1998; Sirower, 1997). On the divestiture side, findings on antecedents predicting post-divestiture performance remain equally equivocal (Brauer, 2006).

Despite the broad academic and managerial attention that acquisitions and divestitures have received (for an overview, see e.g. Halebian et al., 2009; on divestitures Brauer, 2006;) we have only limited insight into portfolio restructuring processes in general, and portfolio restructuring decision-making in particular. With rare exceptions (e.g. Jemison and Sitkin, 1986) academic research has largely neglected concepts and measures that focus on decision processes as explanatory variables for portfolio restructuring success. With my thesis I address this gap in existing research. In my dissertation, I seek to examine which impact the decision-making process itself has on the outcome of portfolio decisions, i.e. acquisition and divestiture decisions. While strategic decision-making has evolved as one of the most active areas in strategic management research and previous research has produced valuable insights, findings on the decision process-performance-relationship are equally equivocal (for example, consider the debate on decision comprehensiveness; Bourgeois and Eisenhardt, 1988; Fredrickson, 1984). Several reasons for this equivocality of results in previous research have been identified. First, in most studies on strategic decision-making research the firm has been adopted as the relevant unit of analysis. Not only the causal ordering in the relationship between decision process and firm performance is problematic, but also the assumption that firms have central tendencies with respect to rational comprehensive-decision processes is difficult to hold. Decision makers seem to vary their use of processes among specific decisions (Hickson et al., 1986). Second, previous research largely overlooked in their analyses the structural differences that persist at the decision-level (Hough and White, 2003). The premise to treat all decisions to which the term “strategic” applies as equivalents in
decision-making analysis seems too simplistic. Differences underlying the decision type, such as the access to information and the decision perception, are to significantly impact the effectiveness of specific decision-making approaches. Third, in their quest to solve the puzzle of contradictory findings on key constructs researchers focused on a rather narrow set of contingencies with environmental uncertainty being the most predominant one. This extremely focused discussion may have distracted researchers’ attention to some of the surrounding theoretical questions referred to in their analyses, such as the alternative mediating and interacting processes through which decision constructs can influence performance (Forbes, 2007). In my dissertation, I address all of these identified shortcomings. While the focus of analysis of my dissertation is on the deal decision-making process in general, I plan to investigate three specific topics in detail.

In my first paper, I examine how two highly interrelated themes in the deal decision-making process – the use of past experience and analytical intensity – are to impact the outcome of portfolio decisions. Building on behavioral theory (Cyert and March, 1963; March and Simon, 1958), I argue that while both past deal experience and analytical intensity can enhance deal success, they should be carefully applied in combination since decision makers have limited information processing abilities. Decision makers who pass their cognitive abilities by engaging in analytical activities that produce trivial or redundant information relative to their experience are to yield inferior deal outcomes. My data on 80 deal decision making processes from the largest 56 public companies in Germany and Switzerland (i.e. 55 per cent participation rate) provide partial support for my reasoning. While I find analytical intensity to deteriorate deal performance if decision makers hold specific deal experience, I find no such interaction with general deal experience. Collectively, my results provide numerous implications for both portfolio restructuring as well as behavioural learning and decision-making research.

In my second paper, I address the longstanding question in strategy process research whether comprehensiveness enables firms to make better strategic decisions (e.g. Bourgeois et al., 1988; Fredrickson, 1984). While the comprehensiveness-decision effectiveness argument is intuitively appealing, empirical evidence has been somewhat conflicting. In my paper, I argue that part of this inconclusiveness results from two major shortcomings: first, a lack of attention to the different types of strategic decisions included in prior empirical analyses; second, a lack of attention to the social context in which the comprehensive decision-making process takes place – particularly the controversial discourse among decision makers that accompanies strategic decision-making. To address these shortcomings, I examine and compare the individual and joint influences of decision comprehensiveness and dissent on (financial) deal performance in acquisition and divestiture decision-making processes. Drawing on prospect and information theory, I argue that the influence of
comprehensiveness and dissent on deal performance is likely to differ between both decision types. While in acquisition decisions comprehensiveness and dissent enable decision makers to effectively mitigate the impact of cognitive biases and existing information asymmetries, in divestitures both factors are to be far less helpful (comprehensiveness) or even harmful (dissent) due to different contextual requirements. I test my hypotheses using 49 acquisition and 31 divestiture decisions from the largest 56 public companies in Germany and Switzerland (i.e. 55 per cent participation rate) using a multi-respondent design. My findings indicate that comprehensiveness and dissent have disparate influences on deal performance in acquisitions and divestitures and provide a number of implications for both strategic decision-making, as well as acquisitions and divestiture research.

In my third paper, I seek to investigate the different requirements acquisitions and divestitures pose for decision makers to successfully restructure their business portfolio. In previous portfolio restructuring research, divestitures have mostly been reduced to “simple mirror images of acquisitions” or “the reverse side of M&A” (Brauer, 2006). Following this notion, decision makers should be able to profit from their past acquisition experience in current divestitures as they have been found to profit from their past acquisition experience in current acquisitions (e.g. Halebian and Finkelstein, 1999). My research reveals, however, that many decision makers struggle with this acquisition-to-divestiture experience transfer – primarily, due to an unclear perception of divestitures compared to acquisitions. In my paper, I take a closer look at divestitures to highlight the existing similarities and differences between both deal types. Based on my insights, I examine the activities in the entire divestiture process in order to seize the opportunities to leverage acquisition experience and to highlight the need develop distinct divestiture practices when realizing smooth and successful business divestitures. My findings indicate that virtually all activities in the divestiture process entail both opportunities to transfer existing acquisition practices and requirements to develop distinct divestiture practices. However, the intensity with which both options should be pursued differs considerably between the different activities in the divestiture process. My findings are destined to support managers in this task and to help them generalize and discriminate their prior deal experience effectively.

With my three papers, I envisage to make distinct contributions to the literatures on strategic decision-making, behavioral learning as well as portfolio restructuring. Moreover, my objective is to provide thoughtful practitioners with profound insights on how they could further enhance and refine their decision-making practices.
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While numerous studies have examined the performance impact of portfolio restructuring through acquisitions and divestitures, so far we have gained only little insight into portfolio restructuring processes in general, and portfolio restructuring decision-making in particular. We attempt to bridge this gap in the literature and seek to explain how characteristics of such processes influence the restructuring performance of firms. Building on behavioral theory (Cyert and March, 1963; March and Simon, 1958), we argue that two highly inter-related themes – the use of past experience and analytical intensity – are key to explaining the performance effects of deal decision-making processes. We argue that while both deal experience and analytical intensity can enhance deal success, they should be carefully applied in combination since decision makers have limited information processing abilities. Decision makers who pass their cognitive abilities by engaging in analytical activities that produce trivial or redundant information relative to their experience are to yield inferior deal outcomes. Our data on 80 deal decision making processes from the largest 56 public companies in Germany and Switzerland (i.e. 55 per cent participation rate) provide partial support for our reasoning. While we find analytical intensity to deteriorate deal performance if decision makers hold specific deal experience, we find no such interaction with general deal experience. Collectively, our results provide a number of implications for both portfolio restructuring as well as behavioural learning and decision-making research.
2.1 INTRODUCTION

Despite the broad academic and managerial attention that acquisitions and divestitures have received (for an overview on acquisitions see, e.g. Halebian et al., 2009; on divestitures e.g. Brauer, 2006) we have only limited insight into portfolio restructuring processes in general, and portfolio restructuring decision-making in particular. With rare exceptions (e.g. Jemison and Sitkin, 1986) academic research has largely neglected concepts and measures that focus on (behavioral decision) processes as explanatory variables for portfolio restructuring success. While recent research adopting a behavioral perspective in the transaction context has advanced our understanding of the procedural antecedents of transaction performance, it has done so primarily in the area of organizational learning and experience (e.g. Baum, 2000; Halebian, Kim, and Rajagopalan, 2006). Focus of all those studies was on the impact of prior experience on subsequent behavior in terms of routines: the more experienced an organization’s members become with a particular strategic action or direction, the more successful they will be (Lubatkin, 1983). While earlier studies examining experience effects in deal contexts have shown somewhat mixed empirical results (Bruton, Oviatt, and White, 1994; Fowler and Schmidt, 1989; Kusewitt, 1985; Lubatkin, 1987), more recent studies have significantly contributed to a more refined understanding of the contingent effects of past deal experience (Haleblian and Finkelstein, 1999; Hayward, 2002; Zollo and Singh, 2004). In particular, the need to pay attention to the specificity of experience when examining potential performance effects has been highlighted (Haleblian et al., 1999).

Even though this research indicates if and when past experience is to be helpful in deal decisions, it does not provide decision makers with a recipe for success if relevant experience is missing or inappropriate. In this respect, research on behavioral decision making has generated helpful insights in a general strategic decision context. Scholars have argued that organization members who engage in the search and analysis of decision-related information and facts to make the best decision possible under the given circumstances are to yield superior outcomes (March et al., 1958). Underlying this claim is the assumption that the explicit generation and consideration of multiple options is crucial for thoroughly understanding situations and for making good choices. While a review of previous decision-making studies reveals somewhat mixed empirical evidence for this argument (for an overview, see Forbes, 2007; Miller, 2008) it also highlights that research on the link between present analytical intensity and past experience in decision-making has been so far neglected. In view of their strong relatedness in classic behavioral theory (Cyert et al., 1963; March et al., 1958), this finding is surprising. So far, we have gained no solid knowledge on whether past experience and present analytical intensity complement each other or whether they interfere in deal decision-making. Moreover, no theoretical arguments have been proposed to guide research in this respect.
In our study, we seek to establish this missing link and explain how these factors interact in the deal decision making process. Drawing on behavioral theory (Cyert et al., 1963; March et al., 1958), we derive and test hypotheses on the performance impact of general deal experience, specific deal experience and analytical intensity under the different constellations. Deal decisions, like many other strategic decisions, involve complexity, ambiguity and a lack of structure. Faced with such a challenging context, decision makers are confronted with more stimuli they can attend to or adequately process. Behavioral theory in its classic form predicts that stimuli well known to a firm should lead to rather routinized responses drawing on past experience, whereas unknown stimuli should prompt an organization to engage in problemistic search in order to identify a response that is acceptable from the point of view of evoked goals (Bromiley, 2005). Consistent with theory, we suggest that both general and specific deal experience are positively related to deal performance. Analytical intensity we argue, however, is not to facilitate the deal decision-making process per se, but its added value for decision makers is highly dependent on their level of prior deal experience (March, 1994). While analytical intensity is to enhance deal success if no general or specific deal experience exists, it is can also hurt if the deal context is well understood based on prior experience – due to information dilution effects and the distraction of management attention.

After analyzing the theoretical background of portfolio restructuring, behavioral learning and decision-making, we set up a theoretical framework for portfolio restructuring decision-making and derive our hypotheses. We describe our methodological approach, present results from our empirical data, discuss implications for theory and practice, and outline areas for future research.

2.2 BACKGROUND
As a consequence of its increasing strategic importance, the quest for factors affecting portfolio restructuring performance has captured broad academic attention. Despite the broad attention acquisition and divestitures received, research has not yet consistently identified the antecedents for deal success (for an overview on acquisitions, see Haleblian et al. 2009; for divestitures, see Brauer, 2006). On the acquisition side, researchers have been exploring – since the 1980s – the pre-acquisition, or selection stage of the acquisition process. They have argued that the synergistic opportunities inherent in an acquisition are contingent on the strategic fit that it offers in the form of resource similarity or complementarity (Harrison et al., 1991; Kusewitt, 1985; Lubatkin, 1987; Ramaswamy, 1997; Shelton, 1988; Singh and Montgomery, 1987). More recently, however, the bulk of research attention has shifted towards a second contingency that addresses the post acquisition or implementation stage of the acquisition process: organizational fit. The argument is that, although strategic fit is a
necessary condition for synergy realization, it merely creates synergistic potential that can only be realized through effective integration of the firm (Haseslagh and Jemison, 1991). Even though some studies have shown that integration enhances acquisition performance (e.g. Datta and Grant, 1990; Shanley, 1994; Zollo et al., 2004), existing empirical research has not consistently identified antecedents that can be used to predict post-acquisition performance (Hitt, Harrison, and Ireland, 1998; Hoskisson, Johnson, and Moesel, 1994; Sirower, 1997). On the divestiture side, which has – compared to acquisitions – received somewhat less research attention (Dranikoff, Koller, and Schneider, 2002) it were primarily performance problems and the diversification level prior to divestiture as well as the performance outcomes of divestitures that have been attracting researchers’ attention for many years (for an overview, see e.g. Brauer, 2006). Similar to acquisition research, findings on antecedents predicting post-divestiture performance remain equivocal (Brauer, 2006).

In part, this status may result from the focus previous research adopted. Despite Jemison and Sitkin’s call (1986) for a stronger focus on processes in transaction research more than two decades ago, process research today is still somewhat limited to the implementation stage of portfolio deals. With few exceptions (e.g. Haunschild, Davis-Blake, and Fichman, 1994; Nees, 1981), our knowledge about the activities decision makers rely on to make acquisition and divestiture decisions is primarily determined by practitioner-oriented research (e.g. Cullinan, Le Roux, and Weddigen, 2004; Dranikoff et al., 2002; Mankins, Harding, and Weddigen, 2008).

One of the few academic research streams that provide valuable insights in this respect is to be found in the organizational learning literature. The core argument of this stream appears quite intuitive in light of the literature on experience and learning curves: firms with previous acquisition experience will do better than those without such experience (Lubatkin, 1983). Empirical evidence on the impact of deal experience of performance has been somewhat mixed however. While some studies have found that such experience positively impacts performance (Bruton et al., 1994; Fowler et al., 1989; Hitt et al., 1998), others have found a negative impact of past experience (Kusewitt, 1985) or no such relationship at all (Lubatkin, 1987). In order to reconcile these conflicting empirical findings, Zollo and Singh (2004) suggested considering the role of past experience in a more differentiated way. They found not accumulated experience to help firms make better deal decisions, but rather the knowledge codification from deal experience to enhance deal outcome (Zollo et al., 2004). They thus highlighted the importance to carefully distinguish between the quantity and the quality of experience when assessing the role and relevance of an organization’s deal history. In a similar vein, Haleblian and Finkelstein (1999) stressed the importance of distinguishing between similar and dissimilar deals when leveraging past experience. Their findings suggest that relatively inexperienced acquirers, after making their first acquisition, inappropriately
generalize acquisition experience to subsequent dissimilar acquisitions, while more experience acquirers appropriately discriminate between their acquisitions. Similarly, Hayward (2002) finds no linear impact of prior acquisition experience on short-term stock price reactions, but a number of non-linearities in the quality of such experience (such as the average success of prior acquisitions).

While these findings shed important light on the potential positive and negative effects of past experience in the deal decision-making process, they still say little about how firms can facilitate their deal decision-making if past experience is not present or simply not applicable. In this context, the literature on behavioral decision-making has generated some valuable insights (March, 1994; Simon, 1955). According to this view, decision makers engage in the search and analysis of related information and facts to make the best decision possible under the given circumstances (March et al., 1958). Analytical intensity, sometimes labelled comprehensiveness or procedural rationality is defined as follows: the extent to which an organization’s upper-echelon executive group tends to utilize the extensive collection of relevant information and the reliance upon analysis of this information in its decision-making when dealing with immediate opportunities and threats (Bourgeois and Eisenhardt, 1988; Dean and Sharfman, 1996; Elbanna and Child, 2007a; Miller, 2008). Proponents of this perspective believe that the concerted effort in the explicit generation and consideration of multiple alternatives is crucial for properly understanding situations and for making good choices (Miller, 2008). This investigatory activity is characterized by systematic and comprehensive scanning for opportunities, intensive decision-making analysis, and formal codification of generated options (Fredrickson, 1986; Miller, 1987). While the argument is intuitively appealing, empirical findings on the performance impact of analytical intensity have been equally equivocal (for an overview, see e.g. Forbes, 2007; Miller, 2008). In order to reconcile their findings researchers primarily focused on the moderating role of the firm environment: while some studies argued for a positive analytical intensity-performance relationship in stable, but not in dynamic environments (Fredrickson, 1984; Fredrickson and Iaquinto, 1989; Fredrickson and Mitchell, 1984), others suggested a positive effect in dynamic, but not in stable environments (Glick, Miller, and Huber, 1993; Priem, Rasheed, and Kotulic, 1995; Walters and Bhuian, 2004), or a positive relationship independent of the environmental dynamics of the decision context (Dean et al., 1996; Forbes, 2005; Nutt, 1998; Papadakis, 1998; Simons, Pelled, and Smith, 1999; Smith et al., 1988). In the quest to solve the remaining puzzle of contradicting moderating effects on the analytical intensity-performance relationship, distinct methodological and theoretical modifications have been recently proposed. Miller (2008) introduced the concept of non-linearity into the debate – an aspect that has been largely overlooked in previous research. Athuahene-Gima and Li (2004) and Forbes (2007) urged for a more refined conception of the firm environment and argued
that it is not environmental uncertainty per se, but the information-processing demands created by different environments, that are likely to induce the moderation observed.

In the recent literature, both themes have thus been treated separately – past experience in the literature on organizational (behavioural) learning, analytical intensity in the literature on strategic (behavioural) decision-making. In view of their strong inter-relatedness in classic behavioural theory, it is somewhat surprising that both streams have developed with so little cross-fertilization (for an exception, see e.g. Barkema and Schijven, 2008). In its classic form, behavioural theory suggests that a stimulus well known to a firm is likely to lead to a rather routinized response that draws on the organizational stock of past experience (Bromiley, 2005). Since it has been learned in the past which approach is the most effective for a given task, this experience-driven response is likely to yield satisfactory results from the point of view of goals and aspirations (Cyert et al., 1963). If a stimulus is unknown or less known to the firm the likelihood that the firm will bring about an experience-based response acceptable from the point of view of evoked goals can be considered small (Cyert et al., 1963). In this case, the firm is to engage in analytic or problemistic search to find a satisfying solution.

Since decision makers are assumed to be boundedly rational, there are, however, constraints on the cognitive demands that the firm’s management can handle at a given time (Ocasio, 1997; Penrose, 1959). Previous findings in cognitive psychology suggest that decision makers who do not economize effectively on their information processing capacities and pass their cognitive limits during the decision-making process are to yield inferior decision outcomes (Davis, Lohse, and Kottemann, 1994; Nisbett, Zukier, and Lemley, 1981). While analytical search may help decision makers if it brings about new information not available in the stock of past experience, some recent research argues that it can also hurt if redundant and trivial information is produced (e.g. Miller, 2008). Non-diagnostic or redundant information is likely to “dilute” the implications of diagnostic or non-redundant information (e.g. Kahneman and Tversky, 1973; Nisbett et al., 1981). Even if the use of additional information increases decision makers’ confidence in their judgement, it is to degrade the quality of their decisions (Davis et al., 1994).

In sum, behavioural theories suggests that while both insights based on past experience and information based on present investigatory activity can facilitate decision-making processes, decision makers information processing abilities are subject to cognitive limits. Once decision makers pass the cognitive limits of their information processing abilities, their judgments are likely to produce inferior outcomes. In view of the complexity and ambiguity deal decisions involve, decision makers can be expected to be confronted quite often with more stimuli they can appropriately attend to. Under the assumption of a lack of slack resources among (top) executives involved in the acquisition or divestiture process, these
decision makers are likely to come frequently to their cognitive limits during the course of the deal.

Building on this notion, we propose a theoretical framework that explains deal outcomes based on these two interrelated aspects in the behavioural decision-making process: past experience and present analytical intensity. Consistent with behavioural theory, when past deal experience exists, decision makers should draw on it, but when no past deal experience is present, decision makers are to engage in investigatory activity. Unnecessary investigatory activity, i.e. doing comprehensive analyses when deal experience is present, should be kept at a moderate level to minimize the risk of information dilution and the distraction of management attention.

While the concept of analytic search in behavioural theory and the concept of analytical intensity current in the literature on strategic decision-making share main characteristics, it is important to note that they are not identical. The concept of analytical intensity comprises the (problemistic) search for novel information to develop alternative courses of action, but further includes the development of multiple criteria to screen and finally evaluate those alternatives in thorough analyses (e.g. Fredrickson, 1984). In order to avoid linguistic confusion, we stick in the following to the more comprehensive concept of analytical intensity and develop our theoretical framework as well as our hypotheses accordingly.

2.3 BEHAVIORAL MODEL OF DEAL DECISION MAKING

Researchers have distilled behavior into its antecedent-behavior-consequence (A-B-C) components to better understand behavior at the individual level (Haleblian et al., 1999; Skinner, 1969). Consistent with this method, we decompose our deal decision-making process into three components: the degree to which decision makers can draw on previous deal experience in the process (antecedent), the degree to which a systematic scanning of informational inputs along the stages of analysis, generation of options, evaluation, and choice occurs (behavior), and the performance outcome of the restructuring decision (consequence). We develop a two-by-two matrix that breaks down these same three components. When arrayed together, the antecedent (A) conditions and subsequent behaviors (B) create four quadrants that define the consequences (C) associated with experience as shown in figure 1. The basic idea of the matrix is quite simple: If we determine any two components of the A-B-C model, we may be able to infer the third component as it relates to past deal experience. For instance, if we know the antecedent condition (high or low level of deal experience) and the subsequent behavior (intense or modest analytical search) we may be able to infer the performance consequences of the applied decision-making approach (negative or positive).
Experience-driven decision-making. In quadrant 1, the existence of past deal experience among decision makers is followed by a low intensity of investigatory activity. Given the similarity between deal settings, past experience becomes relevant to the present situation so that the application of this experience leads to positive consequences (Haleblian et al., 1999). Since decision makers have learned in past situations, which courses of action are sufficiently effective for a given task, an experienced-driven decision making process can be expected to yield acceptable results from the point of view of evoked goals and aspirations (Cyert et al., 1963). A heavy engagement in analytically intense activities is not to provide significant additional value. With a great deal of being known from the start, investigatory activity might thus not produce new, useful information sooner than it otherwise would (Miller and Friesen, 1983). Vice versa, the focused leveraging of past deal experience which comes at a low level of additional analytical search is to enhance deal performance. Basically, it is this quadrant that accounts for the traditional experience results common in the literature.

While general deal experience has been found to support decision makers, recent research suggests that the specific experience with a similar deal decision is to be of particular value (e.g. Haleblian et al., 1999). Since portfolio restructuring decisions (i.e. acquisitions and divestitures) share both numerous procedural similarities, but are also marked by several distinct structural features, both forms of experience tend to be relevant and need to be examined.

General deal experience. As decision-making in a deal context is repeated over time, the main tasks involved in this process become increasingly routinized (Levitt and March, 1988), allowing the firm to decide on and implement a suitable course of action with less cognitive effort (March et al., 1958; Nelson and Winter, 1982). These routines get embedded

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1 The direction of the predicted effect of experience and analytical intensity on deal performance is noted in parentheses.
in the organization, influencing its interaction with the external environment and shaping its
approach to problems (Nelson et al., 1982).

Even though some scholars have argued that it is difficult to draw on routines in settings
that involve heterogeneous and causally ambiguous tasks, such as negotiations in deal
contexts (e.g. Zollo and Winter, 2002), a closer examination of the decision-making process
on acquisitions and divestitures suggest a different picture. With considerable heterogeneity
and causal ambiguity at the surface, many underlying sub-activities are quite similar across
portfolio deals, such as performing company valuations, conducting due diligences, drafting
contractual documents or negotiating the details of the deal. This is even true for different
types of portfolio decisions. Though acquisition decisions are obviously not identical with
divestiture decisions, both decision types share numerous similarities. As a matter of fact,
certain activities in the acquisition process are virtually mirror images of the activities in the
divestiture process so that experience can be effectively transferred. For example, the target
search of acquirers resembles in many ways the search for potential bidders of divesting
firms. In this case, experienced acquirers may have the opportunity to profit in divestitures
from their methods, expertise and relations developed in previous target searches. One can
think of similar opportunities in the definition of the transaction mode, the information
handling, the (vendor) due diligence process as well as the negotiation and signing phase.

Moreover, the institutionalization of distinct transaction departments in large firms
during the last two decades suggests that considerable scope for gaining valuable knowledge
from those activities exists which is in turn generalizable across different portfolio
transactions (Grant, 1996). The fact that those activities not only define the major
competences of internal M&A departments, but that they are also to be found in the standard
product repertoire of external experts underlines the existence of similar patterns and
applicable procedures across transactions (e.g. Bain, 2010; The Boston Consulting Group,
2010). Building on this line of reasoning and previous empirical findings on the positive
performance effects of past deal experience (e.g. Bruton et al., 1994; Fowler et al., 1989; Hitt
et al., 1998), we expect firms to profit from their stock of general deal experience in present
deal decisions. Hence, we expect firms with previous deal experience to do better than those
without such experience.

Hypothesis 1: In deal decision-making, general deal experience is positively related to
deal performance.

Specific deal experience. While past general deal experience is to facilitate the deal
decision-making process, numerous scholars have recently highlighted the quality of
experience as a critical issue in this relationship (e.g. Zollo et al., 2004). For past experience
to facilitate the deal decision-making process it needs to be specific, i.e. it must refer to a similar deal decision (Haleblian et al., 1999). As such, it requires decision makers to have been previously involved in a similar acquisition or divestiture decision. If decision makers do not properly discriminate their past deal experience, but generalize experience inappropriately this transfer might even harm the decision-making process (Haleblian et al., 1999). The risk for deal decision makers to inappropriately generalize their past experience can be considered high. Acquisition and divestiture decisions occur in many companies not as frequent as other strategic decisions (e.g. periodic capital expenditure, HR or marketing decisions). As a consequence, many decision makers have a rather moderate stock of past experience. In particular, these relatively inexperienced decision makers may be tempted to generalize from their small stock of experience too early (e.g. “an acquisition is an acquisition”).

Moreover, decision makers in deal settings have often been found to be subject to cognitive biases (e.g. Duhaime and Schwenk, 1985). In order to navigate through complex and ambiguous decisions, decision makers use simple analogies that lead them finally to an overly simple view of the situation (Steinbruner, 1974). Previous studies have shown that decision makers often make fatal mistakes when they leverage their experience based on superficial reasoning by analogy (Gavetti, Levinthal, and Rivkin, 2005). In view of the differences between the existing types and forms of deals, decision makers can quickly fall into this trap. For example, due its partial symmetry of activities managers often consider divestitures a “simple mirror image” of acquisitions. While this view certainly applies to some activities – as outline above – it applies not to the entire decision making process. For instance, due to the different perception of acquisition (“win”) and divestiture (“loss”) decisions, the requirements regarding the successful involvement, motivation and communication tend to be different between both decision types (Dranikoff et al., 2002). Decision makers who overlook these differences and base their experience transfer on simple analogies (e.g. “a deal is a deal”) are to encounter significant difficulties in the deal process. Vice versa, decision makers who rigorously discriminate their existing deal experience and apply their experience selectively to the present deal context can be expected to be more effective in their deal decision-making. Following this line of reasoning and previous empirical evidence on the positive performance effects of specific experience (e.g. (Haleblian et al., 1999), we expect decision makers’ specific deal experience to enhance the deal performance. Hence:

**Hypothesis 2:** In deal decision-making, decision makers’ past specific deal experience is positively related to deal performance.
Analysis-driven decision-making. In quadrant 3 of the matrix, a low level of specific deal experience among decision makers is followed by an intense analytical activity. If decision makers are confronted with an unknown complex strategic issue it is unlikely that the simple application of experience-based procedures will yield a satisficing result (Cyert et al., 1963). If past experience is not available or not relevant to today’s deal decision in a direct and straightforward way decision makers should expend resources to understand the decision context properly. In this case, decision makers may benefit from efforts to push investigatory activity to high levels since a stable core of norms and specific routines is missing. The creation of new knowledge and new insights consequently takes a critical role (e.g. Eisenhardt, 1989; Judge and Miller, 1991). Basically, it is this quadrant that accounts for the positive performance results of analytical intensity in the literature on strategic decision making.

The research on strategic decisions has suggested that the comprehensive search and analysis of information facilitates the proper understanding of situations and the making of good choices. While empirical evidence for transaction-specific settings is still missing, analytical intensity is to influence the outcome of portfolio decisions in a similar way for at least two reasons. First, analytical search helps to ensure that most or all important decision variables in the acquisition or divestiture setting are considered, resulting in better decisions and better decision outcomes. In acquisition or divestiture settings, decision makers have to face a number of difficult questions related to opportunities (e.g. value creation potential and attractiveness of potential targets or divestiture candidates) and risks (e.g. hidden “poison pills” in the portfolio of a target, underestimation of anergies in case of divestiture). A comprehensive information search and analysis is thus to help decision makers to evaluate these issues for each deal step in a systematic way. Take, for example, the identification of a potential acquisition (or divestiture) candidate. The analytical search and screening of the competitive (internal) environment can help decision makers to create long lists of potentially attractive candidates in line with corporate strategy and avoid an overly opportunity-driven approach with an exclusive focus on the firm’s immediate environment (the usual internal suspects) (e.g. Rankine, 1998). In a similar way, this approach may help decision makers in answering valuation issues on potential acquisition or divestiture candidates. While the explicit use of multiple analytic techniques, such as the DCF, multiple or net value asset method, is not to provide decision makers with a single, clear cut answer, it is to push them to make their assumptions explicit, think in different scenarios and also consider the probability of failure. Together, these exhaustive analytical activities ensure that all important input variables have been discussed and no relevant aspects have been overlooked thereby enhancing the decision quality.
Second, the analytical intensity helps decision makers reduce the risk of cognitive biases in their decision-making. Beyond the general difficulties inherent in managing a complex strategic situation, such as an acquisition or a divestiture, these biases often cause decision makers to search in the wrong places, overestimate wrong information, and ignore some important other effects (Duhaime et al., 1985). In consideration of the different types and forms of acquisitions and divestitures, a comprehensive approach could prevent decision makers from (mis-)applying analogies from apparently similar context and from finally adopting an overly simplistic view of the situation (Steinbruner, 1974). Moreover, it could help decision makers avoid an illusion of control since decision makers are often tempted to overestimate the extent to which the outcome of a deal is under their personal control. For example, in a recent study Malmendier and Tate (2005) illustrate how overconfidence can lead decision makers to overestimate the returns of their investment projects and view external funds as unduly costly thus heavily distorting the corporate investment activity. Moreover, comprehensiveness may avoid decision makers to engage in single outcome calculation (Duhaime et al., 1985). For example, in the divestiture context it can enable decision makers to specify all alternative courses of action for dealing with a failing unit instead of focusing too early on a single goal and a single alternative (divestiture) for achieving it (Duhaime et al., 1985). With such biases having substantial effects on the outcome of acquisition and divestiture decisions, analytical intensity likely improves the chances of reasonable information gathering and processing in a deal context if no deal experience exists.

Building on this reasoning, we expect analytical intensity to facilitate the proper understanding of ambiguous and complex deal contexts and to minimize the risk of cognitive biases in the deal decision-making. This more effective deal decision-making process is to lead to superior deal outcomes.

**Hypothesis 3:** In deal decision-making, analytical intensity is positively related to deal performance.

**Over-investigated decision-making.** In quadrant 2, decision makers engage in high investigatory activity even though deal experience exists. From behavioral theory we know that decision makers have “limited information, attention, and processing ability” (Greve, 2003: 12). Faced with a complex strategic issue, such as a portfolio deal, decision makers are per se typically “confronted with more stimuli [they] can attend to or adequately process” (Hambrick, Finkelstein, and Mooney, 2005: 478). As a result, if decision makers are unable to satisfice – that is to look for a course of action that is satisfactory rather than optimal (Simon, 1945) – by drawing on available experience that economizes on information
processing, they will quickly come to their cognitive limits (Bromiley, 2005). While decision makers might be tempted to complement insights from past experience through intense investigatory activity in order to gain confidence, research in cognitive psychology suggests that this approach is to trigger significant problems. This effect may materialize in the presence of both specific deal experience and general deal experience.

Specific deal experience. Decision makers who have been already involved in similar deal settings in the past are to profit from their past experience. Experienced decision makers are to have a sound grasp of aspects regarding the procedure as well as the content of the deal decision. As such, they possess the information and expertise required to address the critical aspects of acquisition and divestiture opportunities. If the decision makers engage – despite their specific deal experience - in heavy investigatory activity to complement their insights, they can be expected to produce not only new, but also redundant information. This redundant information would not hurt as long as it leaves the decision-making behavior unaffected. Previous research in cognitive psychology suggests, however, that the use of redundant information in decision-making is to deteriorate the quality of the decision outcome (Davis et al., 1994; Kahneman et al., 1973; Nisbett et al., 1981). In their study on individuals’ prediction about target individuals, Nisbett and colleagues (1981) found that the predictions of subjects provided with a mix of diagnostic and non-diagnostic information were much less accurate than those of the subjects holding only diagnostic information. The non-diagnostic information “diluted” the implications of diagnostic information (e.g. Kahneman et al., 1973; Nisbett et al., 1981). This dilution effect suggests that decision makers have significant difficulty in dealing with redundant, useless information when mixed with relevant information. Moreover, Davies and colleagues (1994) suggest that it is not only redundant, but also abundant information that negatively affects decision makers’ effectiveness. In their study on the forecasting of stock earnings, they found that information provided in addition to common baseline information is to decrease decision quality independent of its redundancy. At the same time the use of redundant information increased the confidence of decision makers in their judgments.

In the challenging context of acquisition and divestiture decisions, these effects may even reinforce themselves and lead deal decision makers to get trapped in a “vicious” circle of increasing confidence, but decreasing decision quality. In face of the significant ambiguity, complexity and lack of structure deal decisions entail, decision makers may quickly feel uncertain about the sufficiency and appropriateness of existing (experience-based) insights (“Do we have all information we need on the target?”, “Have we really understood all relevant facts of the industry”?). In order to lower their uncertainty and strengthen their confidence decision makers may start to reach out for additional and ideally new information. While this is to enhance decision makers’ confidence in their judgments it may likewise
negatively affect decision quality (Davis et al., 1994; Nisbett et al., 1981). The decisions may thus not yield acceptable results from the point of view of evoked goals and aspirations (Cyert et al., 1963). This unsatisfactory feedback is likely to lead decision makers to intensify their search and analysis activities and to exacerbate the evoked effects.

Building on this line of reasoning, we expect in settings in which decision makers possess specific deal experience, heavy investigatory activity not to strengthen, but to weaken the quality of the decision-making process and finally the deal performance. Hence:

**Hypothesis 4: In deal decision-making, the combination of past specific experience with intense analytical intensity is negatively related to deal performance.**

**General deal experience.** In a similar vein, the existence of past general deal experience is to increase the risk for decision makers to produce with their investigatory activity redundant or abundant information. As decision-making in a deal context is repeated over time, the main activities in the process become increasingly routinized (Levitt et al., 1988). These routines get embedded in the organization and are to help decision makers address the challenges they encounter in the deal decision-making processes. If in this context decision makers reach out for additional information and engage in heavy investigatory activity this may not only lead to valuable and complementary insights, but is also to produce redundant and unnecessary information. As outline above, we suggest this production of potentially redundant information through heavy investigatory activity to decrease the quality of the decision outcome (Davis et al., 1994; Kahneman et al., 1973; Nisbett et al., 1981). The potentially redundant and abundant information risks to weaken the insights derived based previous deal experience thereby harming the deal outcome (e.g. Kahneman et al., 1973; Nisbett et al., 1981). As a consequence, we expect in settings where organizations possess previous deal experience heavy investigatory activity not to enhance, but to deteriorate the quality of the decision-making process and finally the deal performance. Hence:

**Hypothesis 5: In deal decision-making, the combination of general deal experience with intense analytical intensity is negatively related to deal performance.**

**Under-investigated decision-making.** In quadrant 4 of the matrix, decision makers suppress investigatory activity even though no specific deal experience exists. Since decision makers are confronted with an unknown complex strategic setting, existing routines and problem-solving procedures are to provide only little guidance on the effectiveness of potential courses of action. If decision makers nevertheless focus their efforts to identify satisfactory courses of
action based on solutions adopted in the past, the decision outcome cannot be expected to yield acceptable results (Cyert et al., 1963). For example, if decision makers have no prior acquisition experience, but simply apply their routines and procedures developed in the management of internal investment decisions to an acquisition context, the acquisition outcomes may fall behind expectations. Competitive bids, for instance, often require decision makers to cope with missing or incomplete information under severe time constraints. Not to calibrate the decision-making process accordingly, but to follow a careful and lengthy re-examination procedure similar to internal investment decisions would close valuable windows of opportunity and leave management with a potentially sub-optimal set of investment options.

Hence, if decision makers can neither draw on specific experience nor engage in a more comprehensive, analysis-driven decision-making style the outcome of their deal decision-making is simply subject to luck (Barney, 1986). As previous research suggests this circumstance might not per se result in inferior performance outcomes (Barney, 1986). However the odds are working against it – in particular in deal settings. Numerous studies and reports have highlighted the high risk and failure rate associated with deal decisions (e.g. King et al., 2004). Consequently, if inexperienced decision makers make no effort to understand these complex settings through comprehensive search for opportunities, formal codification of generated options, and intensive analysis, the probability is high that their decision outcome will yield unsatisfactory results.

From the reasoning for hypotheses 1-3 it follows indirectly that inexperienced and uninformed decision makers will yield deal outcomes inferior to those of their experienced and informed peers. Notwithstanding the fact that also inexperienced and uniformed decision makers might be lucky and realize favourable deal outcomes, overall the odds are small and the complexity of the portfolio restructuring decision is working against a superior performance outcome based on good fortune. Since already included in the first three hypotheses, we refrain from stating this effect in a formal hypothesis.

2.4 METHODOLOGY
For the purpose of this study, we take the single portfolio restructuring decision as unit of analysis. This is in sharp difference to most previous decision-making studies which conducted their analyses at the firm-level (e.g. Fredrickson, 1984). Firm-level analyses, however, are problematic for several reasons. First, when operating at the firm level the direct linkage of decision processes to firm performance is problematic. The causal ordering is ambiguous and the relationship between decision process characteristics and firm performance is likely to be confounded given the many endogenous and exogenous effects on organizational performance (Pearce, Freeman, and Robinson, 1987). Moreover, firm-level
analyses assume that decision processes are uniform across decision types as well as across an entire organization (e.g. Glick et al., 1993; Goll and Rasheed, 1997). But as earlier studies have shown (Elbanna et al., 2007a; Elbanna and Child, 2007b; Hickson et al., 1986; Papadakis, Lioukas, and Chambers, 1998) even within the same organization decision processes are very likely to differ from one decision to another. Taking the individual strategic decision as unit of analysis thus enables a closer match with reality and ensures a much more robust analysis of the influence of decision-making process characteristics and (financial) decision outcome.

Data Collection

The choice of sample for our survey was dictated by the need to identify companies that have undertaken acquisition or divestiture decisions within the last two years. We started with the population of 110 publicly listed companies on the three major German and Swiss stock indices: Deutsche Aktien Index (DAX 30), the Midcap DAX (MDAX 50), and Swiss Leadership Index (SLI 30) as of February 2008. We then identified those companies that had made acquisitions and/or divestitures during the previous two years (2006-07) as provided in Thomson Onebanker’s transaction database. This resulted in an initial sample of 102 companies, listed on one of the three major German and Swiss exchanges, with acquisition and/or divestiture activity during the 2006-07 time period.

We contacted an executive (Chief Financial Officer, Head of M&A, Head of Corporate Development or Head of Corporate Strategy) at each of these companies by email and phone to solicit their participation in our survey. Of the 102 companies, 60 (59%) agreed to participate in the study. Of the 60 companies that agreed to take part in our survey, we received responses from 56 companies, resulting in a response rate of 93% and an overall participation rate of 55% (based on our initial sample of 102 companies with acquisition/divestiture activity). Compared to studies on mergers and acquisitions (Capron and Shen, 2007) and on decision-making processes (Atuahene-Gima et al., 2004), this level of survey participation is very high. The four companies that had initially agreed to participate in our survey, but did not respond, were involved in an acquisition at the time of the survey.

The 56 participating companies represent 20 different industries, with no industry accounting for more than 20% of the sample. The most predominant industries were industrial goods (20%), financial services (16%) and pharmaceutical and chemical goods (14%). The companies ranged in size from 1,150 to 525,000 employees, with an average of 62,300 employees.

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2 For our data collection, we collaborated with a leading management consultancy. Both our university and the consultancy had established contacts at each of these companies through their previous participation in the executive education and consulting services respectively. To identify and contact the executives at the different firms we further relied on the extensive alumni network of our university and the consultancy. Alumni at the respective firms were able to provide us with the contact information of the executives. We refer to these executives as our “executive contact”.

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employees and from $0.85 billion to $138 billion in sales, with an average of $26.6 billion in sales. To investigate whether our study was subject to non-response bias, we compared our sample of 56 companies with the 46 companies that did not participate in our survey by testing for differences in total sales ($t = -0.33; p = 0.81$), number of employees ($t = 1.2; p = 0.29$), and return on assets ($t = 0.37; p = 0.86$) and found that our sample is not statistically different from the 46 companies that chose not to participate in the study. We also tested for late respondent bias and did not find any statistical differences between early and late respondents within the sample. Since our study’s unit of analysis is a single acquisition or divestiture decision we asked our executive contact at each of the companies to name one or two acquisition or divestiture decisions taken within the previous two years. For the 56 companies in our sample, 80 acquisition and divestiture decisions were identified. We chose to utilize two respondents for each of the 80 acquisition or divestiture decisions, because reliance on a single respondent when acquiring organization data is prone to various forms of biases (Cote and Buckley, 1987; Podsakoff et al., 2003; Podsakoff and Organ, 1986; Rindfleisch et al., 2008; Van Bruggen, Lilien, and Kacker, 2002) and the use of multiple respondents has been shown to produce data of superior quality and validity (Van Bruggen et al., 2002; Zhou, Shin, and Cannella, 2008). After identifying the specific strategic decision, we asked our executive contact at each of the companies to name two managers who had intimate knowledge of the decision process through their involvement in the acquisition or divestiture decision. We notified each of these managers that they had been selected by our executive contact to participate in our survey and forwarded them the survey instrument via email.

Since strategic awareness of acquisitions and divestitures has been shown to be positively related to hierarchical level in most companies (Hambrick, 1981), we limited our set of survey respondents to top management team members, members of the corporate center, and business unit top management since these managers would be the most aware of strategic decisions of this nature. We verified their executive position as part of the survey. In total, we collected 160 completed survey questionnaires – two respondents per firm for each of the 80 acquisition and divestiture decisions representing 56 companies.

**Operationalization of variables**

**Dependent variable**

Following a growing stream of work (e.g., Bruton et al., 1994; Hayward, 2002; Kale, Dyer, and Singh, 2002; Kale and Singh, 2007) and partly in response to increasing criticism of abnormal stock returns (CAR) as a performance measure (e.g., Oler, Harrison, and Allen, 2008; Zollo and Meier, 2008), we decided to use a perceptual measure as our dependent variable. As the primary interest in acquisition and divestiture research is on financial
performance we designed our performance measure accordingly. We asked managers to assess the extent to which the acquisition/divestiture met top-line (i.e. revenues), bottom-line (i.e. budget) and productivity (i.e. efficiency) objectives (for a detailed description of the items, see the Appendix). All items were measured on seven-point Likert scales. The Cronbach alpha for our measure was .85 in the overall sample indicating strong reliability.

**Independent variables**

**General deal experience.** We conceptualize a firm’s general deal experience as the amount of knowledge or skills a firm has developed through its past deals completed. Building on previous experience studies (e.g. Halebian et al., 1999; Halebian et al., 2006; Hayward, 2002; Ingram and Baum, 1997), we measure a firm’s deal experience by the number of deals the sample firms completed during the past two years. As such, we do not distinguish between the different types of deals, but capture the firm’s deal experience overall. We obtained our data on the firm’s past deal statistics from the Thomson Onebanker database.

**Specific deal experience.** We conceptualize specific deal experience as the amount of deal-specific knowledge or skills the group of decision makers has acquired through its participation in similar deal decision-making processes. We thus measure the amount of specific deal experience based on decision makers’ previous exposure to similar deal settings. For this purpose, we asked each respondent to report the intensity of his or her previous involvement in (a) similar deal decision(s) (for a detailed description of the item, see the Appendix). We measured this item on a seven-point Likert scale.

**Analytical intensity.** There are several aspects that make for analytical intensity in decision-making processes. First, as Sharfman (1997) points out, “the extent to which the decision process involves the systematic collection, analysis, and use of information” underlies more analytical decision making (1997: 181-82). Moreover, analytical intensity has also been associated with the development of alternative courses of action and higher levels of systematic analysis using multiple criteria and tools in order to screen and evaluate alternatives (Fredrickson, 1984; Miller, 2008; Miller, 1987). Thus analytically intense decision-making processes involve both the collection and use of information and analytical techniques as well as the evaluation of alternative courses of action (Miller, Burke, and Glick, 1998). To fully capture the construct of analytical intensity, we created a measure composed of seven items drawn from the prior literature (Dean et al., 1996; Fredrickson, 1984; Miller et al., 1998; Papadakis et al., 1998; Talaulicar, Grundei, and von Werder, 2005).

All seven survey items utilized in our measure of analytical intensity were measured on a 7-point Likert scale. The Cronbach alpha for our measure of analytical intensity utilizing these seven items was .72.
Controls

**Relative deal size.** Deal size has been found to influence both acquisition and divestiture performance (e.g. Asquith, Bruner, and Mullins, 1983; Gupta and Misra, 2007; Moeller, Schlingemann, and Stulz, 2005). Moreover, deal size could also affect analytical intensity, thereby creating a spurious correlation between analytical intensity and performance. Relative deal size is measured using an ordinal variable: a “1” denotes a deal representing less than 5% of total firm sales; a “2” represents a deal that is greater than 5%, but less than 10%, of firm sales; a “3” represents a deal that is greater than 10%, but less than 20%, of firm sales; and a “4” represents a deal that is greater than 20% of firm sales.

**Deal importance.** Previous decision-making research has shown that the perceived magnitude of impact of a strategic decision is among the strongest explanations of decision-making behavior and outcome (e.g. Elbanna *et al.*, 2007a, 2007b; Papadakis *et al.*, 1998). In order to assess the deal’s importance respondents were asked to evaluate the perceived importance and visibility of the decision within their firms. The two items were measured on a seven-point Likert scale. The Cronbach alpha for our overall sample was .78.

**Deal relatedness.** Previous transaction research has shown, e.g. in acquisition contexts, that business relatedness of the target firm with the focal firm can have a significant impact on the deal outcome (e.g. Capron *et al.*, 2007). In order to assess the relatedness of the deal respondents were asked “Was the strategic decision related to the company’s primary business?” Respondents could answer “yes” or “no”.

**Firm performance.** Acquiring and divesting firm performance appears to be positively related to deal success (Morck, Shleifer, and Vishney, 1990). We measured firm performance by subtracting the median ROA value from the firm level value for the relevant transaction period. We obtained this data from the Thomson Onebanker database.

**Firm size.** Many researchers have argued that firm size can affect analytical intensity (e.g. Fredrickson *et al.*, 1989; Miller *et al.*, 1998; Simons *et al.*, 1999; Snyman, 2003), such that larger firms will employ more formal and analytic processes (e.g. Papadakis *et al.*, 1998). We use the (logarithmic) net sales of each firm in the year prior to the focal acquisition/divestiture decision to control for firm size. Sales data was obtained from Thomson Onebanker.

Validity and Reliability
We took several measures to assure validity and reliability in the survey construction and its administration. To ensure validity of the data we conducted a pre-test of the survey questionnaire using three partners and four experienced merger and acquisition project managers of leading management consulting companies. We met individually with these experts to get feedback on questionnaire construction and to refine the wording of the survey questions. Specifically, we asked these management consultants to utilize the most recent
acquisition or divestiture decision which they had participated in as they went through the survey questions and to think aloud and state any concerns or confusion with regard to the questions. To further assure the validity of our data, we called and spoke to each manager participating in the survey to verify that the acquisition/divestiture decision was completed and that they had personally been actively involved in the making of the decision. We also added a section in our survey asking respondents about their personal role in the decision-making process. This confirmed that all our respondents were part of the decision-making and were deeply involved in the entire decision-making process. Moreover, we assured our executive contacts and survey respondents complete anonymity. We provided a rich explanation of the usefulness of the project for the respondents’ organizations and offered them a summary of the results to foster a sense that they would benefit from involvement in the study.

Further, we alleviated potential concerns about common method bias in four ways. First, we considered for our survey only recent portfolio transactions in which the respondents have been actively involved. Since incomplete recall and retrospective rationalization of past events may confound survey results (Golden, 1992), we asked respondents to only refer to transactions completed within the last 24 months (e.g. Miller, Cardinal, and Glick, 1997). Portfolio transactions further in the past were not considered for our study.

Second, we had two survey respondents per acquisition or divestiture decision to mitigate the risk of biases in our data sample. Past studies predominantly relied on single respondent survey data (Baum and Wally, 2003; Elbanna et al., 2007a, 2007b; Goll et al., 1997; Jones, Jacobs, and Spijker, 1992). The reliance on a single respondent is highly problematic since there is substantial evidence that organizational data obtained from single respondents may suffer from validity problems (Cote et al., 1987; Podsakoff et al., 2003; Podsakoff et al., 1986; Rindfleisch et al., 2008; Van Bruggen et al., 2002). Various forms of biases (e.g., retrospective, social desirability, emotional attachment bias) can thus hardly be addressed – respectively the effects of these biases cannot be smoothened out by averaging alternative ratings. But more critically even, cross-sectional surveys completed by single respondents at a single point in time are widely subject to common method bias and thus suffer from low causal inference validity (Cote, 1988; Jap, 2004; Phillips, 1981; Rindfleisch et al., 2008; Van Bruggen et al., 2002). In order to evaluate the agreement and consistency of our respondent pairs’ assessments we carefully checked their responses for both interrater reliability and interrater agreement (James, Demaree, and Wolf, 1984; Kozlowski and Hattrup, 1992; Shrout and Fleiss, 1979)\(^3\). An ANOVA-based ICC interrater reliability

\(^3\) Interrater reliability (IRR) reports on the internal consistency of ratings between respondents while interrater agreement (IRA) refers to the interchangeability among raters. They are both measures that provide important information regarding the reliability and consistency of the survey results to infer organizational level phenomenon. We used ICC (1,k) to
analysis produced very strong results for our analytical intensity construct (ICC 1, k = 0.81, p < 0.001). The intraclass correlation coefficient for all other variables also revealed similar values. Compared to recent studies on decision-making, these values can be considered very high (e.g. Miller, 2008). Given the high IRR and high level of IRA, we aggregated responses of the two respondents by averaging their ratings for each acquisition/divestiture decision.

Third, we took distinct measures to mitigate the risk of informant bias in our study. Since analytical intensity, specific experience, and deal performance were assessed with questionnaire-based measures, respondents may have held beliefs about how these constructs were related, and may have provided data consistent with their beliefs rather than consistent with objectified reality (Dean et al., 1996; Miller, 2008). We mitigated this risk by arranging the questionnaire items so that the dependent and independent variables were located in different places in the questionnaire. Thus, the opportunity for the respondents to mentally connect the focal constructs was relatively weak. In addition, we did not label the research project of which the current study was a part an examination of analytical intensity, experience and performance. Instead the survey questionnaire carried the generic title “business portfolio management”. Thus, attention was not drawn to the key relationships of the study.

Finally, we reversed scale anchors in several places of our survey to avoid a reduction in cognitive processing and straight-line responding which give rise to consistency biases and thus decrease validity (Podsakoff et al., 2003; Podsakoff et al., 1986).

In addition to these precautions against common method bias, we statistically tested for the presence of common method bias through the use of Harman’s one factor test (Harman, 1967). Harman’s (1967) single-factor test showed that no single method factor emerged in the unrotated factor analysis that explained the majority of variance. All the measures loaded “cleanly” on separate factors, with all factor loadings above 0.40, a common threshold for acceptance. The constructs had high reliability, with all having alphas over 0.72 (Table 1).

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simultaneously measures IRA and IRR, since high ICC (1, k) values may only be obtained when there is both absolute agreement and relative consistency in judges’ ratings (LeBreton and Senter, 2008)
TABLE 1: Descriptive statistics and correlation matrix

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>S.D.</th>
<th>α</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Deal performance</td>
<td>5.14</td>
<td>1.07</td>
<td>0.82</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. General deal experience</td>
<td>3.53</td>
<td>2.51</td>
<td></td>
<td>0.25**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Specific deal experience</td>
<td>4.26</td>
<td>1.84</td>
<td></td>
<td></td>
<td>0.19*</td>
<td>0.02</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Analytical intensity</td>
<td>4.67</td>
<td>0.94</td>
<td></td>
<td></td>
<td></td>
<td>0.28**</td>
<td>0.08</td>
<td>-0.15</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Relative deal size</td>
<td>2.81</td>
<td>3.37</td>
<td></td>
<td></td>
<td>0.03</td>
<td>-0.13</td>
<td>-0.05</td>
<td>0.16</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Deal importance</td>
<td>4.73</td>
<td>1.26</td>
<td></td>
<td>0.72</td>
<td>0.13</td>
<td>0.17</td>
<td>-0.00</td>
<td>0.47***</td>
<td>0.18</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Deal relatedness</td>
<td>0.70</td>
<td>0.46</td>
<td></td>
<td></td>
<td>-0.16</td>
<td>0.01</td>
<td>0.09</td>
<td>0.13</td>
<td>0.17</td>
<td>0.31***</td>
<td></td>
</tr>
<tr>
<td>8. Firm performance</td>
<td>0.23</td>
<td>0.53</td>
<td></td>
<td></td>
<td>0.08</td>
<td>0.03</td>
<td>0.08</td>
<td>-0.11</td>
<td>-0.04</td>
<td>0.03</td>
<td>-0.14</td>
</tr>
<tr>
<td>9. Firm size</td>
<td>15.82</td>
<td>1.39</td>
<td></td>
<td>0.20*</td>
<td>0.59***</td>
<td>0.07</td>
<td>0.15</td>
<td>-0.16</td>
<td>0.28**</td>
<td>-0.07</td>
<td>0.01</td>
</tr>
</tbody>
</table>

n = 80. Bold numbers are the square root of the average variance extracted for the constructs.
* p < 0.10; ** p < 0.05; *** p < 0.001

2.5 RESULTS

We used OLS regression analyses to test the hypotheses (Table 2). We mean-centered the independent variables prior to the creation of the interaction terms to reduce multicollinearity (Aiken and West, 1991). The mean variance inflation factors associated with each of the coefficients ranged below 1.9 suggesting no serious problems with multicollinearity.

TABLE 2: Results of regression analysis

<table>
<thead>
<tr>
<th>Variables</th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>General deal experience</td>
<td>0.10*</td>
<td></td>
<td>0.12**</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.06)</td>
<td>(0.05)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Specific deal experience</td>
<td>0.11*</td>
<td></td>
<td>0.15**</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.06)</td>
<td>(0.06)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Analytical intensity</td>
<td></td>
<td>0.34**</td>
<td></td>
<td>0.44***</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.14)</td>
<td></td>
<td>(0.13)</td>
</tr>
<tr>
<td>Specific deal experience x Analytical intensity</td>
<td></td>
<td>-0.12**</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.06)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General deal experience x Analytical intensity</td>
<td></td>
<td>0.05</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.04)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relative deal size</td>
<td>0.02</td>
<td></td>
<td>0.01</td>
<td>0.02</td>
</tr>
<tr>
<td></td>
<td>(0.04)</td>
<td>(0.03)</td>
<td>(0.03)</td>
<td>(0.03)</td>
</tr>
<tr>
<td>Deal importance</td>
<td>0.11</td>
<td></td>
<td>-0.01</td>
<td>-0.04</td>
</tr>
<tr>
<td></td>
<td>(0.10)</td>
<td>(0.11)</td>
<td></td>
<td>(0.10)</td>
</tr>
<tr>
<td>Deal relatedness</td>
<td>-0.39</td>
<td>-0.49*</td>
<td>-0.36*</td>
<td>-0.52**</td>
</tr>
<tr>
<td></td>
<td>(0.28)</td>
<td>(0.27)</td>
<td>(0.27)</td>
<td>(0.25)</td>
</tr>
<tr>
<td>Firm performance</td>
<td>0.11</td>
<td></td>
<td>0.42</td>
<td>0.35</td>
</tr>
<tr>
<td></td>
<td>(0.09)</td>
<td>(0.22)</td>
<td>(0.22)</td>
<td>(0.20)</td>
</tr>
<tr>
<td>Firm size</td>
<td>0.11</td>
<td></td>
<td>0.01</td>
<td>-0.00</td>
</tr>
<tr>
<td></td>
<td>(0.09)</td>
<td>(0.09)</td>
<td>(0.09)</td>
<td>(0.10)</td>
</tr>
<tr>
<td>Constant</td>
<td>3.00**</td>
<td>4.01**</td>
<td>2.07</td>
<td>5.09***</td>
</tr>
<tr>
<td></td>
<td>(1.39)</td>
<td>(1.56)</td>
<td>(1.39)</td>
<td>(0.11)</td>
</tr>
</tbody>
</table>

R²: 0.11  Adjusted R²: 0.05  F: 1.78  ** p < 0.05; *** p < 0.001
N = 80
Model 1 in Table 2 shows the estimates for the control variables and their influence on deal performance. None of the control variables is significantly related to deal performance. Consequently, the explanatory power of the overall model is weak.

Model 2 reports the OLS results for the relationship between general deal experience, specific deal experience and deal performance. General deal experience has a positive and significant influence \((b = 0.10, p < 0.10)\) on deal performance, supporting Hypothesis 1. For specific deal experience, we find likewise a positive and significant association \((b = 0.10, p < 0.10)\) with deal performance. Hypothesis 2 is thus likewise supported.

As indicated in Model 3, the extent of analytical intensity in decision-making shares a positive and significant relationship \((b = 0.34, p < 0.05)\) with deal performance. Consequently, also Hypothesis 3 receives strong support.

Model 4 reports the results for both the direct effects of general deal experience, specific deal experience and analytical intensity as well as their interaction effects in relation to deal performance. Hypothesis 4 predicted a negative interaction of specific deal experience and analytical intensity on deal performance. Model 4 shows that this interaction effect is negative and significant \((b = -0.12, p < 0.05)\), thereby providing support for Hypothesis 4. To plot this interaction effect, we constrained the variables in model 4 except specific deal experience and analytical intensity to means. Specific deal experience took the values of one standard deviation above (a high level) and below (a low level) the mean and analytical intensity took the lowest (1) and highest (7) values possible. The plot is shown in Figure 2. At very low levels of analytical intensity, specific deal experience shares a positive relationship with deal performance, whereas at high levels of analytical intensity this relationship is negative. In keeping with Hypothesis 4, Figure 2 shows analytical intensity to negatively moderate the impact of specific deal experience on deal performance. However, Model 4 reveals also that the interaction effect between general deal experience and analytical intensity is not significant. Consequently, Hypothesis 5 predicting a negative interaction of general deal experience and analytical intensity on deal performance is not supported.

**FIGURE 2: Moderating effect of analytical intensity.**

![Figure 2: Moderating effect of analytical intensity.](image-url)
2.6 DISCUSSION AND CONCLUSION

In our study, we explored the interaction effects of both general and specific deal experience with analytical intensity in the context of portfolio restructuring decision-making. We tested the theoretical idea that, although both types of experience and analytical intensity have a direct positive impact on deal outcome, they share an antagonistic rather than a synergistic inter-relationship with analytical intensity. We found support for our hypothesized main effects in that both types of experience and analytical intensity have a direct positive impact on deal performance. We also found partial support for our hypothesized interaction effects. We found a negative interaction effect between specific experience and analytical intensity. While at lower levels of specific experience the engagement in analytical intensity is to support the deal decision-making process at higher levels the opposite is to be the case. The engagement in heavy analytical intensity is to hurt if decision makers should have a clear understanding based on their substantial past specific experience. A closer analysis suggests that an inflection point in terms of specific experience exists beyond which high levels of investigatory activity are rather to harm than to enhance deal performance. In contrast, our regression results show also that the interaction between past general deal experience and analytical intensity is not to be significant. This suggests a substantial difference between the different types of experience in their effect on decision makers. While the additional information retrieved from intense investigatory activity is to dilute the insights based on past specific experience, we do not see this dilution effect in case of more general experience. The existence of general deal experience is to support decision makers independent of their analytical activities. These results contribute to the literature in several ways and point to areas where future research could be conducted.

Contribution

First, our study extends the literature on portfolio restructuring research since it sheds light on an aspect that has been largely overlooked in recent years: the decision-making process. While existing research on acquisition and divestitures has largely focused on discussions of content-specific aspects to explain performance differences, relatively little is known about the impact of the decision-making on portfolio restructuring performance. Some studies in transaction research have looked at behavioral aspects, such as acquisition experience (e.g. Halebian et al., 1999; Halebian et al., 2006) but without applying a decision-making process perspective. In this paper, we provide some first insights in this respect. We conceptualize portfolio restructuring decision-making in terms of two high related aspects in behavioral theory – past experience and analytical intensity – and illustrate based on a theoretical framework how both factors affect deal performance. Consistent with behavioral theory, our findings suggest that in complex settings, such as acquisition and divestiture processes,
decision makers can quickly come to their cognitive limits (Bromiley, 2005). Their ambition to process as much information as possible to mitigate risks and uncertainty inherent in acquisition and divestiture decisions can not only enhance the deal success, but can also be harmful – depending on their level and specificity of past deal experience. If decision makers have – based on their substantial experience from similar deal decisions – a sound grasp of the opportunities and risks involved in the acquisition or divestiture process, the start of intense analytical activities may not create significant additional value for decision makers. Even worse, if redundant and trivial information is created through this activity, decision makers’ attention is likely to get distracted and the predictive value of non-redundant (experience-based) insights is diluted (Davis et al., 1994; Nisbett et al., 1981). However, if decision makers can just draw on general deal experience and lack specific insights, the engagement in investigatory activities is to help decision makers. It can enable decision makers to complement and refine their existing rather general insights and to finally make more profound decisions in the acquisition or divestiture process.

Moreover, our study contributes to the literature on organizational learning. In the transaction context, previous empirical work on the impact of past experience on performance provided rather mixed results that Haleblian and Finkelstein (1999) attempted to reconcile with their distinction between specific (helpful) and unspecific (detrimental) experience. Our study provides support for the approach to distinguish between specific and non-specific experience when examining its impact on decision-making behavior and finally decision outcome. However, our results do not support Haleblian and Finkelstein’s (1999) finding that unspecific deal experience harms deal success. Quite contrary, our results suggest that not only specific, but also general deal experience enhances deal performance. Rather than to devaluate general experience and to revaluate specific experience our study suggest developing different analytical strategies to complement the existing stock of experience and to leverage this stock in the decision-making process accordingly. As such, our results encourage decision makers with rather general experience not to rely on this experience as the sole source of advice, but to reach out for further information to complement their insights through investigatory activity. In contrast, if decision makers possess a high level of specific deal experience, the additional search and analysis is to be kept at rather moderate levels. This approach is to mitigate the risk of redundant or abundant information production which may in turn harm decision makers’ ability to make sound and unbiased judgments.

To the best of our knowledge, our study is the first to directly examine the interaction effects between different types of past experience and analytical intensity in strategic decision-making as well as its consequences for performance. We found that the joint effect of specific experience and analytical intensity on decision outcome was negative and it was significant. This finding has significant implications for the literature on strategic decision-
making. A central debate in this research stream has focused on the impact of analytical intensity on performance. While most prior studies found a positive link between analytical intensity and decision outcomes (Dean et al., 1996; Elbanna et al., 2007a; Nutt, 1998; Papadakis et al., 1998), some studies found empirical support for a negative relationship (Fredrickson et al., 1989). In order to solve this puzzle, researchers primarily focused their effort on examining analytical intensity as a stand-alone concept under different environmental conditions (i.e. stable versus dynamic environments). The results of our study suggest that this approach might not only be misleading, but that it is also dangerous. Treating analytical intensity as a stand-alone concept, would neglect an interaction of current insights derived from analysis and those retrieved from the stock of past experience. Cognitive theories on information processing have shown, however, that information from both sources are highly interactive. Previous work in several research streams has provided ample empirical evidence for this effect (e.g. Khatri and Ng, 2000). The existence of this interaction effect emphasizes that an examination of both factors – past specific experience and analytical intensity – can contribute effectively to a more thorough understanding of the analytical intensity-performance relationship. Following this reasoning, it is unclear, for example, whether the reported negative effects of analytical intensity on performance are only due environmental factors or whether decision makers simply have not been more experienced than others. A more comprehensive analysis could help to clarify the existing equivocal results in the strategic decision-making literature and could thereby provide the strategic decision-making perspective with more explanatory power overall.

Prescriptive implications
Our study has prescriptive implications for managers. Since acquisitions and divestitures are all more prevalent today as companies re-define the strategic scope of their businesses and adjust the basis for their competitive advantage, managers are increasingly faced with making strategic decisions that impact the business portfolio of the company. The results of our study provide managers with important insights into what they should consider in the process of making these important decisions.

According to our findings, managers are well-advised to adjust their decision-making processes and styles to the past specific experience they can draw on. While our results suggest that intense investigatory activity can facilitate the deal decision-making process if no past specific experience exists, they also reveal an interesting, but potentially counterintuitive insight: heavy investigatory activity harms the deal outcome if past specific deal experience is present. In the latter case, managers are well-advised to carefully monitor the resources they allocate to studies, external experts and events destined to facilitate decision-making. Since past experience is relevant to the present deal setting in a direct and straightforward way, the
launch of general “deal facilitating” activities may return only little value. In deals in which
only a “general idea” of the setting and the required courses of action exists, however, the
engagement and investment in extensive investigatory activities to support the decision-
making process can indeed provide beneficial effects. In this context, an analysis-driven
decision making process is to help managers effectively deal with the complexity inherent in
transaction settings and ensure that all relevant question are systematically addressed.
Further, it can help managers reduce some effects of cognitive biases and to limit their
information gathering and screening only to information consistent with pre-conceived or
favourite ideas. More generally speaking, it is thus critical for managers to well reflect on the
level of investigatory activity they engage in. The empirically supported framework with
varying degrees of past specific experience and analytical intensity can provide managers
with valuable guidance in this respect.

Limitations and Future Research
Because this study is the first (to our knowledge) to empirically investigate the influence of
strategic decision making on the performance of acquisitions and divestitures, further research
is needed. Owing to this setting, our arguments and findings may be susceptible to certain
theoretical and methodological boundary conditions. Results from our sample of German-
speaking firms (Germany and Switzerland) may not be readily generalizable to other
countries (e.g. the United States) due to cultural variations (Hofstede, 2001). For example,
compared to other nations the German and the Swiss culture in particular are often considered
rather consensus-oriented. These national culture traits may to some extent have biased our
results. However, a recent study examining differences in decision styles between German,
Japanese, and British or US companies indicates that convergence pressures – spurred by
global capital markets, global competition, and a diffusion of professional management
practices – significantly attenuate such differences (Carr, 2005), thus reducing generalizability
concerns. Further, our study’s examination of the interaction between past experience and
analytical intensity in decision-making focused on the business portfolio decision only. While
business portfolio decisions certainly differ from other organizational decisions in terms of
risks involved, complexity, ambiguity, and time pressure in the decision-making process, they
share the same basic procedural features (i.e. information gathering, definition of options,
evaluation, assessment and choice). Future research should determine if the ideas presented
here can be extended beyond the business portfolio decision to other organizational contexts.
This could advance research on strategic decision-making as well as it could inform the
research on organizational learning.

While the theoretical framework developed in this paper provides first insights into the
performance impact of two important factors – past experience and analytical intensity – in
the deal decision-making process, it can just be the starting point. Future research could, for example, further examine which impact cognitive biases, such as overconfidence or confirmation bias, have on the performance of acquisition and divestiture decisions. All such research could refine our understanding of portfolio restructuring processes and enable us to consistently identify antecedents for (post-) restructuring success.
# APPENDIX

## Appendix I. List of measurement items

<table>
<thead>
<tr>
<th>Variable</th>
<th>Items</th>
<th>Scale</th>
<th>Source</th>
<th>Alpha</th>
</tr>
</thead>
</table>
| **Analytical intensity (7-point Likert-type scale)** | 1. Managers held regular meetings with a pre-specified agenda to discuss the strategic decision.  
2. Managers made systematic use of external sources (e.g., industry reports, analyst reports, journals) in making this strategic decision.  
3. Managers relied on historical data review and past deal statistics when making the strategic decision.  
4. Managers involved in the decision-making process used quantitative analytic techniques (e.g., NPV-IRR methods, detailed cost analysis, scenario analysis) in making the strategic decision.  
5. Alternative options were considered and analyzed before going with the strategic decision.  
6. Managers involved in the decision-making process considered the actual probability of failure for each decision option.  
7. Standardized strategic or financial criteria (e.g., acquire/target/ partner similarity, price range, financial indicators and target rates) were used for eliminating alternative options to the strategic decision. | 1 = to no extent, 7 = to a very great extent | Dean et al., 1993; Fredrickson, 1984; Miller et al., 1998; Papadakis, 1998; Talaulicar et al., 2005 | 0.72 |
| **Specific deal experience (7-point Likert-type scale)** | 1. Over the past five years, how often have you been directly involved in a similar strategic decision? | 1 = not at all, 7 = very often | | |
| **Deal Performance (7-point Likert-type scale)** | Please, assess the strategic decision made by the company on each of the following criteria (up to now):  
1. Revenue objectives  
2. Budget objectives  
3. Efficiency objectives | 1 = very unsuccessful, 7 = very successful | Ideas drawn from: Khatri and Ng, 2000; Elbanna et al., 2007b; Walter et al., 2007 | 0.85 |
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40


*Organization Science* **13**: 339-351
3. PAPER 2: ACQUISITION VERSUS DIVESTITURE DECISION-MAKING – THE INFLUENCE AND INTERPLAY OF COMPREHENSIVENESS AND DISSENT

ABSTRACT

Decision comprehensiveness – also sometimes labelled decision rationality – has emerged as one of the most prominent constructs in strategic decision-making research over the last thirty years. Empirical findings regarding the influence of decision comprehensiveness on firm performance or decision outcome, however, have remained largely equivocal. This study argues that part of this inconclusiveness results from two major shortcomings: first, a lack of attention to the different types of strategic decisions included in prior empirical analyses; second, a lack of attention to the social context in which the comprehensive decision-making process takes place – particularly the controversial discourse among decision makers that accompanies strategic decision-making. To address these shortcomings, this study examines and compares the individual and joint influences of decision comprehensiveness and dissent on (financial) deal performance in acquisition and divestiture decision-making processes. Drawing on prospect and information theory, we argue that the influence of comprehensiveness and dissent on deal performance is likely to differ between both decision types. While in acquisition decisions comprehensiveness and dissent enable decision makers to effectively mitigate the impact of cognitive biases and existing information asymmetries, in divestitures both factors are to be far less helpful (comprehensiveness) or even harmful (dissent) due to different contextual requirements. We test our hypotheses using 49 acquisition and 31 divestiture decisions from the largest 56 public companies in Germany and Switzerland (i.e. 55 per cent participation rate) using a multi-respondent design. Our findings indicate that comprehensiveness and dissent have disparate influences on deal performance in acquisitions and divestitures and provide a number of implications for both strategic decision-making, as well as acquisitions and divestiture research.
3.1 INTRODUCTION

Strategic decision-making has evolved as one of the most active areas of current management research. While past research has looked at several dimensions of the decision process to identify factors enabling effective strategic decision-making (Elbanna, 2006; Papadakis, Lioukas, and Chambers, 1998; Rajagopalan, Rasheed, and Datta, 1993) the debate on the extent of comprehensiveness firms adopt in their decision processes figures most prominently. Decision comprehensiveness describes the extent to which an organization’s management utilizes an extensive and logical process when making strategic decisions (Dean and Sharfman, 1993; Dean and Sharfman, 1996; Elbanna and Child, 2007a, 2007b; Forbes, 2007; Miller, 2008). Proponents of this approach believe that the concerted effort in the explicit generation and consideration of multiple decision options is crucial for thoroughly understanding situations and for finally making good choices.

The empirical findings on the effectiveness of comprehensive decision-making processes, however, have been rather conflicting. In order to reconcile their findings researchers primarily focused on the moderating role of a firm’s environment. But still, findings have remained largely equivocal. Some studies found comprehensive strategic decision-making to be superior in dynamic, but inferior in stable environments (e.g. Bourgeois and Eisenhardt, 1988; Dean et al., 1996) while other studies proposed the exact opposite (e.g. Fredrickson, 1984; Fredrickson and Iaquinto, 1989).

Though this focus on the environment as an important contingency factor seems generally valid, it clearly detracted researchers from more carefully considering potential differences in the influence of comprehensiveness between various decision types, and from taking into account the internal social context – particularly the controversial discourse among decision-makers that may go along with comprehensive decision-making. Many previous studies (e.g. Bourgeois et al., 1988; Dean et al., 1996; Elbanna et al., 2007a; Goll and Rasheed, 1997; Nutt, 1998; Simons, Pelled, and Smith, 1999) relied on highly heterogeneous samples of strategic decisions which included a broad variety of different decision types (e.g. decisions about plant shutdown or construction, new product investment, new marketing strategy, new organizational structures, new compensation systems, or worker involvement). Previous studies have thus implicitly assumed that decision-making processes are likely to be uniform across different types of strategic decisions, and that strategic decision-making process characteristics have similar effects on decision outcome regardless of the specific decision type. Recent research suggests, however, that this notion may be too simplistic.

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4 We utilize the term “decision comprehensiveness”, while some strategic decision-making studies use the term “decision rationality” or “procedural rationality”. The distinction between these constructs has become somewhat blurred since they are both defined and operationalized in terms of the extent to which management utilizes an extensive and logical process when making strategic decisions (Forbes, 2007, Miller, 2008)
Different decision types are likely to pose different requirements for successful decision-making (Hough and White, 2003). Moreover, by exclusively focusing on the external environment scholars neglected the internal, social context in which strategic decisions are taken. Since strategic decisions are usually characterized by high degrees of ambiguity, complexity and riskiness, they give rise to multiple, divergent opinions on whether a specific strategic decision really serves best to reach a specific goal, and what constitutes the most suitable course of action. As such, comprehensive decision-making processes may be accompanied by significant dissent among decision makers (e.g. Eisenhardt and Bourgeois, 1988). Though previous research on decision-making has highlighted the potential positive and negative performance consequences of dissent among decision makers, its relationship with comprehensiveness has not yet been systematically analyzed. As a consequence, important issues for decision makers in business practice have remained unanswered. For instance, does the positive effect of comprehensiveness on firm performance or decision effectiveness depend on reaching agreement in the group? Can decisions reach the same degree of effectiveness if the decision process is comprehensive, but a certain extent of problem-solving dissent is present? Or, may dissent to some extent even be beneficial to catalyze more rigorous search and analysis, and avoid cognitive decision biases such as overconfidence, complacency, or reasoning by analogy?

Our paper addresses these shortcomings by analyzing and comparing the individual and joint influence of decision comprehensiveness and problem-solving dissent on decision (financial) outcome in acquisition and divestiture decision-making processes. Drawing on prospect and information theory, we argue that the influence of comprehensiveness and dissent on deal performance is likely to differ between both decision types. While in acquisition decisions comprehensiveness and dissent enable decision makers to effectively mitigate the impact of cognitive biases and existing information asymmetries, in divestitures both factors are to be far less helpful (comprehensiveness) or even harmful (dissent) due to different contextual requirements. For instance, in divestitures dissent may even deteriorate performance since it impedes both a quick exit decision and a smooth divestitures process.

For several reasons, we focus our empirical analysis on acquisition and divestiture decisions. First, acquisition and divestiture decisions change the scope of the firm and involve the commitment of substantial resources. Consequently, acquisition and divestiture decisions can be reckoned among the most important strategic decisions of a firm (e.g. Wally and Baum, 1994). Second, due to the importance and riskiness of acquisition and divestiture decisions, these decisions are not made as by-products of ongoing business decisions by single individuals, but they are usually made within a (top management) team as part of a

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5 An exception can be found in the work of Simons, Pelled, and Smith (1999) who examined comprehensiveness as an outcome and a mediator of interactions between debate and diversity in top management teams.
dedicated process. Moreover, the ambiguity, complexity, and riskiness that accompany acquisition and divestiture decisions may give rise to dissent among decision makers.\footnote{For instance, acquisitions are likely to spark controversial debates about target selection, fit, or price. While in divestitures, dissent is particularly likely to arise because divestitures are commonly perceived as ‘loss’ decisions that signal weakness and/or admission of past managerial mistakes (e.g. Boot, 1992; Dranikoff, Koller, and Schneider, 2002).} This, in turn, suggests a basic relevance of both comprehensiveness and dissent in these two types of decision-making processes. Third, acquisitions and divestitures are both important and related portfolio decisions that share certain commonalities. Drawing on prospect and information theory as well as previous research on divestitures, however, several clear differences between acquisitions and divestitures can be made out; differences, in particular, in the perception (‘framing’) of acquisition and divestiture decisions and differences in the degree of information asymmetry in both settings. The focus on two related decisions that vary along specific dimensions permits a fine-grained, comparative analysis of the (relative) influence of decision comprehensiveness and dissent on decision outcome in these two settings.

Our study’s major focus and empirical setting are thus distinctive from past studies in many respects. First, we study the individual and joint influence of two major strategic decision-making process characteristics – decision comprehensiveness and problem-solving dissent – instead of focusing on the indirect (moderating) influence of the general firm environment. Second, we focus on acquisition and divestiture decisions, and compare these two decision types. In contrast, many previous studies relied on highly heterogeneous samples of strategic decisions which included a broad variety of different decision types. Third, our empirical design and analyses follow the most recent requests in strategic decision-making literature and process research. We test our hypotheses using 49 acquisition and 31 divestiture decisions from the largest 56 public companies in Germany and Switzerland (i.e. 55 per cent participation rate). In line with the most recent requests and critique of prior decision-making process research (Forbes, 2007; Hough et al., 2003), we take the single acquisition/divestiture decision as unit of analysis. We use a multiple respondent design and carefully check for potential (method) biases, while prior studies have largely relied on single respondent designs which suffer from validity problems due to various forms of biases (i.e. common method bias) (e.g., Jap and Anderson, 2004; Podsakoff et al., 2003; Rindfleisch et al., 2008; Van Bruggen, Lilien, and Kacker, 2002).

The remainder of the paper is structured as follows. After a review of prior literature on decision comprehensiveness and problem-solving dissent, we develop our hypotheses on their individual and joint influence in both acquisition and divestiture decision-making processes. We then describe our data and empirical analysis. Finally, we present results from
our empirical data, discuss implications for theory and practice, and outline areas for future research.

3.2 BACKGROUND
Previous Research on Decision Comprehensiveness

A prominent question in strategy process research is whether comprehensiveness enables firms to make better strategic decisions (e.g. Bourgeois et al., 1988; Dean et al., 1996; Fredrickson, 1984; Glick, Miller, and Huber, 1993). Proponents of this perspective believe that the concerted effort in the explicit generation and consideration of multiple alternatives is crucial for properly understanding situations and for making good choices.

While the comprehensiveness-decision effectiveness argument is rather straightforward, empirical evidence has been somewhat conflicting. Since the beginning of the debate in the 1980s scholars referred to the contingency of the firm environment to explain the varying effects of comprehensiveness on decision outcome. On one side, Fredrickson and Mitchell (1984), argued that a comprehensive decision making approach is crucial only for organizations in stable environments. They reasoned that dynamic, unpredictable situations require non-comprehensive approaches that facilitate quick decisions needed to take advantage of fleeting windows of opportunity. In dynamic environments, they argued comprehensive decision approaches are thus irrelevant at best, dysfunctional at worst (Fredrickson et al., 1984). On the other side, Bourgeois and Eisenhardt (1988) put forth the argument that in a turbulent environment it may be impossible to proceed unless analyses are used to structure the situation, and to help executives to cope with the chaos. Consequently, they suggested a positive impact of comprehensiveness in dynamic environments, while suggesting no such relationship in stable environments. In the literature, empirical support for both arguments is rather mixed (for an overview, see Forbes, 2007; Miller, 2008). While some studies revealed a positive comprehensiveness-performance relationship in stable, but not in dynamic environments (Fredrickson, 1984; Fredrickson et al., 1989; Fredrickson et al., 1984), others found a positive effect in dynamic, but not in stable environments (Glick et al., 1993; Priem, Rasheed, and Kotulic, 1995; Walters and Bhuian, 2004), or a positive relationship independent of the environmental dynamics of the decision context (Dean et al., 1996; Forbes, 2005; Nutt, 1998; Papadakis, 1998; Simons et al., 1999; Smith et al., 1988).

In the quest to solve the remaining puzzle of contradicting moderating effects on the comprehensiveness-performance relationship, distinct methodological and theoretical modifications have been proposed. Miller (2008) introduced the concept of non-linearity into the debate – an aspect that has been largely overlooked in previous research. While in non-turbulent environments Miller (2008) found comprehensiveness and performance to be connected through an inverted U-shaped function, in turbulent environments they shared a
positive relationship with a concave upward component. Further, recent research suggested adopting a multidimensional approach when dealing with the moderating role of the environment. Athuahene-Gima and Li (2004) illustrated that it is not environmental uncertainty per se, but the information-processing demands created by different environments, that are likely to induce the moderation observed. In response to these findings, Forbes (2007) urged for a more refined conception of the firm environment. He proposed the organizational information environment as a task-specific conception of the environment in order to better capture the aspects of managers’ decision-making processes that are effectively moderating the influence of comprehensiveness on decision effectiveness (Forbes, 2007).

Even though this recent work considerably advanced our understanding of the comprehensiveness-performance relationship, it focuses on a single moderator: the firm’s environment. Pettigrew (2003) argued that rationality in strategic decision processes cannot be properly understood unless we understand its broader context. This view postulates that the context in which strategic decision rationality takes place has a marked impact. However, it is important to note that the term ‘context’ not only refers to features of the external environment, but also to characteristics of decision-makers, decision-specific characteristics, as well as specific characteristics of the firm itself. While more recent studies responded to this call (e.g. Elbanna et al., 2007a), the large body of existing research on the comprehensiveness-performance link is still concerned with environmental uncertainty as the key moderator. Of the 22 articles we reviewed on the comprehensiveness-performance-link in the strategic management literature, 17 are concerned with moderating effects. In most of these articles (14 out of 17) environmental uncertainty was examined, usually as the single moderator on the comprehensiveness-performance-relationship (see Appendix for the complete list). Other moderating factors, such as firm characteristics (three articles), decision-specific characteristics (two articles) and decision-maker characteristics (two articles) are far less frequent. Given the potential significant influence these characteristics can have on the relationship between decision comprehensiveness and decision (financial) outcome, this neglect is remarkable.

**Previous Research on Problem-Solving Dissent**

The subject of dissent in strategic decision-making has been examined from different perspectives. While some researchers have focused their work on (dis)agreement among managers about the shared understanding of strategic priorities of an organization as a desired state or an outcome (for an overview, see e.g. Kellermanns et al., 2005), others have focused on the existence of different viewpoints on a strategic task during the decision-making process (for an overview, see e.g. Katzenstein, 1996). Building on previous work in the latter stream (Butler and Sharp, 1991; Eisenhardt et al., 1988; Papadakis et al., 1998; Simons et al., 1999)
we conceptualize problem-solving dissent as the perceived disagreement within the primary decision-making group during the decision process on the general strategic direction and the appropriate course of action associated with the focal decision.

In previous research, both positive and negative effects of problem-solving dissent on decision effectiveness have been identified. The impetus for this research has been the premise that dissent among strategic decision makers increases decision effectiveness by more critically evaluating the different aspects of a focal decision, thereby avoiding the potential negative consequences of groupthink (Janis, 1972). Decision makers exposed to dissent have been found to more seriously question their own judgment (Nemeth et al., 2001), to consider more strategic directions in the service of performance (Nemeth and Kwan, 1987b), and evidence more original thought (Nemeth and Kwan, 1987a). They have also been found to detect correct solutions that otherwise would have gone undetected (Nemeth and Wachtler, 1983). The disadvantages of problem-solving dissent lie primarily in the conflict that is engendered within the decision making group. For example, Schmidt (1974) reports that problem-solving dissent can cause a breakdown of teamwork; can increase suspicion, distrust, and distance between people; and can leave people feeling defeated and demeaned. Moreover, Schweiger, Sandberg, and Ragan (1986) report that groups in which substantial dissent occurred were less satisfied with the group process and showed less acceptance for their final solutions when compared with consensus groups. Consequently, they were less motivated and inclined to work with each other (e.g. Schwenk and Cosier, 1993) – a particular problem for ongoing groups (Nadler, Hackman, and Kilman, 1979).

3.3 HYPOTHESES

Previous studies implicitly assumed that decision-making processes are likely to be uniform across different types of strategic decisions, and that strategic decision-making process characteristics have similar effects on decision outcome regardless of the specific decision type. In the following, we lay out a detailed argument of why and how comprehensiveness and dissent influence acquisition and divestiture performance by outlining both factors’ linkage to the major sources for value creation in acquisitions and divestitures. Drawing on prospect and information theory, we additionally develop an argument of why their influence on deal performance is likely to differ between both types of decisions. Finally, we examine how comprehensiveness and dissent interact in both acquisition and divestiture decision-making. Given the ambiguity, complexity and riskiness that most strategic decisions engender, decision comprehensiveness and dissent in strategic decision-making may co-occur. Despite their co-occurrence and despite their demonstrable individual importance for decision outcome, scholarly research on comprehensiveness and research on
dissent have so far developed rather independent of each other, and that no significant cross-fertilization between the two topics has yet taken place.

**Decision Comprehensiveness and Acquisition Performance**

As previous acquisition research has shown a significant part of the value creation through acquisitions depends on making the right choice in target selection (e.g. Kusewitt, 1985; Lubatkin, 1987; Ramaswamy, 1997; Shelton, 1988; Singh and Montgomery, 1987), on fixing a fair price for the target (e.g. Asquith, Bruner, and Mullins, 1983; Bradley, Desai, and Kim, 1988; Han, Suk, and Sung, 1998; Morck, Shleifer, and Vishney, 1990; Servaes, 1991; Varaiya and Ferris, 1987) as well as on a sound integration of the target into the acquiring firm (e.g. Datta and Grant, 1990; Haspeslagh and Jemison, 1991; Shanley, 1994; Zollo and Singh, 2004). Building on previous strategic decision making research, we propose that comprehensiveness in the acquisition decision process enhances the quality of both target selection as well target price determination. This is for several reasons. First, decision makers who engage in systematic activities to identify potential acquisition candidates are less likely to overlook attractive acquisition targets and to become too opportunity-driven in their acquisitions. A comprehensive search and scanning of the competitive environment can help decision makers to create long lists of several potentially attractive segments and targets in line with corporate strategy, instead of focusing on the firm’s immediate environment too early (e.g. Rankine, 1998). Second, decision makers who engage in the explicit generation of multiple acquisition options can be expected to be more cautious in their judgments and less prone to potential cognitive biases (e.g. Duhaime and Schwenk, 1985). For example, in their examination of the ‘Acquiring a Company Problem’ (Samelson and Bazerman, 1985) Idson and colleagues (2004) found that decision makers considering several decision problems at a time engaged in comparative and analogical processes which in turn reduced the effect of cognitive biases in their decision making, and finally enhanced outcome of decisions. Third, decision makers who conduct a comprehensive analysis of acquisition options are in a better position to make sound estimations of their value creation potential. For decision makers to determine the right target they need to get a profound understanding of the resources that can be leveraged across the two firms and how the combined firm can take advantage of potential synergies. Since in acquiring firms decision makers are confronted with significant information asymmetries these valuations and assessments are difficult to make. Comprehensive and careful analyses, e.g. in context of the strategic due diligence, can help decision makers mitigate cognitive biases, and the problem of information asymmetries; and thus enable decision makers to gain a more profound understanding of the target and finally make more solid value creation estimates (e.g. Cullinan, Le Roux, and Weddingen, 2004).
In a similar vein, we expect decision comprehensiveness to facilitate the determination of a fair price for the acquisition target. One reason why many acquisitions fail to generate value for the acquirer is that the acquirer overpays for the target (so-called “winner’s curse”) (e.g. Asquith et al., 1983; Bradley et al., 1988; Han et al., 1998; Morck et al., 1990; Servaes, 1991; Varaiya et al., 1987). In this case the acquirer may not able be to recoup its price in gains even though a considerable strategic and/or organizational fit exists. While previous acquisition research has not identified one clear rule for acquisition price determination, it has proposed numerous analytic techniques, such as DCF evaluation, multiple evaluation, scenario techniques, destined to facilitate the valuation of the acquisition target (e.g. DePamphilis, 2008). Even though the application of these techniques is not to provide decision makers with a single, clear cut answer to their valuation question, it is to push decision makers to make their assumptions explicit, ground their reasoning in fundamentals, think in different scenarios and also consider probability of failure. Together, these activities can help decision makers to ensure that most or all important decision variables are considered and no relevant aspects have been overlooked, finally resulting in better decisions and better outcomes (Langley, 1989; Mintzberg, Raisinghani, and Theorêt, 1976). Building on this line of reasoning, we expect a comprehensive approach to support decision makers both in making a well-founded target choice and in determining a fair price for the target leading to superior acquisition performance.

**Hypothesis 1: In acquisition decision-making, comprehensiveness is positively related to acquisition performance.**

**Decision Comprehensiveness and Divestiture Performance**

When it comes to value creation in divestitures two aspects have been considered crucial in previous divestiture studies: the firm’s responsiveness to the need to divest (e.g. Buchholtz, Lubatkin, and O'Neill, 1999) as well as its ability to organize an effective vending process to realize a price premium for its divested assets (e.g. Dranikoff, Koller, and Schneider, 2002). In both regards, we expect comprehensiveness to effectively support decision makers.

Firms often have been found to destroy value by not responding proactively to the need to divest (Buchholtz et al., 1999; Dranikoff et al., 2002; Mankins, Harding, and Weddigen, 2008; Markides, 1995; Pashley and Philippatos, 1990; Ravenscraft and Scherer, 1987). Instead of making a timely exit decision, firms often tend to divest a unit only after several years of poor performance, numerous restructuring attempts have failed, or market pressure has increased significantly (e.g. Dranikoff et al., 2002; Foster and Kaplan, 2001). In this context, the engagement in comprehensive internal analyses that rigorously test the firm’s
businesses for criteria, such as strategic fit, value creation, or potential stand alone value, has been suggested to facilitate the decision of a timely exit (Horn, Lovallo, and Viguerie, 2006; Mankins et al., 2008). Applying these comprehensive analyses prompts decision makers not only to thoroughly reconsider and test each business’s fundamentals, but also to develop an understanding for the value outsiders are placing (or might place) on similar assets, thereby enabling them to make more informed and proactive (rather than passive or involuntary) divestiture decisions. Moreover, the systematic search and screening of information on the sell-side has been proposed to facilitate decisions to exit a business (Mankins et al., 2008). A systematic tracking of the transactions completed in the firms’ markets and the buyers involved can enable decision makers to grasp a more profound understanding of the current attractiveness of their potential divestiture candidates and the needs of potential buyers. As a consequence, divestiture decisions can be initiated more proactively.

When it comes to the vending process, decision makers have often been found to focus predominantly on the objective of deal closure (“getting the deal done”), while somewhat neglecting the conditions of closure (e.g. Mankins et al., 2008). However, by applying a too pragmatic and (analytically) less exhaustive approach in the vending process decision makers may leave potential value creation opportunities untapped (Mankins et al., 2008). Decision comprehensiveness is to help firms effectively realize these opportunities. First, the explicit generation of several exit options can prevent decision makers from focusing too early on a single, potentially sub-optimal, outcome (Duhaime et al., 1985). For example, if the unit to be divested has a sufficient stand-alone ability, decision makers may not only think about an asset-sale to strategic or financial investors, but to even consider options, such as an initial public offering, a spin-off, or a management buy-out. A careful examination of these different options may not only help decision makers to identify overlooked aspects and decision variables, but also to increase their negotiation power in case several exit options are credibly maintained throughout the sales process (so-called dual track approach) (Brauer, 2006). Second, a comprehensive (sell-side) market search and screening process helps to identify the most promising acquirer for the unit to be divested. Often divesting firms have been found to limit their bidder search to the traditional competitors and the usual financial investors in the industry (Mankins et al., 2008). A comprehensive search process can enable decision makers to develop a more thorough understanding of who could benefit most from the acquisition (i.e. quality of potential acquirers) as well as to increase the number of legitimate buyers that make it to the final stage of the bidding process. Both the enhanced quality and quantity of potential bidders is to increase the chances for the divesting firm to realize more than the minimum selling price for the unit (Buchholtz et al., 1999). Third, a systematic analysis of the unit’s link with the parent company can help prepare a sound carve out (Brauer, 2009). Often firms do not address the disentangling of the unit’s assets in a
systematic manner. As a consequence, important commercial and legal issues between parent and unit are neglected leading to the risk of significant frictions and delays later on in the vending process (e.g. Gole and Hilger, 2008). A systematic analysis can help address these issues in a timely manner and sensitize decision makers accordingly thus leading to superior stability and speed in the sales process (Brauer, 2009). Building on this line of reasoning, we expect a comprehensive approach to support decision makers in timing their divestiture decision proactively and in thoroughly managing the bidding process.

**Hypothesis 2:** In divestiture decision-making, comprehensiveness is positively related to divestiture performance.

Influence of Decision Comprehensiveness on Acquisition Performance relative to its Influence on Divestiture Performance

In both acquisition and divestiture decision-making, comprehensiveness thus seems to be positively associated with transaction (financial) performance. However, prior research on divestitures (i.e. Brauer, 2006; Buchholtz et al., 1999; Graebner and Eisenhardt, 2004; Shimizu and Hitt, 2005) has highlighted the substantial differences that exist between acquisition and divestiture decision settings, such as the decision perception and the symmetry of information. Specifically, we theorize that differences in decision perception and the degree of information asymmetry associated with acquisition and divestiture decisions lead to comprehensiveness having a more powerful influence on acquisition performance than on divestiture performance.

**Decision perception and biases.** Building on Prospect Theory (Kahneman and Tversky, 1979) one can infer that the decision to divest (or “lose”) is to prompt a different behaviour among decision makers than the decision to acquire (or “win”). At its core, Kahneman and Tversky (1979) proposed that losses appear to decision makers larger than gains. Decision makers seem to perceive losses more averse in intensity than the pleasure resulting from equal-sized gains. In a variety of studies, this effect of loss aversion has been empirically demonstrated (e.g. Kahneman et al., 1979; Tversky and Kahneman, 1981; Tversky and Kahneman, 1991). An investigation of the underlying psychological processes revealed that gain decisions are made with increased confidence compared to loss decisions. As a consequence, in gain settings decision makers were found to adopt a less critical mindset (i.e. exert themselves less) and to come more quickly to a preferred solution they were confident about (e.g. Denes-Raj and Epstein, 1994; Fischer et al., 2008). Research on

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7 Further studies reported empirical evidence for the biasing influence of decision framing in different strategic decision contexts, such as purchasing (Qualls and Puto, 1989), resource allocation (Bateman and Zeithaml, 1989), personnel selection (Huber, Neale, and Northcraft, 1987), negotiations (Neale, Huber, and Northcraft, 1987), marketing (Bettman and Sujan, 1987; Puto, 1987), and auditing (Johnson, Jamal, and Berryman, 1991).
cognitive biases provides support for this finding: acquiring decision makers often tend to be less rigorous (reasoning by analogy bias), overconfident (illusion of control bias) and overzealous (escalating commitment bias) (Duhaime et al., 1985). As decision comprehensiveness can be seen as a means to effectively mitigate these biases it is to be of particular help to decision makers involved in these acquisition settings.

In “loss” (i.e. divestiture) frames, in contrast, decision makers have been found to reveal a different behaviour. Since loss decision frames induce more conflict among decision makers, they also tend to decrease confidence among decision makers and subjective reliability on their own preference (Schneider, 1992). Moreover, loss settings lead decision makers to manifest significantly more fear of failure which makes decision makers more hesitant to take a quick decision (Dunegan, 1993; Lopes, 1987). In divestiture research, this lack of decisiveness – partly due also to emotional attachment not merely caution – has been highlighted by several scholars (Boot, 1992; Buchholtz et al., 1999). The fear of failure and general cautiousness is likely to lower the risk of cognitive biases. Since the risk of cognitive biases is lower in divestitures we also expect the positive performance effect of comprehensiveness to be lower in divestiture settings.

Information asymmetries. Comprehensiveness is further likely to be less effective in divestiture decision-making compared to acquisition decision-making due to the different degrees of information asymmetries in acquisition and divestiture decision settings (Buchholtz et al., 1999). Information asymmetries are generally significantly lower in divestitures compared with acquisitions. Since the focus of investigation is on an internal unit most information is rather convenient to access. The source of information is likely to be known to decision makers thus enabling them to evaluate critical aspects (e.g. degree of objectivity, political colouring of data). Moreover, often divestiture decisions are not taken ad-hoc, but only after several restructuring initiatives failed and the focal unit repeatedly performed below aspirations (Dranikoff et al., 2002). The list of potential divestiture candidates, their characteristics, as well as their up- and downside potential is thus often known to decision makers. With a facilitated access to and availability of decision-related information a comprehensive decision making approach is less critical in divestitures relative to acquisitions in which relevant, in-depth information on the target is often difficult to obtain and to assess. Overall, we thus propose that comprehensiveness has a stronger influence on acquisition performance than on divestiture performance.

Hypothesis 3: Decision comprehensiveness will have a more positive influence on acquisition performance than on divestiture performance.
Problem-solving Dissent and Acquisition Performance

As mentioned above, the appropriate target selection as well as the determination of a fair price for the target have been deemed critical for value creation through acquisitions (Haspeslagh et al., 1991). Building on previous group decision-making research, we propose that problem-solving dissent in the acquisition process enhances the quality of both target selection and target price determination. First, it can prompt decision makers to consider a greater variety of potential acquisition targets, thereby preventing them to focus exclusively on one or a few candidates. Dissent among decision makers has been found to actively stimulate the consideration of more strategic options in order to enhance performance (Nemeth et al., 1987a). As such, dissent can prevent decision makers from overlooking attractive options and become too focused on one single option or outcome. Moreover, dissent among decision makers is to lead to a more critical consideration of the different acquisition options identified (Nemeth et al., 2001). It may force decision makers to justify their positions more vigorously, to outline their assumptions more explicitly, and reconsider their beliefs thereby challenging effectively their mental models in the decision process. The risk of premature agreement among decision makers can thus be potentially avoided allowing for a more effective target selection.

In a similar vein, dissent is to support the determination of a fair price of the acquisition candidate. Numerous studies have highlighted the acquirer’s risk of overpaying for a target (Varaiya et al., 1987). One main reason for this tendency to overpay is to be found in managers’ strong confidence in acquisition settings. Perceiving the acquisition as a clear “win” for the firm (Kahneman et al., 1979) managers tend to overestimate their ability to recoup the premium paid in later (synergy) gains (Hayward and Hambrick, 1997). Dissent, in contrast, has been found to prompt decision makers to seriously consider their own judgment and to avoid premature conclusions (Nemeth et al., 2001). Moreover, it has been found to enable decision makers to detect issues that otherwise would have gone undetected (Nemeth et al., 1987b). As a consequence, these aspects can help mitigating the risk of overconfidence among decision makers and thus lower the probability of paying a too high price for a target.

On the other hand, dissent among decision makers may also hurt acquisition performance. As mentioned above, smooth target integration has been deemed important for value creation through acquisitions (Datta et al., 1990; Haspeslagh et al., 1991; Shanley, 1994; Zollo et al., 2004). In this context, dissent may also lead to conflict among decision makers which is in turn to negatively affect their collaboration and commitment in subsequent stages, such as the integration (e.g. Dooley, Fryxell, and Judge, 2000). However, since in previous acquisition research it has often been the lack of collaboration between (the employees of) the target and the acquirer that has been deemed critical and not so much the
level of collaboration within the acquirer (Haseslagh et al., 1991), we expect these potential negative effects of only moderate importance.

Building on this line of reasoning, we expect dissent in the acquisition process to allow for a more thorough target selection and more effective price determination finally leading to superior acquisition performance.

*Hypothesis 4: In acquisition decision-making, problem-solving dissent is positively related to acquisition performance.*

**Problem-solving Dissent and Divestiture Performance**

As mentioned earlier, both the firm’s responsiveness to the need to divest and its ability to realize a price premium through a thorough vending process have been considered crucial for value creation through divestitures (e.g. Buchholtz et al., 1999). In both regards, we expect dissent among decision makers to negatively affect divestiture performance. In divestiture decisions, a high level of dissent is likely to entail significant conflict among decision makers – in particular among corporate managers and managers of the divested unit (Taylor, 1988). While for corporate managers divestitures represent an unpleasant, but often effective means to enhance shareholder wealth through active portfolio restructuring, division or unit managers commonly perceive divestitures as a loss situation (Kahneman et al., 1979) which entails painful concessions and drawbacks*(Taylor, 1988). In response to these perceptual differences, decision makers are tempted to engage in lengthy discussions over the appropriateness of the divestiture. The longer these discussions drag out the more unlikely a quick and timely divestiture becomes. As a consequence, the divestiture may be initiated too late leading to an inferior overall divestiture performance (e.g. Ravenscraft et al., 1987). Further, as for acquisitions, dissent may induce a lack of decision maker motivation or collaboration during the divestiture process. In particular, dissent among heads of the divested unit and corporate managers is to be harmful for the divestiture performance. If corporate executives fail to convince unit managers on the strategic rationale and logic of the decision, it is unlikely that unit managers will fully support the sale of their business. This lack of support has detrimental effects on divestiture performance as corporate management is highly dependent on the unit management for the preparation and execution of the divestiture process (Brauer, 2009). The unit management holds not only business- and industry-specific expertise, but also assumes a signalling function (e.g. in terms of credibility and reliability) towards potential acquirers. As a consequence, a lack of motivation and collaboration among the divestiture-relevant decision-makers is to complicate the realization of a smooth

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*Either a divestiture diminishes the size of division or unit managers’ domain or, if they are to be disposed together with the asset, the divestiture puts their future career and existing internal network of relationships at risk.*
divestiture process. Building on this reasoning, we propose dissent among decision makers to weaken a firm’s responsiveness to the need to divest as well as to complicate the divestiture process which in turn is to negatively affect divestiture performance.

**Hypothesis 5:** In divestiture decision-making, problem-solving dissent is negatively related to divestiture performance.

**Joint Effect of Comprehensiveness and Dissent on Acquisition Performance**

While both comprehensiveness and dissent in the decision-making process are to directly affect acquisition performance, it is also their interaction that is to be decisive for acquisition success. Building on the aforementioned arguments for the positive direct effects of comprehensiveness and dissent in acquisition settings, we also expect their interaction to enhance acquisition performance. In particular, we expect dissent in acquisition decision-making to further enhance the quality and rigor of the comprehensive information search and analysis. Dissent may prompt decision makers to search more extensively and persistently for potential acquisition targets and, in addition, for the relevant information to evaluate these targets (Nemeth and Rogers, 1996). Moreover, throughout the comprehensive analysis and evaluation of different options dissent forces decision makers to justify their positions more vigorously and to outline their assumptions more explicitly. As a consequence, decision makers more critically evaluate the suggested potentially conflicting options, and reconsider their beliefs thereby challenging effectively their mental models in the comprehensive process. The risk of premature agreement, cognitive biases and groupthink among decision makers may thus be avoided allowing for a more effective target selection and price determination. Hence:

**Hypothesis 6:** In acquisition decision-making, the interaction of comprehensiveness and dissent is positively related to acquisition performance.

**Joint Effect of Comprehensiveness and Dissent on Divestiture Performance**

In divestiture decisions, we expect a dissimilar interaction effect between comprehensiveness and dissent among decision makers. In divestitures, a comprehensive decision making approach encompasses a thorough analysis of the divestiture candidate’s fundamentals, its stand alone ability and relatedness to the parent firm as well as potential exit modes (e.g. Dranikoff et al., 2002; Mankins et al., 2008). If in this context decision makers do not manage to get aligned on the strategic direction (i.e. to exit the business,) this may result from a general resistance of the decision makers belonging to the unit to be divested, but it may also indicate a weak case for the divestiture. Decision makers may have doubts...
about the feasibility of the deal as well as about the value creation potential of the divestiture. As the feasibility and valuation analyses are based on internal (symmetric) information, their output is generally to be of solid and reliable quality. The possibility to build a case against the divestiture drawing on these outputs which in turn leads to persisting dissent suggests an overall equivocal case for the divestiture. Decision makers thus may want to seriously reconsider the divestiture option examined. In contrast, if all decision makers – including those belonging to the unit to-be divested - are highly aligned after the decision has been rigorously examined this indicates a rather strong case in favour of the divestiture decision.

In a similar vein, persisting dissent among decision makers regarding the course of action indicates a lack of stability of the exit route chosen. In order to make a sound evaluation of both the best exit mode (i.e. asset sale, IPO, management buy-out) and the structure (i.e. the asset unbundling/composition) decision makers are not only to consider the current market environment, but also the internal conditions, such as the specificity of the asset and the relatedness to the parent (e.g. Brauer, 2009). The availability of detailed internal information should facilitate decision makers in a comprehensive process to align their views and make a clear choice. For example, during the preparation of the unbundling of assets a systematic analysis is to help decision makers identify and evaluate potential threats and opportunities related to the carve-out (Brauer, 2009). Persisting dissent among decision makers indicates significant risks and downsides related to the examined course of action. We thus propose comprehensive divestiture decisions accompanied by dissent to be associated with a less convincing case for the divestiture leading to a lower probability of success.

_Hypothesis 7: In divestiture decision-making, the interaction of comprehensiveness and dissent is negatively related to divestiture performance._

### 3.4 METHODOLOGY

For the purpose of this study, we take the single acquisition/divestiture decision as unit of analysis. Previous decision-making research is characterized by analyses predominantly conducted at the firm-level (i.e. 17 out of the 22 studies we reviewed; see Appendix). Firm-level analyses, however, are problematic for several reasons. First, when operating at the firm level the direct linkage of decision processes to firm performance is problematic since the causal ordering is ambiguous and the relationship between decision process characteristics and firm performance is likely to be confounded given the many endogenous and exogenous effects on organizational performance (Pearce, Freeman, and Robinson, 1987). Moreover, firm-level analyses assume that decision processes are uniform across decision types as well as across an entire organization (e.g. Glick _et al._, 1993; Goll _et al._, 1997). But as earlier
studies have shown (Elbanna et al., 2007a, 2007b; Hickson et al., 1986; Papadakis et al., 1998) even within the same organization decision processes are very likely to differ from one decision to another. Taking the individual strategic decision as unit of analysis thus enables a closer match with reality and ensures a much more robust analysis of the influence of decision-making process characteristics and (financial) decision outcome.

**Data Collection**

The choice of sample for our survey was dictated by the need to identify companies that have undertaken acquisition or divestiture decisions within the last two years. We started with the population of 110 publicly listed companies on the three major German and Swiss stock indices: Deutsche Aktien Index (DAX 30), the Midcap DAX (MDAX 50), and Swiss Leadership Index (SLI 30) as of February 2008. We then identified those companies that had made acquisitions and/or divestitures during the previous two years (2006-07) as provided in Thomson Onebanker’s transaction database. This resulted in an initial sample of 102 companies, listed on one of the three major German and Swiss exchanges, with acquisition and/or divestiture activity during the 2006-07 time period.

We contacted an executive (Chief Financial Officer, Head of M&A, Head of Corporate Development or Head of Corporate Strategy) at each of these companies by email and phone to solicit their participation in our survey. Of the 102 companies, 60 (59%) agreed to participate in the study. Of the 60 companies that agreed to take part in our survey, we received responses from 56 companies, resulting in a response rate of 93% and an overall participation rate of 55% (based on our initial sample of 102 companies with acquisition/divestiture activity). Compared to studies on mergers and acquisitions (Capron and Shen, 2007) and on decision-making processes (Atuahene-Gima et al., 2004), this level of survey participation is very high. The four companies that had initially agreed to participate in our survey, but did not respond, were involved in an acquisition at the time of the survey. The 56 participating companies represent 20 different industries, with no industry accounting for more than 20% of the sample. The most predominant industries were industrial goods (20%), financial services (16%) and pharmaceutical and chemical goods (14%). The companies ranged in size from 1,150 to 525,000 employees, with an average of 62,300 employees and from $0.85 billion to $138 billion in sales, with an average of $26.6 billion in sales. To investigate whether our study was subject to non-response bias, we compared our sample of 56 companies with the 46 companies that did not participate in our survey by testing for differences in total sales (t = -0.33; p = 0.81), number of employees (t = 1.2; p = 0.29), and return on assets (t = 0.37; p = 0.86) and found that our sample is not statistically

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9 We refer to these executives as our “executive contact”.
different from the 46 companies that chose not to participate in the study. We also tested for late respondent bias and did not find any statistical differences between early and late respondents within the sample.

Since our study’s unit of analysis is the single acquisition or divestiture decision we asked our executive contact at each of the companies to name one or two acquisition or divestiture decisions taken within the previous two years. For the 56 companies in our sample, 49 acquisition and 31 divestiture decisions were identified. After identifying the specific strategic decision, we asked our executive contact at each of the companies to name two managers who had intimate knowledge of the decision process through their involvement in the acquisition or divestiture decision. We chose to utilize two respondents for each of acquisition or divestiture decision, because reliance on a single respondent when acquiring organization data is prone to various forms of biases (Cote and Buckley, 1987; Podsakoff et al., 2003; Podsakoff and Organ, 1986; Rindfleisch et al., 2008; Van Bruggen et al., 2002) and the use of multiple respondents has been shown to produce data of superior quality and validity (Van Bruggen et al., 2002; Zhou, Shin, and Cannella, 2008). We then notified each of these managers that they had been suggested by our executive contact to participate in our survey and forwarded them the survey instrument via email. Since strategic awareness of acquisitions and divestitures has been shown to be positively related to hierarchical level in most companies (Hambrick, 1981), we limited our set of survey respondents to top management team members, members of the corporate center, and business unit top management since these managers would be the most aware of strategic decisions of this nature. We verified their executive position as part of the survey.

In total, we collected 160 completed survey questionnaires – two respondents per firm for each of the 49 acquisition and 31 divestiture decisions representing 56 companies.

**Operationalization of Variables**

**Dependent variable**

Following previous decision making studies on the comprehensiveness-performance relationship (e.g. Elbanna et al., 2007a, 2007b) we decided to use a perceptual measure as our dependent variable. As the primary interest in acquisition and divestiture research is on financial performance we designed our performance measure accordingly. We asked managers to assess the extent to which the acquisition/divestiture met top-line (i.e. revenues), bottom-line (i.e. budget) and productivity (i.e. efficiency) objectives (for a detailed

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10 Moreover, the use of a perceptual performance measure is in line with a growing stream of work in acquisition research (e.g., Bruton, Oviatt, and White, 1994; Hayward, 2002; Kale, Dyer, and Singh, 2002; Kale and Singh, 2007; Zollo and Winter, 2002) and responds to the increasing criticism of abnormal stock returns (CAR) as a deal performance measure (e.g., Oler, Harrison, and Allen, 2008; Zollo and Meier, 2008).
description of the items, see the Appendix). All items were measured on seven-point Likert scales. The Cronbach alpha for our measure was .85 in the overall sample indicating strong reliability.

**Independent variables**

**Decision comprehensiveness.** Decision comprehensiveness describes the extent to which an organization’s management utilizes an extensive and logical process when making strategic decisions (Dean *et al.*, 1993; Dean *et al.*, 1996; Elbanna *et al.*, 2007a, 2007b; Forbes, 2007; Miller, 2008). There are several aspects that make for more comprehensive decision-making processes. First, as Sharfman and Dean (1997) point out, “the extent to which the decision process involves the systematic collection, analysis, and use of information” underlies more rational decision making (1997: p.181-82). A comprehensive decision-making process has also been characterized as including higher levels of investigatory activity aimed at developing alternative courses of action and higher levels of systematic analysis using multiple criteria and tools in order to screen and evaluate alternatives (Fredrickson, 1984; Miller, 2008; Miller, 1987). Thus more comprehensive decision making involves both the collection and use of information and analytical techniques as well as the evaluation of alternative courses of action (Miller, Burke, and Glick, 1998). To fully capture the construct of decision comprehensiveness, we created a measure composed of seven items drawn from the prior literature (Dean *et al.*, 1996; Fredrickson, 1984; Miller *et al.*, 1998; Papadakis *et al.*, 1998; Talaulicar, Grundei, and von Werder, 2005).

As shown in the Appendix, the first item refers to the extent that managers held regular meetings since the use of regularly scheduled meetings to discuss a strategic decision have been shown to be evidence of greater decision comprehensiveness (Papadakis *et al.*, 1998). Items 2 and 3 refer to the systematic use of external sources, and the reliance on historical data and past deal statistics. In addition, we specifically asked about the extent to which decision-makers made use of quantitative analytic techniques such as NPV-IRR methods, detailed cost analysis, and scenario analysis in making the acquisition/divestiture decision through the inclusion of item 4.\(^{11}\) Items 2-4 thus capture the systematic use of information in decision making that have been shown to be an important component of decision comprehensiveness (Dean *et al.*, 1996; Elbanna *et al.*, 2007a, 2007b; Fredrickson, 1984).

A comprehensive decision-making process has also been characterized as one wherein management generates and evaluates alternative decisions (Fredrickson, 1984; Miller, 2008; Miller *et al.*, 1998; Talaulicar *et al.*, 2005). We captured the extent to which decision-makers

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\(^{11}\) In our pre-test, the management consultants asked that we identify the specific analytical techniques to make the question meaningful rather than rely on the more generic “use of analytical techniques” (for further information on the pre-test, see validity and reliability part).
considered and analyzed alternative options (item 5) and the extent to which managers considered the actual probability of failure for each decision option (item 6). In addition, item 7 captures the utilization of standardized strategic or financial criteria to eliminate alternative options considered. These items are identical with Talaulicar et al.’s (2005) operationalization of decision comprehensiveness and are also part of Miller et al.’s (1998) measure of decision comprehensiveness.

All seven survey items utilized in our measure of decision comprehensiveness were measured on a 7-point Likert scale. The Cronbach alpha for our measure of decision comprehensiveness utilizing these seven items was .72 for the overall sample, which indicates that despite the high degree of specificity in the questions underlying these items, our measure seems to be reliable.\footnote{Unlike some prior studies (i.e., Elbanna et al., 2007a, 2007b; Fredrickson, 1984; Papadakis et al., 1998) which assessed decision comprehensiveness along three or four sequential hypothetical stages in the decision-making process, our study asked managers to evaluate the decision-making process as a whole. We chose this approach for several reasons. First, our qualitative assessment and the pre-test of the survey indicated that managers viewed the decision-making process as continuous rather than sequential given the iterative nature of the analytical tasks at hand. Second, by asking respondents to assess comprehensiveness along different stages, there is a much greater risk that key relationships become obvious to managers (Schwenk, 1985). Further, illusionary correlations are likely to occur between the items of the dependent measure and thus to inflate intra-construct correlations impacting the internal validity of the comprehensiveness construct (Bermann and Kenny, 1976; Smither, 1989). Moreover, the repetition of the same questions in different stages of the decision-making process is likely to distort construct validity measurement since it may give rise to what is called the consistency effect (Salancik and Pfeffer, 1977). This effect has been found to be particularly pronounced in situations in which respondents have been asked to provide retrospective accounts of their attitudes, perceptions and/or behaviors (Johns, 1994; Podsakoff et al., 1986).}

**Problem-solving dissent.** Problem-solving dissent describes the perceived disagreement within the primary decision-making group during the decision process on the general strategic direction and the appropriate course of action associated with the focal decision. There are thus two aspects that make for a high dissent – a high degree of disagreement on the general strategic direction and on the appropriate course of action. Drawing on prior strategic decision-making studies on the topic of disagreement (Butler et al., 1991; Eisenhardt et al., 1988), problem-solving dissension (Papadakis et al., 1998) and debate (Simons et al., 1999) we created a measure of two items to capture the construct of problem-solving dissent. As shown in the Appendix, the first item refers to the degree of dissent on the objectives sought by the portfolio decision. The second item measures the degree of disagreement on the selected course of action. Both survey items were measured on a 7-point Likert scale. The Cronbach alpha for our measure of problem-solving dissent utilizing these two items was .83 for the overall sample, which indicates a strong reliability of our measure.

**Controls**

**Relative deal size.** Deal size has been found to influence both acquisition and divestiture performance (e.g. Asquith et al., 1983; Gupta and Misra, 2007; Moeller, Schlingemann, and Stulz, 2005). Moreover, deal size could also affect comprehensiveness,
thereby creating a spurious correlation between comprehensiveness and performance. Relative deal size is measured using an ordinal variable: a “1” denotes a deal representing less than 5% of total firm sales; a “2” represents a deal that is greater than 5%, but less than 10%, of firm sales; a “3” represents a deal that is greater than 10%, but less than 20%, of firm sales; and a “4” represents a deal that is greater than 20% of firm sales.

**Deal importance.** Previous decision-making research has shown that the perceived magnitude of impact of a strategic decision is among the strongest explanations of decision-making behavior and outcome (e.g. Elbanna et al., 2007a, 2007b; Papadakis et al., 1998). In order to assess the deal’s importance respondents were asked to evaluate the perceived importance and visibility of the decision within their firms. The two items were measured on a seven-point Likert scale. The Cronbach alpha for our overall sample was .78.

**Past deal experience.** Previous acquisition research has shown that the stock of past deal experience can have a positive effect on the performance of consecutive deals (Haleblian and Finkelstein, 1999). Moreover, it may also affect comprehensiveness, thereby creating a spurious correlation. We accounted for these effects by controlling for past deal experience of the focal organization. To capture this item, we asked the respondents to report the organizational involvement in similar previous deal decisions. We measured this item on a seven-point Likert scale. To check for the validity of our survey item, we also used the number of completed acquisitions and divestitures during the 2006-2007 time period as an alternative proxy for past deal experience. This alternative operationalization of past deal experience yielded qualitatively similar results.13

**Degree of managerial involvement.** Previous strategic decision making research has shown that the degree of involvement of different managerial levels can have a significant impact on the decision process and decision outcome (e.g. Bourgeois et al., 1988; Papadakis et al., 1998). In order to assess the degree of involvement respondents were asked to evaluate the involvement of senior level management and lower-level management in the decision-making process. The two items were measured on a seven-point Likert scale. The Cronbach alpha for our involvement construct was .68 for the overall sample.

**Firm size.** Many researchers have argued that firm size can affect comprehensiveness (e.g. Fredrickson et al., 1989; Miller et al., 1998; Simons et al., 1999; Snyman and Drew, 2003) such that larger firms will employ more formal and comprehensive processes (e.g. Papadakis et al., 1998). We use the (logarithmic) net sales of each firm in the year prior to the focal acquisition/divestiture decision to control for firm size. Sales data was obtained from Thomson Onebanker.

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13 These results are available from the authors.
Validity and Reliability

We took several measures in the survey construction and its administration to assure validity and reliability. To ensure validity of the data we conducted a pre-test of the survey questionnaire using three partners and four experienced merger and acquisition project managers of leading management consulting companies. We met individually with these experts to get feedback on questionnaire construction and to refine the wording of the survey questions. Specifically, we asked these management consultants to utilize the most recent acquisition or divestiture decision which they had participated in as they went through the survey questions and to think aloud and state any concerns or confusion with regard to the questions. To further assure the validity of our data, we called and spoke to each manager participating in the survey to verify that the acquisition/divestiture decision was completed and that they had personally been actively involved in making the decision. We also added a section in our survey asking respondents about their personal role in the decision-making process. This confirmed that all our respondents were part of the decision-making and were deeply involved in the entire decision-making process. Moreover, we assured our executive contacts and survey respondents complete anonymity. We provided a rich explanation of the usefulness of the project for the respondents’ organizations and offered them a summary of the results to foster a sense that they would benefit from involvement in the study.

Further, we alleviated potential concerns about common method bias in four ways. First, we considered for our survey only recent portfolio transactions in which the respondents have been actively involved. Since incomplete recall and retrospective rationalization of past events may confound survey results (Golden, 1992), we asked respondents to only refer to transactions completed within the last 24 months (e.g. Miller, Cardinal, and Glick, 1997). Acquisition and divestiture decisions further in the past were not considered for our study.

Second, we had two survey respondents per acquisition or divestiture decision to mitigate the risk of biases in our data sample. Past studies predominantly relied on single respondent survey data (Baum and Wally, 2003; Elbanna et al., 2007a, 2007b; Goll et al., 1997; Jones, Jacobs, and Spijker, 1992). The reliance on a single respondent is problematic since there is substantial evidence that organizational data obtained from single respondents may suffer from validity problems (Cote et al., 1987; Podsakoff et al., 2003; Podsakoff et al., 1986; Rindfleisch et al., 2008; Van Bruggen et al., 2002). Various forms of biases (e.g., retrospective, social desirability, emotional attachment bias) can thus hardly be addressed – respectively the effects of these biases cannot be smoothened out by averaging alternative ratings. But more critically even, cross-sectional surveys completed by single respondents at a single point in time are widely subject to common method bias and thus suffer from low causal inference validity (Cote, 1988; Jap, 2004; Phillips, 1981; Rindfleisch et al., 2008; Van Bruggen et al., 2002). In order to evaluate the agreement and consistency of our respondent
pairs’ assessments we carefully checked their responses for both interrater reliability and interrater agreement (James, Demaree, and Wolf, 1984; Kozlowski and Hattrup, 1992; Shrout and Fleiss, 1979). An ANOVA-based ICC interrater reliability analysis produced very strong results for our decision comprehensiveness construct (ICC 1, k = 0.81, p < 0.001). The intraclass correlation coefficient for all other variables also revealed similar values (median 0.87). Compared to recent studies on decision-making, these values can be considered very high (e.g. Miller, 2008). Given the high IRR and high level of IRA, we aggregated responses of the two respondents by averaging their ratings for each acquisition/divestiture decision.

Third, we took distinct measures to mitigate the risk of informant bias in our study. Since comprehensiveness, dissent, acquisition and divestiture performance were assessed with questionnaire-based measures, respondents may have held beliefs about how comprehensiveness, dissent and performance were related, and may have provided data consistent with their beliefs rather than consistent with objectified reality (Dean et al., 1996; Miller, 2008). We mitigated this risk by arranging the questionnaire items so that the dependent and independent variables were located in different places in the questionnaire. Thus, the opportunity for the respondents to mentally connect the focal constructs was relatively weak. In addition, we did not label the research project of which the current study was a part an examination of comprehensiveness, dissent and performance. Instead the survey questionnaire carried the generic title “business portfolio management”. Thus, attention was not drawn to the key relationships of the study.

Finally, we reversed scale anchors in several places of our survey to avoid a reduction in cognitive processing and straight-line responding which give rise to consistency biases and thus decrease validity (Podsakoff et al., 2003; Podsakoff et al., 1986).

In addition to these precautions against common method bias, we statistically tested for the presence of common method bias through the use of Harman’s one factor test (Harman, 1967) and principal component analysis with varimax rotation. Harman’s (1967) single-factor test showed that no single method factor emerged in the unrotated factor analysis that explained the majority of variance. All the measures loaded “cleanly” on separate factors, with all factor loadings above 0.40, a common threshold for acceptance. The constructs had high reliability, with all having alphas over 0.72. Our confirmatory factor analysis with varimax rotation (see Appendix) showed eigenvalues for comprehensiveness and problem-solving dissent greater than 1.0 and a rather equal share in the combined total variance explained. Convergent validity is observed when the path coefficients from latent

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14 Interrater reliability (IRR) reports on the internal consistency of ratings between respondents while interrater agreement (IRA) refers to the interchangeability among raters. They are both measures that provide important information regarding the reliability and consistency of the survey results to infer organizational level phenomenon. We used ICC (1,k) to simultaneously measures IRA and IRR, since high ICC (1, k) values may only be obtained when there is both absolute agreement and relative consistency in judges’ ratings (LeBreton and Senter, 2008).
constructs to their corresponding manifest indicators are statistically significant (that is, $t > 2.0$; Anderson and Gerbing, 1988). As shown in the Appendix, all items loaded significantly on their corresponding latent construct ($p < .05$), thereby providing evidence of convergent validity. Discriminant validity is obtained when all pairwise latent-trait correlations of constructs are significantly different from 1 (Anderson et al., 1988). Tables 1 and 2 show that our construct measures met this requirement. A more stringent criterion of discriminant validity is that across all possible pairs of constructs the average variance extracted (AVE) for each construct be greater than the squared latent correlation between a pair of constructs (Fornell and Larcker, 1981). As shown in Table 1 for acquisition decisions and in Table 2 for divestiture decisions, the square roots of the average variance-extracted values for each of the constructs are greater than the respective off-diagonal elements, thereby satisfying the discriminant validity criterion (Hulland, 1999).

**TABLE 1: Descriptive statistics and correlation matrix (acquisition sample)**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>S.D.</th>
<th>$\sqrt{AVE}$</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Acquisition performance</td>
<td>5.01</td>
<td>1.03</td>
<td>0.83</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Comprehensiveness</td>
<td>4.72</td>
<td>0.99</td>
<td>0.65</td>
<td>0.38***</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Problem-solving dissent</td>
<td>3.22</td>
<td>1.48</td>
<td>0.93</td>
<td>-0.26*</td>
<td>-0.08</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Acquisition Size</td>
<td>2.04</td>
<td>1.19</td>
<td>0.02</td>
<td>0.35***</td>
<td>-0.20</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Acquisition Importance</td>
<td>5.41</td>
<td>1.36</td>
<td>0.89</td>
<td>0.23</td>
<td>0.57***</td>
<td>-0.15</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Acquisition Experience</td>
<td>4.20</td>
<td>1.77</td>
<td>0.25*</td>
<td>-0.32**</td>
<td>-0.03</td>
<td>-0.20</td>
<td>-0.18</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Managerial Involvement</td>
<td>4.69</td>
<td>1.40</td>
<td>0.90</td>
<td>0.23</td>
<td>0.40***</td>
<td>0.04</td>
<td>-0.18</td>
<td>0.12</td>
<td>0.04</td>
<td></td>
</tr>
<tr>
<td>8. Firm Size</td>
<td>15.77</td>
<td>1.35</td>
<td>0.08</td>
<td>-0.10</td>
<td>0.06</td>
<td>-0.20</td>
<td>-0.01</td>
<td>0.19</td>
<td>0.14</td>
<td></td>
</tr>
</tbody>
</table>

$n = 49$. Bold numbers are the square root of the average variance extracted for the constructs.

* $p < 0.10$; ** $p < 0.05$; *** $p < 0.001$

**TABLE 2: Descriptive statistics and correlation matrix (divestiture sample)**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>S.D.</th>
<th>$\sqrt{AVE}$</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Divestiture performance</td>
<td>5.34</td>
<td>1.10</td>
<td>0.88</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Comprehensiveness</td>
<td>4.61</td>
<td>0.88</td>
<td>0.62</td>
<td>0.15</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Problem-solving dissent</td>
<td>2.92</td>
<td>1.17</td>
<td>0.93</td>
<td>-0.46***</td>
<td>0.14</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Divestiture Size</td>
<td>1.55</td>
<td>1.00</td>
<td>0.05</td>
<td>0.19</td>
<td>-0.18</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Divestiture Importance</td>
<td>4.81</td>
<td>1.62</td>
<td>0.92</td>
<td>0.06</td>
<td>0.56***</td>
<td>0.18</td>
<td>-0.19</td>
<td>-0.09</td>
<td>0.19</td>
<td>0.32*</td>
</tr>
<tr>
<td>6. Divestiture Experience</td>
<td>4.35</td>
<td>1.77</td>
<td>0.26</td>
<td>0.15</td>
<td>-0.09</td>
<td>0.19</td>
<td>-0.29</td>
<td>0.31*</td>
<td>0.26</td>
<td>0.23</td>
</tr>
<tr>
<td>7. Managerial Involvement</td>
<td>3.89</td>
<td>1.51</td>
<td>0.83</td>
<td>0.52***</td>
<td>0.39***</td>
<td>-0.29</td>
<td>0.31*</td>
<td>0.26</td>
<td>0.23</td>
<td></td>
</tr>
<tr>
<td>8. Firm Size</td>
<td>16.11</td>
<td>1.31</td>
<td>0.16</td>
<td>0.36**</td>
<td>-0.03</td>
<td>-0.04</td>
<td>0.20</td>
<td>0.46***</td>
<td>0.49**</td>
<td></td>
</tr>
</tbody>
</table>

$n = 31$. Bold numbers are the square root of the average variance extracted for the constructs.

* $p < 0.10$; ** $p < 0.05$; *** $p < 0.001$
3.5 RESULTS

Given the acknowledged differences between acquisition and divestiture decisions, we analyzed the individual and joint effects of decision comprehensiveness and dissent on acquisition and divestiture performance separately. Table 3 presents the results of the tests of the hypotheses regarding acquisition decisions. Table 4 presents the results of the multiple regression analyses used to test our hypotheses regarding divestiture decisions.

**TABLE 3: Results of regression analysis (acquisition sample)**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comprehensiveness</td>
<td>0.56***</td>
<td></td>
<td>0.47**</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.20)</td>
<td></td>
<td>(0.18)</td>
<td></td>
</tr>
<tr>
<td>Problem-solving dissent</td>
<td>-0.16</td>
<td>-0.17</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.10)</td>
<td>(0.12)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comprehensiveness x Dissent</td>
<td></td>
<td></td>
<td>0.21**</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(0.09)</td>
<td></td>
</tr>
<tr>
<td>Acquisition Size</td>
<td>0.01</td>
<td>-0.08</td>
<td>0.03</td>
<td>-0.07</td>
</tr>
<tr>
<td></td>
<td>(0.14)</td>
<td>(0.13)</td>
<td>(0.13)</td>
<td>(0.14)</td>
</tr>
<tr>
<td>Acquisition Importance</td>
<td>0.19</td>
<td>0.02</td>
<td>0.16</td>
<td>-0.04</td>
</tr>
<tr>
<td></td>
<td>(0.12)</td>
<td>(0.12)</td>
<td>(0.12)</td>
<td>(0.17)</td>
</tr>
<tr>
<td>Acquisition Experience</td>
<td>0.17***</td>
<td>0.24***</td>
<td>0.16**</td>
<td>0.34**</td>
</tr>
<tr>
<td></td>
<td>(0.08)</td>
<td>(0.08)</td>
<td>(0.08)</td>
<td>(0.14)</td>
</tr>
<tr>
<td>Managerial Involvement</td>
<td>0.14</td>
<td>-0.02</td>
<td>0.15</td>
<td>0.03</td>
</tr>
<tr>
<td></td>
<td>(0.11)</td>
<td>(0.11)</td>
<td>(0.10)</td>
<td>(0.16)</td>
</tr>
<tr>
<td>Firm Size</td>
<td>0.00</td>
<td>0.03</td>
<td>0.01</td>
<td>0.04</td>
</tr>
<tr>
<td></td>
<td>(0.09)</td>
<td>(0.09)</td>
<td>(0.09)</td>
<td>(0.12)</td>
</tr>
<tr>
<td>Constant</td>
<td>2.52**</td>
<td>1.18</td>
<td>3.07***</td>
<td>5.04***</td>
</tr>
<tr>
<td></td>
<td>(1.19)</td>
<td>(1.19)</td>
<td>(1.21)</td>
<td>(1.32)</td>
</tr>
<tr>
<td>R²</td>
<td>0.18</td>
<td>0.31</td>
<td>0.23</td>
<td>0.43</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>0.08</td>
<td>0.21</td>
<td>0.12</td>
<td>0.31</td>
</tr>
<tr>
<td>F</td>
<td>1.87</td>
<td>3.17**</td>
<td>2.08*</td>
<td>3.73**</td>
</tr>
</tbody>
</table>

* p < 0.10; ** p < 0.05; *** p < 0.001
N = 49

For both analyses, we mean-centered the independent variables prior to the creation of the interaction terms to reduce multicollinearity (Aiken and West, 1991). The mean variance inflation factors associated with each of the regression coefficients ranged from 1.16 to 1.69 suggesting no serious problems with multicollinearity.

Model 1 in Table 3 shows the estimates for control variables and their influence on acquisition performance. Only past deal experience is significantly related to acquisition performance. Consequently, the explanatory power of the overall model is weak. In comparison, the base model of control variables (Model 1 in Table 4) for the sample of divestiture decisions has relatively high predictive power. Firm performance, deal experience, and involvement are positive and significantly associated with divestiture performance.
## Table 4: Results of regression analysis (divestiture sample)

<table>
<thead>
<tr>
<th>Variables</th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comprehensiveness</td>
<td>0.04 (0.27)</td>
<td>-0.33** (0.16)</td>
<td>0.07 (0.25)</td>
<td>-0.44* (0.24)</td>
</tr>
<tr>
<td>Problem-solving dissent</td>
<td>-0.33** (0.16)</td>
<td>-0.44* (0.24)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comprehensiveness x Dissent</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Divestiture Size</td>
<td>-0.21 (0.22)</td>
<td>-0.21 (0.23)</td>
<td>-0.31 (0.21)</td>
<td>-0.31 (0.26)</td>
</tr>
<tr>
<td>Divestiture Importance</td>
<td>-0.04 (0.13)</td>
<td>-0.05 (0.16)</td>
<td>0.06 (0.13)</td>
<td>0.04 (0.23)</td>
</tr>
<tr>
<td>Divestiture Experience</td>
<td>0.18 (0.12)</td>
<td>0.18 (0.12)</td>
<td>0.14 (0.11)</td>
<td>0.28 (0.21)</td>
</tr>
<tr>
<td>Managerial Involvement</td>
<td>0.49*** (0.14)</td>
<td>0.49*** (0.15)</td>
<td>0.41 (0.14)</td>
<td>0.59 (0.22)</td>
</tr>
<tr>
<td>Firm Size</td>
<td>-0.25 (0.18)</td>
<td>-0.26 (0.19)</td>
<td>-0.22 (0.17)</td>
<td>-0.34 (0.27)</td>
</tr>
<tr>
<td>Constant</td>
<td>5.73*** (1.55)</td>
<td>5.66*** (1.65)</td>
<td>6.50*** (1.51)</td>
<td>5.42*** (0.20)</td>
</tr>
</tbody>
</table>

| R²                      | 0.37         | 0.37         | 0.46         | 0.47         |
| Adjusted R²             | 0.24         | 0.21         | 0.33         | 0.28         |
| F                      | 2.89**       | 2.32*        | 3.42**       | 2.43**       |

*p < 0.10; ** p < 0.05; *** p < 0.001  
N = 31

Model 2 in Table 3 reports the OLS results for the relationship between decision comprehensiveness and acquisition performance. Decision comprehensiveness has a positive and highly significant influence (b = 0.56, p < 0.01) on acquisition performance, supporting Hypothesis 1. For divestiture decisions, we find no significant association of decision comprehensiveness with divestiture performance, as indicated by Model 2 in Table 4. Hypothesis 2 is thus not supported. Hypothesis 3 predicted a stronger influence of decision comprehensiveness on acquisition performance than on divestiture performance. To meaningfully compare the effect sizes for comprehensiveness in Models 2 in Tables 3 and 4, we conducted a Chow test. Results indicated that decision comprehensiveness is much more strongly positively related to acquisition than to divestiture performance (p < 0.05), supporting Hypothesis 3.

As indicated in Model 3 in Table 3, the extent of problem-solving dissent in acquisition decision-making is not found to have a significant relationship with acquisition performance. Hypothesis 4 is thus not supported. In contrast, the relationship between the extent of decision-making dissent in divestiture decision-making and divestiture performance is negative and significant (b = -0.33, p < 0.05), providing support for Hypothesis 5.

Hypotheses 6 proposed a positive interaction of decision comprehensiveness and dissent on acquisition performance. Model 4 in Table 3 shows that this interaction effect is
positive and significant \((b = 0.21, p < 0.05)\), thereby providing support for Hypothesis 6. Hypothesis 7 predicted a negative interaction of decision comprehensiveness and dissent on performance for divestiture decisions. Model 4 in Table 4, however, shows that this interaction is not significant. Hypothesis 7 thus receives no support.

3.6 DISCUSSION AND IMPLICATIONS

In our study, we examined the individual and joint effects of comprehensiveness and dissent in acquisition and divestiture decision-making on acquisition and divestiture performance. Our regression results for the acquisition and divestiture sub-samples illustrate that both factors’ individual and joint impact on deal performance differ significantly between the two decision types. In acquisitions, comprehensive decision-making seems to significantly enhance acquisition performance, whereas dissent in the acquisition decision-making process has no significant, direct relationship with acquisition performance. However, in its interaction with comprehensiveness, dissent is to strengthen the positive effects of comprehensiveness in acquisition decision-making. Considering that we do not find a direct positive effect of dissent on acquisition performance this finding seems remarkable. This effect might be explained by the fact that for dissent to enhance acquisition performance it must be based on or embedded in a structured process. Hence, if decision makers when considering an acquisition disagree and propose different approaches, but never compare those approaches and (comprehensively) weigh them against each other problem-solving dissent is not to enhance acquisition performance. Moreover, if decision makers when considering an acquisition disagree with each other without offering substantive reasons for disagreement, i.e. without (comprehensively) discussing the pros and cons – this approach is neither to contribute to more effective acquisition decisions. Only if dissent is embedded in a comprehensive process it is to produce the predicted positive effects. This finding is in line with the literature on structured debate – in particular on devil’s advocacy and dialectic inquiry (for an overview, see e.g. Katzenstein, 1996) – which argues that for dissent to produce fruitful results distinct techniques should be used to systematically promote and substantiate the diversity of views. Moreover, this finding reconciles with recent findings on dissent in capability development. Capron and Mitchell (2009) found that internal capability development that generated rather than avoided conflict was in fact conducive to the renewal of firm capabilities and firm survival. This suggests that in strategic decision-making contexts in which decision makers are prone to cognitive biases (e.g. status quo bias, overconfidence, or confirmation bias), such as acquisitions, problem-solving dissent can – if embedded in a comprehensive decision process – be a very effective decision-making aid.

In contrast, decision comprehensiveness and dissent in divestiture decision-making seem to bear different influences on deal performance. Problem-solving dissent among
decision makers is found to significantly decrease divestiture performance, whereas comprehensiveness has no significant impact on divestiture performance. This finding highlights the importance of decision maker buy-in and support for divestiture success. If decision makers fail to align their views on the decision to divest and the course of action to take this is to harm the divestiture process – independent of how comprehensive their approach has been. Also the interaction effect between comprehensiveness and dissent is non-significant in the divestiture decision process. These findings clearly suggest that decision comprehensiveness and dissent are not to produce the same effects – both in terms of direction and size – across different types of strategic decisions.

Essentially, our results suggest that both comprehensiveness and (the avoidance of) dissent in decision-making can be important prerequisites for success. However, our results emphasize that for the decision-making process characteristics to enhance decision effectiveness they must correspond to the requirements of the specific decision type. Building on prospect and information theory, we suggest decision makers’ different perceptions of acquisition and divestiture decisions as well as different degrees of information asymmetry in both decision types to be among the factors that explain the differential impact of decision comprehensiveness and dissent on acquisition and divestiture performance.

Implications for Research

In this paper, we conceptualize acquisition and divestiture decision-making in terms of comprehensiveness and dissent and illustrate how both factors affect performance. We find that while both factors can individually enhance (comprehensiveness) or decrease (dissent) deal performance depending on the decision type, their interaction may also exert a significant influence on deal performance – at least in acquisition decision-making. This finding has implications for both the literature on comprehensiveness and dissent. In literature on comprehensiveness, the empirical findings on the construct’s relationship with decision effectiveness have remained equivocal. In their quest to solve the empirical puzzles, researchers have conceptualized the environment as the single, most important moderating factor while largely neglecting alternative mediating and interacting processes through which both constructs may influence performance. The results of our study strongly suggest that a more thorough examination of interactions between different decision-making process characteristics might contribute to clarify previous equivocal results. In order to examine the conflicting effects of dissent or consensus on decision quality, researchers have primarily adopted a stand-alone perspective (for an overview, see e.g. Katzenstein, 1996). Further, and in line with recent findings in the strategic decision-making literature (Simons et al., 1999), our study highlights the importance of mediating and interacting processes in the examination of the dissent-performance relationship. The results of our study suggest the performance
effect of dissent not only to be dependent on the degree of decision comprehensiveness, but also on the broader decision context. Different decision types, such as acquisitions and divestitures, seem to entail different requirements for success and thus for dissent (or consensus) to enhance the decision-making process.

Further, our study contributes to portfolio restructuring literature in several ways. While existing research on acquisitions and divestitures has largely focused on discussions of content-specific aspects to explain performance differences, relatively little is known about the impact of the decision-making process on acquisition and divestiture performance. In this respect, we respond to the early call by Jemison and Sitkin (1986) for a greater consideration of process issues in acquisition research more than two decades ago. Our study highlights the importance of adopting a process perspective on acquisitions and divestitures, suggesting that the decision-making process may be an important determinant of acquisition and divestiture performance. In addition, our study supports the calls by Brauer (2006) and Shimizu and colleagues (2005) to treat divestitures decisions as distinct from merger and acquisition decisions. Previous research has mostly treated divestitures as side aspects or mirror images of even broader phenomena such as corporate restructuring or mergers and acquisitions. Such an approach disregards potentially important differences between acquisition and divestiture decisions with respect to information asymmetries and managers’ cognitions and motivations (Brauer, 2006). Our study suggests that these differences seem to matter and thus recommend more careful consideration in future investigations.

In line with recent requests for research on the decision level (Hough et al., 2003; Pettigrew, 2003), the derived insights collectively highlight the importance of considering decision specific characteristics (i.e. decision type). A widely shared practice in previous strategic decision making research has been to conduct empirical analyses on samples that consisted of a broad mix of firm strategic decisions. These studies thereby assumed that the requirements for effective strategic decision-making are essentially the same across different decision types. Our study suggests that this approach may be oversimplistic, as cause-effect-relationships do not seem to be easily generalized across different types of strategic decisions. Our findings on acquisition and divestiture decision-making indicate that even these two related but in some respects distinct decisions have different requirements for effective decision-making. Consequently, our study urges for a more refined distinction between different decision types when examining the contingent effects of key constructs such as decision comprehensiveness in strategic decision making research.

Moreover, our study furthers recent critique that challenges the firm-level as the appropriate unit of analysis for decision-making research. Not only the causal ordering in the relationship between decision process and firm performance is problematic, but also the assumption that firms have uniform decision-making processes in place may be difficult to
hold. Decision makers are likely to alter the design of decision-making processes across specific decisions (Hickson et al., 1986), and our study shows that they have good reasons to do so.

**Implications for Practice**

Our results advise managers to carefully adjust their decision-making approach to the requirements posed by the decision type. In acquisitions, managers are to profit from a rigorous, comprehensive approach to decision-making, even if this goes along with controversial debates and dissent among decision makers. A comprehensive approach can help decision makers mitigate potential biases as well as effectively cope with the information asymmetries which usually exist in acquisition decisions. In divestitures, however, where decision makers generally proceed more cautiously and face few, if any, information asymmetries a comprehensiveness is not to add significant value to the decision-making process. In divestitures, it seems that avoidance of dissent among decision-makers may be an important building block to ensure commitment and motivation, which have been found to positively influence divestiture performance.

**Limitations and avenues for future research**

This study is first to empirically investigate the individual and joint influence of comprehensiveness and dissent in acquisition and divestiture decisions using a multi-respondent survey design within German and Swiss publicly listed companies. Owing to this setting, our arguments and findings may be susceptible to certain boundary conditions. Results from our sample of German-speaking firms (Germany and Switzerland) may not be readily generalizable to other countries (e.g. the United States) due to cultural variations (Hofstede, 2001). For example, compared to other nations the German and the Swiss culture in particular are often considered rather consensus-oriented. These national culture traits may to some extent have biased our results. However, a recent study examining differences in decision styles between German, Japanese, and British or US companies indicates that convergence pressures – spurred by global capital markets, global competition, and a diffusion of professional management practices – significantly attenuate such differences (Carr, 2005), thus reducing generalizability concerns. Further, our study’s examination of the interaction between dissent and comprehensiveness in decision-making focused on acquisition and divestiture decisions only. To further advance strategic decision-making process research, future research should determine if this study’s findings hold in similar ways for other strategic decision types.
Conclusion

Although decision comprehensiveness is generally viewed as an important aspect of effective decision-making equivocal empirical results have made it difficult to derive consistent theoretical insights and provide useful practical advice. Drawing on information and prospect theory, we posited and found some evidence that part of the inconclusiveness results from a lack of attention to the different types of strategic decisions included in prior empirical analyses, and a lack of attention to the social context in which the comprehensive decision-making process takes place – particularly the controversial discourse among decision makers that accompanies strategic decision-making. Unlike previous empirical tests, our study therefore highlights the crucial importance of these moderating and interaction effects at the decision-level when examining the performance implications of comprehensive strategic decision making. We hope that future empirical studies may further our understanding along these lines so that we eventually come to a more refined and less contradictory understanding of the importance of decision comprehensiveness in the presence of other decision-making process characteristics and under different decision-making contexts.
### APPENDIX

Appendix I: Summary of comprehensiveness-performance research

<table>
<thead>
<tr>
<th></th>
<th>Environment-specific</th>
<th>Firm-specific</th>
<th>Decision-specific</th>
<th>Decision-maker specific</th>
<th>Firm</th>
<th>Individual</th>
<th>Decision</th>
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<tbody>
<tr>
<td>Miller (2008)</td>
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<td>-</td>
<td>-</td>
<td>X</td>
<td>-</td>
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<tr>
<td>Elbanna and Child (2007a)</td>
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<td>X</td>
<td>-</td>
<td>-</td>
<td>X</td>
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<td>Forbes (2005)</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>X</td>
<td>-</td>
<td></td>
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<tr>
<td>Asalhene-Dima and Li (2004)</td>
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<td>-</td>
<td>X</td>
<td>-</td>
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<tr>
<td>Walters and Bhuan (2004)</td>
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<td>-</td>
<td>-</td>
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<td>X</td>
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<td>Hough and White (2003)</td>
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<td>-</td>
<td>-</td>
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<td>X</td>
<td></td>
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<tr>
<td>Morgan and Strong (2003)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>X</td>
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<tr>
<td>Covin et al. (2001)</td>
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<td>-</td>
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<td>-</td>
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<td>Flynn and Forman (2001)</td>
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<td>X</td>
<td>-</td>
<td>X</td>
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</tr>
<tr>
<td>Simons et al. (1999)</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>X</td>
<td>-</td>
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<tr>
<td>Nutt (1998)</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>X</td>
<td>-</td>
<td></td>
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<tr>
<td>Papadakis (1998)</td>
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<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Goll and Rasheed (1997)</td>
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<td>-</td>
<td>-</td>
<td>X</td>
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<td></td>
</tr>
<tr>
<td>Dean and Shafman (1996)</td>
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<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Priem et al. (1995)</td>
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<td>-</td>
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<td>Priem (1994)</td>
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<td>Glick et al. (1993)</td>
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<td>-</td>
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</tr>
<tr>
<td>Fredrickson and Iaquinto (1989)</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>X</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Bourgeois and Eisenhardt (1988)</td>
<td>X</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Smith et al. (1988)</td>
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<td>X</td>
<td>-</td>
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<td>Fredrickson (1984)</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>X</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

14 3 2 2 17 1 4

1 Forbes (2005) examined the effects of comprehensive decision making on entrepreneurial self-efficacy in internet ventures. While the relevant environment can be considered dynamic according the definition of Bourgeois and Eisenhardt (1988), the moderating role of the environment on the comprehensiveness-performance relationship was not directly analyzed.

2 Morgan and Strong (2003) examined the effects of comprehensive decision making on performance in high-tech industries. While the relevant environment can be considered dynamic according the definition of Bourgeois and Eisenhardt (1988), the moderating role of the environment on the comprehensiveness-performance relationship was not directly analyzed.

3 In their study on the impact of diversity and debate on comprehensiveness and performance, Simons et al. (1999) looked at comprehensiveness primarily as a mediator on the impact TMT diversity and debate have on performance.

### Appendix II. List of measurement items

<table>
<thead>
<tr>
<th>Variable</th>
<th>Items</th>
<th>Scale</th>
<th>Source</th>
<th>Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comprehensiveness (7-point Likert-type scale)</td>
<td>1. Managers held regular meetings with a pre-specified agenda to discuss the strategic decision. 2. Managers made systematic use of external sources (e.g., industry reports, analyst reports, journals) in making this strategic decision. 3. Managers relied on historical data review and past deal statistics when making the strategic decision. 4. Managers involved in the decision-making process used quantitative analytic techniques (e.g., NPV-IRR methods, detailed cost analysis, scenario analysis) in making the strategic decision. 5. Alternative options were considered and analyzed before going with the strategic decision. 6. Managers involved in the decision-making process considered the actual probability of failure for each decision option. 7. Standardized strategic or financial criteria (e.g., acquirer/target/ partner similarity, price range, financial indicators and target rates) were used for eliminating alternative options to the strategic decision.</td>
<td>1 = to no extent, 7 = to a very great extent</td>
<td>Dean et al., 1993; Fredrickson, 1984; Miller et al., 1984; Papadakis, 1998; Talaulicar et al., 2005</td>
<td>0.72</td>
</tr>
<tr>
<td>Problem-solving dissent (7-point Likert-type scale)</td>
<td>1. There was disagreement between managers during the decision-making process about whether the strategic decision was the best way to ensure the firm’s long term profitability. 2. There was disagreement between managers during the decision-making process about whether the selected course of action was the best one.</td>
<td>1 = to no extent, 7 = to a very great extent</td>
<td>Ideas drawn from: Butler et al., 1991; Eisenhardt and Bourgeois, 1988; Papadakis et al., 1998</td>
<td>0.83</td>
</tr>
<tr>
<td>Deal Performance (7-point Likert-type scale)</td>
<td>Please, assess the strategic decision made by the company on each of the following criteria (up to now): 1. Revenue objectives 2. Budget objectives 3. Efficiency objectives</td>
<td>1 = very unsuccessful, 7 = very successful</td>
<td>Ideas drawn from: Khatri and Ng, 2000; Elbanna et al., 2007b; Walter et al., 2007</td>
<td>0.85</td>
</tr>
</tbody>
</table>
Appendix III: Results of confirmatory factor analysis

<table>
<thead>
<tr>
<th>Item</th>
<th>Comprehensiveness</th>
<th>Problem-solving dissent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extensiveness of scheduled meetings</td>
<td>0.63**</td>
<td>-0.10</td>
</tr>
<tr>
<td>Systematic use of external resources</td>
<td>0.57**</td>
<td>0.01</td>
</tr>
<tr>
<td>Review of historical data and deal statistics</td>
<td>0.41**</td>
<td>-0.17</td>
</tr>
<tr>
<td>Use of quantative analytique techniques</td>
<td>0.62**</td>
<td>0.17</td>
</tr>
<tr>
<td>Consideration of alternative options</td>
<td>0.68**</td>
<td>0.13</td>
</tr>
<tr>
<td>Use of standard strategic and financial criteria</td>
<td>0.77**</td>
<td>-0.01</td>
</tr>
<tr>
<td>Consideration of outcome probabilities</td>
<td>0.59**</td>
<td>-0.00</td>
</tr>
<tr>
<td>Agreement on objectives sought</td>
<td>0.05</td>
<td>0.93**</td>
</tr>
<tr>
<td>Agreement on selected course of action</td>
<td>-0.03</td>
<td>0.93**</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Eigenvalue</th>
<th>Percentage of variance explained</th>
<th>Cumulative percentage of variance explained</th>
</tr>
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<tbody>
<tr>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Extensiveness of scheduled meetings</td>
<td>2.10</td>
<td>0.55</td>
<td>0.55</td>
</tr>
<tr>
<td>Systematic use of external resources</td>
<td>1.40</td>
<td>0.36</td>
<td>0.91</td>
</tr>
</tbody>
</table>

*p < 0.10; ** p < 0.05; *** p < 0.001
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4. PAPER 3: DIVESTITURE VERSUS M&A DECISIONS –
CHANGE YOUR MIND BUT NOT YOUR RIGOR

Mexico's Cemex, the world's No. 3 cement company, said on Friday it was considering legal
action against Strabag after the Austrian builder pulled out of a $435 million asset deal.
Strabag dropped its plan to buy Cemex's units for 310 million euros because it did not get
Austrian anti-trust officials' approval by a June 30 deadline. Monterrey-based Cemex, which
was counting on the money to help it pay back $4.1 billion in debt this year and help in
refinancing talks with creditors, said the move was "invalid." […] Cemex shares fell 3.59
percent on the news to 11.54 pesos.

Reuters, 3 July 2009

For Cemex the failure of its plans to divest its Austrian and Hungarian operations was
a shock. Not only since the company needed the funds to enhance its financial stability, but
also since the failed transaction was in sharp contrast to its series of past acquisition
successes. Over the past years, Cemex was repeatedly praised for its successful acquisitions
and its ability to effectively integrate its acquired targets [1]. Now, when facing its first
significant business divestiture after a period of successful acquisitive growth Cemex started
struggling.

In view of the often depicted notion of divestitures as “mirror images of acquisitions”
or “the reverse side of M&A” this outcome is somewhat surprising. If divestitures and
acquisitions were just two sides of the same coin, the transfer from past acquisition experience
to the current divestiture should have helped Cemex to effectively close the deal. Executives
should have profited from their past acquisition experience in the divestiture as they have
been found to profit from their past acquisition experience in current acquisitions [2].
However, reality seems to suggest a different picture.

In our study, we have found that Cemex’
experience may be more the rule than the
exception: many executives – including
experienced acquirers – struggle when
making divestiture decisions (see Figure
1). One reason for this lack of confidence
in divestiture capabilities seems to be an
unclear perception of divestitures
compared to acquisitions. We have found
that many executives are uncertain about

![Figure 1: Portfolio restructuring capabilities](image-url)
their similarities, their differences and existing opportunities to transfer experience across both deal types. While some executives reduce divestitures to a simple “mirror image” of acquisitions, others consider divestitures a “completely different animal” than acquisitions. As a consequence, it is unclear to what extent previous acquisition experience is to facilitate or even to hinder divestiture success. Should executives generalize their acquisition experience as much as they can in a divestiture process? Or should they discriminate their acquisition experience and develop distinct divestiture capabilities?

In this paper, we seek to provide executives with clear guidance in this respect. In a first step, we outline the existing similarities and differences between divestiture and acquisition decisions. Building on these insights, we then identify for each activity in the divestiture process a) the opportunities to leverage acquisition experience and b) the needs to develop distinct divestiture practices. In particular, we highlight how both approaches – the experience transfer and the development of distinct divestiture practices – can help firms meeting the identified requirements for successful divestiture decision-making.

4.1 SIMILAR, BUT ALSO DIFFERENT

When prompted to describe the duality of acquisition and divestiture decisions, executives struggle to reach a consensus. Some managers perceive acquisitions and divestitures as two sides of the same coin (36 per cent), whereas others emphasize the differences between both decision types (32 per cent). A closer examination of the divestiture process suggests that good reasons for both claims exist (see Figure 2). Divestiture processes resemble acquisition processes in their partial symmetry of activities and their transaction character. As a matter of fact, certain activities in the divestiture process are virtually mirror images of the activities in the acquisition process. For example, the target search of acquirers
resembles in many ways the search for potential bidders of divesting firms. Moreover, both acquisitions and divestitures are embedded in a transaction process. As such, the process management requirements to manage both deal types are alike. This existence of numerous similarities suggests that managers may profit in many circumstances from their acquisition experience. Managers may not only use their tools, methods, expertise and relations developed in previous acquisitions, but may also profit from their ability to mentally switch between buy and sell side.

On the other hand, divestitures differ from acquisitions in numerous aspects. First, while acquisitions are associated with success and growth, divestitures are perceived as a signal of weakness and even failure. The stigma of acquisitions as “win” and divestitures as “lose” decisions, is not only widely shared within the top management ranks of many companies, but is felt most strongly within the businesses themselves. Second, corporate and unit interests differ in general considerably between decisions to acquire and decisions to divest. In principal, both corporate and unit managers are commonly interested in performing acquisitions. The interest to divest, however, is less likely to be commonly shared between corporate and unit managers. For unit managers divestitures entail primarily painful concessions and drawbacks. Third, acquiring and divesting firms hold asymmetric (uneven) information and bargaining positions. Divesting firms are likely to have valuable information about the unit for sale, having owned and managed it, that potential buyers do not have. This uneven information distribution puts seller and buyer in very different positions. Fourth, a divestiture comprises a much higher risk for the firm to face reputational losses than an acquisition. The divesting firm faces these risks both toward its immediate stakeholders (i.e. employees and clients) as well as towards future potential buyers. Finally, divestitures differ from acquisitions in the extent to which a firm can control the transaction process. While the divesting firm – if not under severe financial distress – has full discretion during deal, the acquiring firm is rather in a reactive mode. These existing differences highlight that the application of acquisition practices alone is not to lead managers to successful divestiture processes. Managers must develop distinct divestiture practices to meet the divestiture-specific requirements.
In order to determine where an experience transfer helps and where it is insufficient, we examine in the following all activities in the divestiture process along its main steps - the exit decision, the exit strategy and the exit realization (see Figure 3). For each activity, we identify the requirements for successful decision-making (i.e. best practices) and show where acquisition know-how and experience can help managers better meeting these requirements.

**4.2 MAKING THE EXIT DECISION**

*Initiating divestitures – Engage in active search for divestiture opportunities*

The initiation of divestiture decisions is for most firms a challenge. Many executives are eager to make plans on future acquisitions and take-overs, but they are far less passionate about the reflection to divest parts of their businesses. As a consequence, they often end up selling businesses reactively and at a too low price, sacrificing shareholder value [3]. However, their reluctance to divest is often neither purposeful, nor the outflow of a well-planned strategy. Rather, it reflects the belief and incentive systems predominant in most large firms.

In sharp contrast to acquisitions, in most firms divestitures are still considered a tragedy, an admission of defeat. Managers of divested businesses can think that they have failed or consider themselves as second-class citizens. As such, they have a strong motivation to avoid divestiture decisions and to keep trying to fix things far beyond the point where there is a payoff for their efforts. Moreover, most companies have no reward system in place to push managers actively toward divestitures. In general, management tends to be compensated for growth in revenues and earnings. A divestiture, however, diminishes the size of a manager’s domain, the asset and capital under control to generate revenue and earnings.

Further, in most firms there is a strong bias towards the status quo. The current mix of businesses is ex-post rationalized and outlined as part of a well-founded strategy in order to avoid major frictions. To existing managers, the disadvantages of changing the current basis
of businesses appear to outweigh the advantages. Internal relationships, emotional attachments or simply stable cash flows seem to prevent them from actively reconsidering the current mix of businesses.

We have found that firms using divestitures as a means of effective, market-oriented management have developed distinct practices to address these challenges. First of all, we found clearly defined responsibilities and incentive schemes for the consideration of divestitures in place. In these firms, corporate management unwittingly assumes the driver role in the divestiture process. It understands that - in contrast to acquisitions - the businesses can have only little interest in divestitures and therefore actively and regularly launches the debate thereon. In support, these firms have adjusted their reward system for the top management. Take the example of a German industrial conglomerate which regularly and systematically lists its identified acquisition and divestiture opportunities. In order to ensure that these opportunities are seriously pursued, corporate managers receive qualitative goals concerning the conversion of these opportunities (e.g. divestiture realized/divestiture opportunities identified). These distinct objectives complement the conventional revenue and profitability incentives and support the effective realization of the identified divestiture objectives.

Further, in order to change the negative connotations of divestitures, these firms have installed “forcing mechanisms” to ensure that divestitures are discussed routinely and regularly with the businesses. As such, the discussion of divestiture opportunities has become normal business practice as it has long been with the discussion of acquisition opportunities. Consider the example of a Swiss industrial goods company. As part of its periodical strategy planning as well as performance review process the firm institutionalized the discussion of potential divestiture opportunities. With each of the existing business units the options for future development are discussed in a scenario-based planning process. As part of the different scenarios, divestitures are openly and regularly considered a means to focus the business on its core and release additional funds required for future growth. This way, divestitures are increasingly perceived as “normal” business practice and potentially bad feelings among the units are reduced.

Finally, in order to overcome internal organizational inertia towards divestitures we have found some of these firms leveraging the independence of their M&A or business development department. In these firms, these units are charged to actively identify divestiture candidates and to flag these for top management review. Similar to the process of continuous target search, these units screen and assess along pre-determined criteria the internal company landscape for businesses that are not or may soon not belong to the strategic core anymore. We also found these units to regularly use their contacts to market makers, such as investment banks, to identify existing opportunities on the sell-side. Based on past
deals or specific buyer requests they flag businesses that may be worth more to others than they are to company’s shareholders. Based on both internal and external search, they thus build up a list of potential divestiture candidates. This way, top management is pushed to constantly rethink and re-discuss the current mix of businesses.

### Initiating divestiture decisions

<table>
<thead>
<tr>
<th>Leverage M&amp;A practices</th>
<th>Develop distinct practices</th>
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<tbody>
<tr>
<td>• Use independent corporate unit to identify potential divestiture candidates, build up a divestiture pipeline</td>
<td>• Define divestitures as top management priority, provide incentives for active portfolio restructuring management</td>
</tr>
<tr>
<td></td>
<td>• Establish divestitures discussions as normal business practice, add as core element to periodical reviews</td>
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#### Evaluating divestitures – Strive for strategic, value-creating exit decisions

Switching from a reactive into an active divestiture mode is not easy. It requires more than just divesting businesses that reveal a poor performance. Considering divestitures actively entails thinking about selling off good profitable businesses, potential acquirers can still extract value from.

In our interviews, we have found that a large part of divestitures (47 per cent) were not the outcome of a periodic portfolio or strategy review, but were made due to one-time events, such as a divestiture opportunity, a strategic initiative (e.g. due to CEO change), or another acquisition (see Figure 4). While it is understandable that the external pressure from distinct events is to facilitate divestiture decision-making, it is unclear whether it helps to make better divestiture decisions. Previous studies have highlighted that for divestitures to create value they must be grounded in a strategic logic [4]. Just selling an unprofitable unit is not to have a value creating effect. On the one hand, the unprofitability of the unit is likely to be factored in its sales price, so that the unit is sold at a discount. On the other hand, getting rid of unprofitable operations does not constitute a strategy. There is no reason to believe that such activities will lead to more effective operations.

However, what does it really mean to make strategic divestitures? Our interviews have shown that the best divesting firms have developed distinct criteria and practices to evaluate internal divestiture candidates.

These firms regularly assess their existing businesses based on distinct strategic criteria. While the specific criteria vary between firms and industries, we have found in our
interviews that these firms evaluate their businesses primarily concerning three different aspects: strategic fit, value creation, and best ownership. For each of these aspects these firms have pre-defined distinct criteria along which the businesses are rigorously evaluated. To be a candidate for divestiture discussion in these firms, a business must fall short in more than one aspect. This way these firms often come up with many profitable candidates for discussion. Take the example of an automotive parts business belonging to a European industrial conglomerate. The business showed not only a strong past performance and a high future value creation potential, but also revealed a moderate strategic fit with the firm. However, since the business shared neither synergies with other businesses, nor profited from the corporate center expertise (i.e. no ownership advantage), the conglomerate decided to put the business up for sale. After a competitive divestiture process, the business was successfully sold to an automotive supplier who profited from the numerous linkages with its other units and its corporate automotive know-how and thus could capture more value from the business than the conglomerate.

Apart from a strong focus on the strategic rationale, we have found that the best divesting firms naturally place a great emphasis on value when it comes to evaluating which businesses to keep and which to divest. In the first place, we have found in these firms a general agreement, from the top organization down, about what creates value. Many of these firms have a distinct model of value creation institutionalized in their planning and review processes (e.g. EVA). Due to this frame of reference (e.g. “earning rates of return must exceed the cost of capital”), employees are quite aware of the need to seriously consider the option to exit a business - apart from the opportunity to buy other businesses. As such, we have found these firms to approach divestitures with a similar mindset as they approach acquisition decisions.

Further, these firms deploy their M&A resources to conduct valuation analyses of their potential divestiture candidates prior to the start of the sales process. As such, they evaluate in detail the effect the divestiture is to have both in terms of the sales price as well as in terms of market valuation of the parent. This is to help the firms in several respects. First, it ensures that the top management expectations regarding the value of the business can be actively managed and negative surprises later in the process can be avoided. Often corporate management has excessive demands regarding the price of a divested business. In this case, managers have to realize later in the process that these demands correspond only little with the perspective of potential buyers. Significant frictions in the final part of the sales process if not even a breakup with significant negative consequences for the divesting firm may result. By explicitly discussing possible price ranges before the start of the sales process these firms push their executives to think in different scenarios and to reconcile their expectations with the current market environment before the exit decision is made. Second, the consideration of
valuation issues before the start of the sales process sensitizes managers to the impact of timing on the divestiture outcome. The active analysis of the sell-side market (i.e. current valuations, multiples) enables managers to make more effective divestiture decisions. In our interviews, we have found that most of the firms that actively considered valuation issues, started their sales process not right after the primary divestiture decision was taken, but after sell-side markets indicated a favourable market environment. This way these firms were in a better position to profit from the business-cycle-driven price swings on the asset markets.

### Evaluating divestitures

<table>
<thead>
<tr>
<th>Leverage M&amp;A practices</th>
<th>• Conduct valuation analyses prior to the exit realization, use insights to manage executive price expectations and timing of exit</th>
</tr>
</thead>
</table>
| Develop distinct practices | • Conduct periodic business assessment from different angles: strategic fit, value creation, best ownership – use pre-defined criteria  
• Institutionalize a distinct value creation frame in periodic reviews, visualize value creation to sensitize for potential divestitures |

**Participation in divestitures – Strive for an early involvement**

Making a divestiture is tough. Sharing the divestiture decision with the people affected by it can be even harder. In contrast to acquisition decisions, the announcement of a divestiture decision can be a shock - for division and unit management as well as for its employees. In order to avoid adverse affects on the divested unit, the buying firm and the divesting firm itself, key people must be involved at the right time.

Of all the individuals affected by the divestiture, no group is as potentially critical as the unit’s executive team. As one M&A manager put it “Your success highly depends on the loyalty and commitment of the unit’s management. If they are not with you, they can spoil you the deal – they have plenty of opportunities to do so.” In our interviews, we revealed that firms adopt widely different approaches towards this topic.

When it comes to the involvement of the unit management into the divestiture decision, we have found that in 81 per cent of the divestitures the unit management was involved early on in the process. They either participated actively in the decision (54 per cent) or were informed right after the decision has been made (27 per cent). In contrast, in 19 per cent of the divestitures, the unit management was involved at a later stage – either when the sales process was already ongoing or when it was close to its end.
Certainly, there are good reasons for both approaches. If the firm keeps the divestiture process known to only a few at the corporate top until signing, potentially adverse affects on the unit’s current operations may be avoided (e.g. drop in employee morale, loss of key employees, loss of customers). This approach can be successful if secrecy can be protected, but it can back fire if unit management learns via other channels about the divestiture (e.g. potential buyers). On the other hand, if the firm involves the unit management early on, it can actively leverage the executives’ standing and industry expertise in the sales process towards the employees, the customers and the potential bidders. In particular, during the marketing and negotiation phase motivated and well-prepared unit executives can turn into a very valuable asset.

While our survey results showed a clearly positive performance impact of early division and unit management involvement in the divestiture process, our interviews did not always support this relationship. We identified some divestitures that were reported a success, in which the unit top management was involved rather late. Consistent with previous research findings, these divestitures showed markedly different features from those successful divestitures in which unit management was involved early on [5].

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<tr>
<th>Factors with impact on timing</th>
<th>Appropriate timing of involvement</th>
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<tr>
<td></td>
<td>Early</td>
</tr>
<tr>
<td>Time estimated to complete divestiture</td>
<td>Long</td>
</tr>
<tr>
<td>Approach towards bidders</td>
<td>Active</td>
</tr>
<tr>
<td>Dependence on unit's management</td>
<td>High</td>
</tr>
<tr>
<td>Stand-alone quality of unit</td>
<td>Low</td>
</tr>
<tr>
<td>Size of divestiture</td>
<td>Large</td>
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</table>

First, these divestitures happened very quickly. In these cases, corporate management was relatively certain that they can do the deal in a few weeks or months. Second, these divestitures were often initiated by an active bidder. Hence, corporate management had often only one or few counterparts to negotiate. Third, in these divestitures corporate managers often did not feel to be very dependent on the unit’s executives. They neither considered the executives expertise to be crucial for the sales process, nor did they perceive the internal status of the executives, e.g. towards the employees, to be critical. Fourth, the divestiture candidate had a high stand alone quality and did not require substantial unbundling activities. Corporate managers were also very confident that they could manage the sales process without retrieving additional information from the unit. Finally, the asset under sale was rather small compared to the parent. The risk of a potential reputational loss for the entire firm was thus considered minor.
Overall, we have found in our interviews that the best divesting firms always make a careful case-by-case evaluation of the opportunities and risks involved in both approaches. While some successful divestitures are realized with a late unit management involvement, these are clearly the exception. Often, the plan to keep the divestiture process secret did not materialize – information on the planned exit reached unit management earlier than planned and finally caused major frictions in the divestiture process. In most of the successful divestitures, firms went for an early involvement of unit management. These firms managed to motivate the key personnel of the unit to effectively support the divestiture process.

### Participation in divestitures

<table>
<thead>
<tr>
<th>Leverage M&amp;A practices</th>
<th>Develop distinct practices</th>
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<tbody>
<tr>
<td>• Strive for an early involvement of unit management</td>
<td>• Postpone involvement only if critical evaluation of deal context justifies confidentiality (i.e. time to completion, approach towards bidders, dependence, stand-alone quality, deal size)</td>
</tr>
</tbody>
</table>

### Motivation in divestitures – Offer more than carrot and stick

Motivating corporate and unit management for an acquisition is not difficult. Aligning corporate and business interests on a divestiture and convincing the latter to support the divestiture process is more of a challenge.

For corporate executives, the divestiture decision and realization is part of their ongoing responsibilities. Not so for the management of the business to be divested. Apart from a potentially negative effect on their reputation, the divestiture either diminishes the size of their domain or – if they are disposed together with the asset – puts their future career at risk. Hence, the management has no significant interest to become part of a divestiture in the first place and secondly, to act in favour of the parental firm during the divestiture process. Moreover, the more the negotiations with potential buyers advance, the more interesting for the unit management it becomes to shift its loyalty towards the new owner.

Our interviews revealed that firms adopt quite different approaches to address these challenges. We have found that either corporate executives seek to manage this conflict of interest by convincing unit management of the divestiture’s logic and rationale (17 per cent), by providing strong incentives to support the divestiture (12 per cent), by autocratic top-down order (17 per cent) or by using a combination of these elements (50 per cent rationale and incentives, 4 per cent incentives and top-down order).
Though the effectiveness of the different combinations may vary depending on the firm’s culture and the role unit management adopts in the process, we have identified some distinct practices among the best divesting firms.

First, we have found that the best divesting firms involving the divestiture candidate early in the process do not only inform the unit management, but spend significant time and effort to convince them of the logic and strategic rationale. In these cases, the corporate executives make a distinct effort to explain why the unit is to be better off under a new owner. As one M&A manager outlined “The buy-in of the unit’s management was key to the successful exit. From the beginning they knew that they will be better off with a new owner. They knew that they did not fit with the rest of the company.” Our survey results support these findings. In our total sample, the most successful divestitures were those that were backed up by a strong consensus and agreement within the decision making group.

Further, many firms provided distinct compensation benefits to prompt unit executives to effectively support the process. In our interviews, we have found that the best divesting firms carefully adjusted (on a case-by-case basis) the type and timing of incentives provided to unit management’s role in the divestiture process. For instance, while severance payments were widely used to reduce unit management’s anxiety and acknowledge their past contributions, bonuses and commissions were only offered if unit’s executives were considered critical in the sales process. As one corporate manager explained “They [unit management] knew much more about the business than we did. We were well aware that the deal success depends largely on them. We offered them an attractive incentive package”.

Finally, the best divesting firms openly addressed the issue of future employment with the unit management. In these firms, corporate executives tried to promote the divestiture as an opportunity for the unit management and identify potential paths for their future career. In some cases, these consisted in more exposed executive positions in the unit under the new owner or in an attractive placement with the parental firm.

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<th>Motivation in divestitures</th>
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<tr>
<td><strong>Develop distinct practices</strong></td>
</tr>
<tr>
<td>• Seek to convince involved unit executives of strategic logic and rationale for divestiture, strive for consensus and agreement</td>
</tr>
<tr>
<td>• Actively address issue of future employment with unit executives, provide opportunities for personal growth</td>
</tr>
<tr>
<td>• Change compensation scheme for unit executives, adjust type and timing of incentives to expected role in divestiture process</td>
</tr>
</tbody>
</table>
4.3 DEFINING THE EXIT STRATEGY

Identifying the exit route – Consider the asset sale an option, not an obligation

Once a firm has decided that a unit is to be divested, it must determine how best to separate it out. In most cases, selling a business to another investor for cash makes the most sense. There are instances, however, where other exit routes are available and may generate a higher value for the divesting firm.

Before making an acquisition decision, most firms assess carefully which other options to grow in a certain business exist (e.g. internal growth, minority stake, JV, alliance). As part of their growth or market entry strategy they have defined alternative moves for the fall-out of their preferred option (e.g. acquisition). However, when firms decide to divest a business, we have found that many firms are less eager to think in different scenarios and options. Very quickly they focus on selling-off the asset. Thereby, they overlook that there is more than one way of exiting a business and more than one way of packaging an asset. Our interviews suggest that the best divesting firms approach the definition of the exit route with a similar rigor as they approach the definition of the entry mode.

These firms use their analytical skills and legal expertise – often from within the M&A department – to systematically assess the feasibility and appropriateness of the different types of exit (i.e. asset sale, spin-off, equity carve-out, LBO, MBO). How pressing is the need to generate cash? Has the asset stand-alone ability? What is the importance of maintaining links to the asset? How large is the overall asset? How does the performance track record look like? Through this rigorous assessment these firms are not only in the position to determine the single best exit route, but to define the set of options they should seriously consider.

In our interviews, we revealed that many successful divestitures happened not on a pre-defined exit route, but were the outcome of a dual track process. In these cases, the divesting firms defined not one, but at least two exit routes they wanted to pursue. This way, the firms were able to strengthen their negotiation positions toward the different bidders. Consider the example of a European tour operator. When corporate management decided to divest part of its business it fixed ex-ante a minimum target price for the unit to be divested. Apart from the asset sale, the firm also considered a management buy-out as a viable option and launched a competitive process. During the competitive bidding, it turned out that none of the numerous external bidders came close to the price range initially targeted by the corporate executives. The unit’s executives, however, were very confident about the unit’s strengths and its future and made an offer significantly above the other bidders. The offer was not only significantly above the initially targeted price range, but also came with numerous commitments to the unit’s going concern (e.g. employees, brand name). This enabled corporate management not only to maximize value for its shareholders, but also ensure the interests of important stakeholders (e.g. employees, sales agents).
Timing the exit – Eliminate sources of time pressure

Realizing a timely exit after a divestiture decision has been taken is generally not very difficult. Timing the divestiture process so that it creates maximum value for the divesting firm is far more demanding.

In contrast to acquisitions, the discussion of divestiture decisions has for corporate and business managers quite little appeal. First, it is a tough and unpleasant decision to make and then, in the implementation, it binds their resources to a business that is soon to be out of their reach. This perception has significant impact on the timing of divestiture decisions. In our interviews, we have found that managers generally avoid the proactive discussion of divestiture decisions. Many divestitures are triggered by one-time events and happen in a reactive fashion (e.g. other acquisition, strategic initiative, CEO change). In these cases, not only the decision to divest is made very quickly, but also the execution happens very fast. Interestingly, only few of these divestitures were made under financial distress, but most were under full discretion of the divesting firm. This suggests that many divesting firms are missing a big opportunity. Instead of taking their time to carefully plan and think through the process, they primarily focus on getting the deal done. Thereby, they overlook the significant impact the right timing and the right pace of a sale can have on the realized price [6]. Our interviews suggest that the most experienced divesting firms have developed distinct practices to make effective use of the factor time in their divestitures.

These firms actively monitor relevant market trends and time their sales process accordingly. On the one hand, these firms use the industry know-how of their businesses to forecast and anticipate business cycle and competitive trends. On the other hand, these firms leverage their resources in the M&A department to analyze and estimate current market valuations of divestiture-related businesses. As one M&A manager explained “Right before the financial crisis the divestiture decision was made. Since we cannot realize the price we want right now, we are waiting. We monitor very actively the current multiples and valuations. Once these get closer to our target range, we will start moving.”

Moreover, these firms – if not under severe financial distress – do not start with the sales process right away, but address operational issues with relevance to the exit beforehand (e.g. pending legal issues, open warranty claims). In this context, these firms also think

<table>
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<tr>
<th>Leverage M&amp;A practices</th>
<th>• Use analytical skills and legal expertise to assess feasibility and appropriateness of different exit options</th>
</tr>
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</table>
| Develop distinct practices | • Avoid shutting down exit options too early in the divestiture process  
• Engage in a dual track approach until bidding stage if feasible |
through the implementation of the divestiture at a very early stage. Do we have to carve-out
the asset? Who may be the potential buyers? What are they looking for? As such, these firms
address not only the disentangling of assets as a pre-sales activity, but the evaluation of
potential short-term improvements. As one manager explained “You always have to ask
yourself how potential buyers will create value from the asset. If the asset is marketable and
even an IPO might be possible, of course, you should take time to ensure that its value
creation potential is visible. Either you take the means yourself or you document them, but
make them visible.”

Further, these firms invest significant time in the preparation and the management of
the sales process. They meticulously plan and discuss the details and potentially critical
issues of the divestiture. Hence, these firms often spend between three to six months just for
the detailed preparation of the sales documents. In our interviews, we have found that these
firms apply at least the same attention to detail as they do in their acquisitions. They seek to
anticipate and address early on and strictly avoid a “muddling through” approach. As one
head of M&A explained “We have made the experience that everything that can pop up, will
pop up later in the process. Anything you do not address properly and openly in advance will
fire back to you either after the due diligence, in the negotiations or in the post-sale phase. We
have the policy that we start only with the sales process if the primary documents are prepared
and all critical issues we can see are addressed”.

<table>
<thead>
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<th>Timing the exit</th>
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<tbody>
<tr>
<td><strong>Leverage M&amp;A resources</strong></td>
</tr>
<tr>
<td>• Observe and evaluate market trends and valuations on the sell side, be responsive with sales start</td>
</tr>
<tr>
<td><strong>Develop distinct practices</strong></td>
</tr>
<tr>
<td>• Actively use industry know-how to anticipate business cycle and competitive trends, be responsive with sales start</td>
</tr>
<tr>
<td>• Address operational issues with relevance to exit beforehand</td>
</tr>
<tr>
<td>• Avoid time pressure in preparation of sales process, dedicate sufficient time to preparation of sales material</td>
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</table>

Communicating the divestiture – Avoid to get “stuck in the middle”

Announcing an acquisition or a merger can be one of the most fulfilling moments in a CEO
career. Communicating a divestiture of a business is far less appealing and presents for most
executives a huge challenge. However, at some point in time the divestiture decision must be
announced – to the investors, to the potential buyers, to the employees and to the customers of
the firm.

When firms decide to announce a divestiture we have found them striving basically
towards two different approaches: the early and open announcement after the divestiture
decision is made or the late announcement close to signing after a rather confidential sales
process. Certainly, there are good reasons for both approaches. If the firm manages to keep the divestiture process confidential until signing, uncertainties among employees and customers of the unit may be reduced and adverse affects on the ongoing operations avoided. The firm might even stop the divestiture process without incurring a significant negative impact. However, this approach might fail if rumours on the divestiture spread. In this case, the potential adverse affects on the divestiture process may even be worse than those in an early case of announcement. As one M&A manager told us “Somehow, the news on the divestiture spread. Our competitors used this aggressively against us and approached our clients. Our employees got nervous. At that point, we had to pull back. We publicly denied the divestiture and stopped the entire process”. While the early and open announcement of the divestiture decision avoids this risk, it may alienate clients and impact employees’ morale. It thus makes the unit vulnerable to competitor attacks or stakeholder initiatives against the divestiture. Moreover, once the divestiture is announced the decision is hard to revise and, if revised, is to cause substantial costs (e.g. in terms of lost confidence or reputation) [7].

Though we revealed in our interviews no clear best way of communicating a divestiture decision, we identified some distinct practices among the most experienced divesting firms. These firms treated the divestiture communication as a top priority and adopted either a clear “early” or “late” communication strategy. They avoided to get “stuck in the middle” and to make the announcement during the divestiture process. Our interviews revealed that these firms made their timing decision systematically considering a number of factors, such as the link to the firm’s strategy, the estimated length of the divestiture process, the stand-alone quality as well as the size of the divestiture candidate.

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<tr>
<th>Factors with impact on timing</th>
<th>Appropriate timing of announcement</th>
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<tr>
<td></td>
<td>Early</td>
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<tr>
<td>Link to firm strategy</td>
<td>High</td>
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<tr>
<td>Time estimated to complete divestiture</td>
<td>Long</td>
</tr>
<tr>
<td>Stand-alone quality of unit</td>
<td>Low</td>
</tr>
<tr>
<td>Size of divestiture</td>
<td>Large</td>
</tr>
</tbody>
</table>

Moreover, the best (early) communicators sought to emphasize the strategic rationale of the divestiture. In their announcement to investors, they established an explicit link to the existing firm’s corporate strategy and explained in detail how the divestiture decision fits into this context. Consider, for example, a European industrial goods company’s sale of its forklift division. Several years prior to the divestiture the company already announced to focus its operations primarily on the industrial gas business in the following years. After the strategy announcement the company divested not only smaller non-core business parts, but
also realized a very large acquisition in the industrial gas business. As such, the CEO positioned the divestiture as an important step towards its strategic goal to focus the company on the industrial gas business. This strong emphasis on the strategic rationale contributed to the positive reaction among market participants the days after the announcement.

Further, the best early communicators spent significant time and effort to explain the rationale to their employees and customers. Often, they even provided commitments or guarantees to ensure the employees’ morale and the customers’ loyalty. Consider the example of a European construction materials producer. When the firm decided to sell-off its tile business line, it announced this step early on in the sales process to all employees in a town-hall meeting. Both the group and division CEO explained the strategic reasons for the divestiture and outlined the guarantee of job security after the divestiture as a key criterion in the bidder selection process. The group CEO even proposed to assume the role of a “godfather” for the division’s employees and to care for their interests in the sales process. He substantiated his interest in the going concern by announcing that the firm might even keep a minority share in the business for a few years. These announcements significantly appeased the employees and led finally to a smooth and very successful divestiture process.

In general, our interviews revealed that in the best performing divestitures, it was not the corporate management that took the lead in communication, but the management of the divested unit itself. In these cases, the unit management went beyond explaining the rationale for the divestiture, but depicted a clear vision and long-term strategy for the divestiture candidate. This way, the unit management sought to actively change the divestiture’s perception as a major threat into an opportunity. Consider the example of a European health care and chemical company which decided to bundle its basic, more commoditized, and often less profitable chemical business lines and spin them off in form of an IPO. The CEO of the spin-off outlined very early on a clear vision and a detailed strategic path of how he wanted to turn the mix of different basic and often struggling businesses into a profitable and prospering company. Moreover, he spent significant time and effort in creating an own corporate identity for the new company. The spin-off got an emotive name and a logo which was completely different from the parent company. During numerous road shows and internal events the CEO relentlessly emphasized the new “we-sentiment” and sought to convince the employees also emotionally to perceive the change rather as an opportunity than a threat. As such, the divestiture became not only a major success for the parent, but also for the spin-off. This is also reflected in the fact that short time after spin-off completion the morale and motivation of employees within the new firm reached a level even higher than in the former parent firm.

Finally, our interviews suggested that many of the best public divesting firms announced the price of their divestitures. Since the stock market tends to interpret the non-
announcement of the sale price as indication that the divesting firm is selling at an extremely low price, these firms profited from the price disclosure [8]. While some firms follow a straightforward policy, others evaluate the announcement reactively on a case-by-case basis. As one M&A manager outlined “First, we did not want to announce the sales price. However, then rumours were spreading on the markets that we realized an extremely low price for the asset. There we reacted and announced the price publicly”.

<table>
<thead>
<tr>
<th>Communicating divestitures</th>
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<tbody>
<tr>
<td><strong>Leverage M&amp;A practices</strong></td>
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<tr>
<td>• Set communication of divestiture as a top priority, evaluate systematically impact of timing and content</td>
</tr>
<tr>
<td><strong>Develop distinct practices</strong></td>
</tr>
<tr>
<td>• Strive for early or late announcement, avoid “stuck in the middle”</td>
</tr>
<tr>
<td>• Emphasize in early announcements strategic logic and rationale, provide commitments and guarantees to employees and clients</td>
</tr>
<tr>
<td>• Ensure for late announcements confidentiality in sales process</td>
</tr>
<tr>
<td>• Promote unit management as primary communicator (if involved)</td>
</tr>
<tr>
<td>• Disclose the sales price (or terms) in the final announcement</td>
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</table>

4.4 REALIZING THE EXIT

Information preparation – Get ready for more than pulling together standard data

Creating maximum value for the divesting company requires demonstrating maximum value for potential buyers. The preparation of solid information based on which potential buyers can make their valuation is at the core of this task.

Today, many firms still struggle with the preparation of solid and convincing sales information. They underestimate the significant resources and coordination needed to prepare convincing sales information and thus often end up delivering key information to potential bidders in a reactive, just-in-time mode. The opportunity to actively steer potential investors and focus their attention on the issues deemed important thus often remains unrealized. Some firms, however, have developed rigorous rules and practices to ensure that the preparation of sales information happens in an effective and value-maximizing way.

In our interviews, we have found that the best divesting firms seek to eliminate any sources of time pressure in the information preparation and manage timing expectations actively. While detailed schedules for information preparation are used to communicate and manage expectations internally, these firms generally avoid defining sharp deadlines or tying their schedule to external events (e.g. release of quarterly figures). Hence, our interviews revealed that these firms often work with the start of the sales process as a moving target (i.e. start of sales process equals finalization of primary information collection and preparation)
and actively control the pace of the process afterwards. This way, they ensure to keep full discretion over the process and avoid to slide in a reactive selling mode.

Further, these firms have defined clear roles and guidelines for the information preparation. While the corporate center in these firms assumes a clear lead in the process planning and coordination, the unit’s management is actively involved in the information preparation. The unit management contributes not only with its understanding of the business model, the industry context and competitive trends, but actively briefs the corporate center on all internal, and often not visible, critical issues. Our interviews revealed that the best divesting firms create an “it’s safe to speak up” atmosphere in which all critical issues are anticipated and can be openly discussed with the unit’s top management. This way, tactics to address potentially critical issues are prepared well in advance and major frictions later in the process are avoided.

Moreover, we have found that these firms rigorously use the methodological know-how of their M&A department to ensure data consistency and facilitate the collection of data. Depending on the confidentiality of the divestiture, the M&A department either assumes the role of a clearing center or defines precisely the data granularity, volume and parameters the divested unit has to provide. Further, in these firms the M&A department either supports the data gathering activities directly or provides the assistance from external advisors to support the unit. This way, long feedback loops between corporate center and the unit are avoided and potentially adverse affects on the unit’s daily business are limited.

Finally, we have found these firms to actively use their acquisition experience of analyzing and interpreting target information when framing and drafting their own sales documents. As one M&A manager explained: “I always try to remember: Which information was really interesting and appealing to me in the last teasers I read? Which information was missing and which information was useless? What turned me on and what turned me down?”. By actively putting themselves in the buyer’s shoes, these firms seek to identify the sweet spots of potential investors and adjust the collection, analysis and packaging of information accordingly.

<table>
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<tr>
<th>Information preparation</th>
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<tr>
<td><strong>Leverage M&amp;A practices</strong></td>
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<tr>
<td>• Ensure proactive and open collaboration with unit's top management</td>
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<tr>
<td>• Provide methodological support for information collection to unit</td>
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<tr>
<td>• Use your buyer's mindset in information preparation and packaging</td>
</tr>
<tr>
<td><strong>Develop distinct practices</strong></td>
</tr>
<tr>
<td>• Eliminate any sources of time pressure on information preparation</td>
</tr>
<tr>
<td>• Actively manage the pace of information distribution to investors</td>
</tr>
<tr>
<td>• Leave no doubt on corporate lead on planning and coordination</td>
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Bidder search – Attract the best buyers

Attracting a buyer for a business is generally not difficult. Identifying and attracting the best buyers, usually defined as the company that can create the most value from the asset under sale, is more of a challenge.

When firms decide to sell a business, we have found that they often focus on doing the deal. Many firms keep their search efforts at a moderate level and limit their bidder search to the most obvious buyers in the industry – primarily, in order to realize a timely exit. The best divesting firms, however, approach the bidder search with the same level of planning and rigor as they approach the target search in acquisitions.

These firms use their M&A resources to look beyond traditional competitors and the usual financial investors in the industry. They combine their internal analytical skills with their extensive industry knowledge to understand who could benefit most from the acquisition. Who is looking to enter the business or region? Who shares the same customers? Who could best leverage the particular set of assets and liabilities that are up for sale? Based on a rigorous review and screening they thus often come up with unexpected candidates that were not on the initial company radar screen. Take the example of a U.S. consumer goods manufacturer that inherited a noncore business when it acquired a smaller rival. After deciding to sell the business, the company conducted a comprehensive review of the industry to identify who could make the best use of this asset. The review turned up an unexpected candidate in Europe that, although in an adjacent industry and a different region, shared key customers with the business up for sale. The divesting firm believed that this European company would be able to pay a higher premium than domestic buyers. The strength of its balance sheet and the synergies it could realize from the acquisition made the target business an especially attractive match. Furthermore, the relative strength of the Euro gave the European company an advantage in bidding against potential U.S. buyers. Finally, valuation multiples in this particular segment of the consumer goods industry tended to be higher in Europe than in the United States. This difference meant that the European company would be able to create extra value simply by raising the multiple of the business to European levels. The European company found this persuasive and eventually bought the business at a 45 percent premium above the reserve price.

Moreover, these firms seek to explicitly reach out for different types of buyers in the search process. Different types of buyers have different business models and thus different preferences. While strategic buyers are primarily looking for synergies, most private equity investors are seeking stability in cash flows and opportunities for growth, whereas family offices are searching for long-term stability of businesses. With different types of bidders in the process, the divesting firm can realize the price for the business not only on the basis of its
value to the optimal bidder, but also to the optimal business model. This way, the likelihood increases that the divesting firm will capture the asset’s maximum value.

Further, these firms leverage their existing M&A contacts to market makers or investment boutiques to ensure that the output of the bidder search is not only rich in quality, but also has a minimum quantity of potential bidders. When a firm limits itself ex-ante to a smaller focus group of potential buyers, the end result is often a single serious bidder. Because there is no competitive bidding, the divesting firm is unlikely to receive more than its minimum selling price. For example, our interviews revealed that most of the divestiture processes that were stopped due to too low price indications involved less than three potential buyers in the later due diligence process. In this case, the sales process turned from an expected winner’s curse into a seller’s curse. With multiple bidders, however, competitive intensity throughout the process remains high and the likelihood to capture the asset’s maximum value increases.

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<th>Bidder search</th>
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<tr>
<td><strong>Leverage M&amp;A practices</strong></td>
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<tr>
<td>• Use search expertise and industry knowledge to look for potential buyers beyond traditional industry boundaries</td>
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<tr>
<td>• Leverage existing contacts to market makers to ensure minimum number of potential bidders</td>
</tr>
<tr>
<td><strong>Develop distinct practices</strong></td>
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<tr>
<td>• Reach out for different types of buyers</td>
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<tr>
<td>• Actively consider different buyers with different business models</td>
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**Vendor due diligence – Deliver a compelling equity story**

Typically, potential buyers have far less information about the position and the performance of a business than the divesting firm. As a consequence, they may be tempted to low-ball their cash-flow expectations of the business and apply a discount to their offerings. For the divesting firm, the vendor due diligence can be an effective means to counteract this tendency.

Today, most firms consider the vendor due diligence a duty. A duty to provide historic financials, estimates of valuation multiples and future discounted cash flows based on a business plan and an explanation of the business strategy and the operating model. Our interviews revealed, however, that not all firms fulfil this duty with the same rigor and level of detail. Many firms limit themselves to delivering raw data and business plan descriptions in a rather standardized way. As one manager put forth “We don’t have to tell the buyers how they should see and evaluate things. They know the industry. They know what to do and what to look for.” While this is certainly true for some buyers, it may not apply to all. In the latter case, the divesting firms forego the important opportunity to actively guide buyers down their
strategy and maximize potential buyers’ understanding of upsides. Therefore, some firms have taken a more rigorous approach toward the vendor due diligence.

These firms seek to develop a compelling equity story for their assets under sale. Based on the equity story, they try to help potential buyers move beyond the historic financials to understand the strategic position and true potential of the business. Our interviews revealed that one of the pre-conditions for a successful equity story is the early and active involvement of the divestiture candidate’s top management. Since an effective story is to be grounded in a thorough understanding of the business model, the industry context, life cycles and competitive trends it requires know-how that often goes beyond of what the corporate center or external advisors can bring to the table. As a consequence, these firms institutionalize a close collaboration between the unit’s top executives, the corporate center and external experts to commonly frame and outline the divestiture story. In the best cases, the divesting firms managed to combine the methodological know-how of M&A and external experts with the unit management’s business expertise in a way that yielded not only a solid and compelling story, but provided a valuable learning experience in particular to the unit management. As one manager put it “Even our senior people that have been in the company for more than 20 years found this exercise extremely helpful. It gave them a different perspective [i.e. investor perspective] to look at the business. This affected not only the way they could negotiate with the investors, but also to manage the business later on”. As such, in these firms the development of the equity story goes far beyond the sheer development of compelling sales documents.

Moreover, many of these firms invested additional time to explicitly outline different scenarios and potential paths for the future development of the divestiture candidate. They described in detail the options to create additional value with acquired assets. Consider the example of a European industrial conglomerate divesting its chemical business. In addition to the basic business plan, the divestiture team provided a detailed overview of all ongoing internal performance projects. In particular, they outlined to what extent each project was expected to affect the top or the bottom line thereby providing additional valuation upsides. Moreover, the team developed external buy-and-build plans for the different potential investors. The team outlined how the potential investors could develop an even more attractive market position by considering the acquisition of further assets or businesses within the industry. Both the internal and the external development plans helped the divestiture team to substantiate the division’s value creation potential and to make it tangible to the potential investors.

Most of the divesting firms stop here. They provide a detailed equity story in a uniform format to the potential buyers. However, some firms go even further. These firms fine-tune the equity story for few selected serious bidders. With the help of the M&A or
corporate development department, they try to develop for each of these bidders a detailed understanding of how the divestiture candidate’s assets will fit into its business or portfolio and how it will create value for the new owner. Based on this detailed understanding they seek to address the sweet spots of each bidder individually before the actual bidding begins. Take the example of a European Bank that divested one of its regional commercial banking units. The company developed not only an equity story emphasizing the unit’s powerful business model, but also took a number of steps to customize the equity story for the most promising bidders. It defined a specific set of value drivers for each bidder, analyzed branch overlaps, and mapped potential cost synergies – all before negotiations and bidding began. Finally, it showed how the banking unit could serve as an expansion vehicle – an attractive selling point in a sector like financial services. This detailed and highly customized equity story ensured that many serious buyers were still aggressively competing during the final stage of the divestiture process. As a result, the final sales price was 90 per cent above market expectations.

In our interviews, we have found that the most rigorous divestiture teams even quantify the value creation opportunities for the different bidders in an inverse synergy model. This way, they try to get a better grip on the premium that each the bidders should be willing to pay for the business. While some firms make their quantified inverse synergy calculations public to the bidders and discuss them with them openly, others are rather reluctant to do so. Of course, there is a risk entailed. As one M&A manager explained “We don’t show the bidders our calculations in written documents. They always know their business better than we do. They can always show you that you are wrong. This puts you in a defensive position you don’t want to be in.” It is clear that for the inverse synergy valuations to be sound a significant resource commitment is required. Among the firms we interviewed, only those considering three or less serious bidders engaged in a bidder-specific quantification of synergies. However, in these cases, the investments seem to have paid off. As one manager put it “In the negotiations, we were always two steps ahead of the bidder. I think that at the end of the day this made a huge difference”.

### Vendor due diligence

| Leverage M&A practices | • Form common team of M&A experts and unit's executive to prepare |
|                       | • Demonstrate a sustainable business case, outline future value |
|                       | • creation options and scenarios in detail |
|                       | • Quantify the value creation opportunities for the different buyers |
| Develop distinct practices | • Go beyond delivering standard data, craft a compelling equity story |
|                       | • Look at each serious bidder individually, try to find the sweet spots |
Unbundling the divestiture candidate – More than an inverse PMI preparation

Once a firm has thought about the different routes to divest a unit, it must carefully think through the implementation steps required to generate the maximum value from the divestiture. Depending on the unit’s embeddedness within the parental firm this is to be more or less of a challenge.

Of course, the time and effort firms spend on disentangling the unit from the rest of the firm is primarily a function of the unit’s stand alone quality. Firms divesting a stand-alone business have fewer critical issues to consider and thus start later with the unbundling preparation than firms divesting an integrated unit (see Figure 7). However, even within these two scenarios divesting firms approach the separation of businesses with a different level of rigor. While some firms perceive this task as a “troublesome duty” to be addressed between signing and closing, others consider it as a strategic task with a significant leverage effect for the final negotiation phase. These latter firms are as meticulous about planning how the separation will unfold as smart acquirers are diligent about the preparation of the post merger integration. In our interviews, we have identified their practices.

These firms started right after the divestiture decision to systematically assess and define the boundaries of the divested unit at a macro-level. Which functions or parts of the value chain will be affected? Which products or customers will be included? Which regions and which facilities are affected? In our interviews, we revealed that these firms often did not work on one single solution for the separation, but developed different scenarios. As one head of M&A put forth “Of course, we did not only plan for a stand-alone divestiture. We also had several strategic investors in the process. These are often happy if they don’t have to take-over the whole thing including overhead, but can just take the core functions.” As a consequence, these firms were able to be more responsive to different buyer needs and to proactively frame the discussion thereon. As one manager explained “Since we thought through the entire deal forward and backward before we kicked-off the sales process we were well prepared and could actively drive the negotiations.”
Further, these firms early and actively involved the unit’s employees in examining and redesigning the commercial and technical relations between parent and unit at a micro-level. Since corporate management often lacked sufficient insights into the details of the unit’s business distinct projects were launched to address these issues before the start of the sales process. As one head of M&A outlined “This can be the most painful and time-consuming exercise at all. If the business is not stand-alone and we plan a carve-out, we have a clear policy on this: the preparation must be finished with the unit before the sales process is initiated. Otherwise, the risk is too high that we [corporate] lose control”.

Moreover, these firms involved at a very early stage legal experts into the unbundling discussions. Many of the most experienced divesting firms emphasized this as a major difference to the M&A experiences. As one manager argued “If you have to unbundle, your M&A experience helps you only little. The legal issues you have to consider are simply of a different dimension. There are so many details you have to consider. You can never start early enough with bringing your lawyers in.”

### Unbundling the unit

<table>
<thead>
<tr>
<th>Develop distinct practices</th>
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<tbody>
<tr>
<td>Systematically assess and define the boundaries of the divested unit</td>
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<tr>
<td>Think in different carve-out options for the integrated unit, prepare for different scenarios at the macro-level</td>
<td></td>
</tr>
<tr>
<td>Actively involve unit employees of integrated unit to examine and redefine commercial and technical relations at the micro-level</td>
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</tr>
<tr>
<td>Postpone start of sales process until main unbundling issues are addressed and under corporate control</td>
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<tr>
<td>Use legal experts early on to address legal issues in separation</td>
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**Negotiating and selecting a buyer – Keep up a competitive momentum**

Negotiating with a potential buyer to sell a business is generally not difficult. Creating a negotiation context that yields the maximum price and the best conditions for the divesting firm and its stakeholders is more of a challenge.

When preparing for negotiations divesting firms face numerous process and content issues they need to address. For instance, regarding the process firms have to decide on the negotiation setting (e.g. bidding vs. exclusive negotiations), the negotiation tactics as well as the role of experts (e.g. lawyers). On the content side, they have to address not only the sales price, but also important topics such as employee contracts, pension funds, warranties and responsibilities for liabilities. Not surprisingly, we have found in our interviews that firms adopt quite different approaches to address these issues in their negotiations. Though we revealed in our interviews no clear best way of negotiating, we identified some distinct practices among the best divesting firms.
These firms made explicit efforts to keep a competitive momentum in their negotiation process. Most of these firms triggered competition by keeping multiple bidders in the final negotiations. They either launched a competitive bidding process or engaged in competitive face-to-face negotiations in which they often had a preferred bidder, but explicitly kept other bidders in the game. This way, they strengthened the credibility of their position and avoided to get trapped in a seller’s curse as it often happens in exclusive negotiations. In order to avoid the situation of a seller’s curse some firms have even defined explicit guidelines. One head of M&A explained “We have a company policy on this. Beyond a certain threshold there are simply no exclusive negotiations allowed.” Some firms seek to increase competition in the negotiation even further. Apart from the asset sale they maintained other viable exit options open until signing (dual track approach). These firms were able to enforce a strict limit on their willingness to compromise certain details of the deal without running the risk of abandoning the divestiture. Consider, for example, a European retailer’s divestiture of its building center chain. In the beginning the retailer considered several exit options: a sale to strategic investors (even a competitor), a sale to financial investors as well as a carve-out of the unit including an IPO. After several strategic investors left the divestiture process, only one single financial investor remained in the process. Since this investor quickly understood its bargaining position the retailer was under pressure to make significant concessions regarding the price and the accompanying conditions. Due to the friendly stock market environment the retailer eventually decided not to concede the financial investor, but to go for an IPO-based carve-out of its building center chain. Even though the IPO of the first equity tranche became only a moderate success, the retailer issued its remaining equity in a second tranche a year later at a level clearly above initial expectations.

Moreover, these firms leveraged their prior M&A experience when it came to negotiation tactics and bargaining techniques. In this respect, the divestiture was perceived as a clear mirror image to acquisition decisions. As one M&A manager put forth “The process of negotiation is one of feeling the other party out. You have to read your counterparts. The more often you have been on the other side, the better you know what is going on in their minds.”

Further, these firms managed very actively the external experts involved in the negotiations. In our interviews, we have found that these firms often complemented their own experience with the expertise of external advisors. One manager explained “In a competitive process there are things you can never do as well as some market makers. For instance, when to release which piece of information to influence the dynamic of the process in your favour? We simply lack the experience”. However, these firms also avoided to give “carte blanche” to advisors. They knew what they could expect from each advisor and where each advisor could be helpful. As one manager stated “Of course, we know that the bank wants to get the
deal done. This is nice if you just want to get rid of the asset. But if the price is an issue, you
better pay attention to not get soaked up by the momentum they create”.

Finally, these firms avoided an excessive focus on the price as criterion to select the
best buyer. Since many divestitures entail the transfer of multiple potential risks (e.g.
guarantees, warranties) these firms dedicated high attention to the different trade-offs
involved in the price negotiations. In particular, this required an active and intense
expectation management towards the corporate executives. As one M&A manager reported
“Of course, we could get a high price for the unit. But exactly this might fire back in two
years due to all the risks we had to assume. To get this point across internally can take you a
while.” In addition, we have found these firms to evaluate systematically the potential
reputational losses incurred by the different exit and bidder options. These firms took not
only an active look at their employees and clients, but also at their reputation overall on the
market place. Consider the example of a European commercial bank which decided to divest
a foreign part of its private banking business. Apart from the price, the divesting bank
critically evaluated the reputation of potential buyers in the market place. Since many clients
of the divested bank were expected to maintain their existing relations to the domestic branch
of the bank, the managers sought to select a buyer that projected a high level of trust and
value to its clients. As such, numerous more exotic bidders were rigorously excluded from
the negotiations despite their financially attractive offers. In addition, the bank paid specific
attention to the perception of potential buyers by the foreign country's regulatory authority.
Knowing that a buyer’s compliance with the high foreign country's compliance standards
would significantly facilitate and speed up the approval process, the European bank further
restricted the bidder circle for its final negotiations.

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<th>Negotiation and bidder selection</th>
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<tr>
<td><strong>Leverage M&amp;A practices</strong></td>
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<tr>
<td>• Leverage bargaining and negotiation expertise from past deals</td>
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<tr>
<td>• Actively manage the role of external advisors, no &quot;carte blanche&quot;</td>
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<tr>
<td><strong>Develop distinct practices</strong></td>
</tr>
<tr>
<td>• Maintain competitive momentum in the negotiation, keep multiple serious bidders and exit options until the end</td>
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<tr>
<td>• Avoid excessive focus on price in negotiations, systematically evaluate risks and reputational losses entailed in options</td>
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**4.5 DISCUSSION AND IMPLICATIONS**

Acquisitions and divestitures can be effective means for executives to restructure their
business portfolios. While both acquisition and divestiture decisions share many similarities
and are thus often supported by the same corporate departments (e.g. M&A department), they
possess also distinct features that mark significant differences between both decision types.
As such, a transfer and application of previous acquisition experience to the divestiture
context is only partly to be feasible. In this paper, we took a closer look at divestitures in particular to highlight the existing similarities and differences between the two deal types. Based on our findings, we examined the entire divestiture process in order a) to seize the opportunities to leverage past acquisition experience and b) to highlight the need to develop distinct divestiture practices when realizing successful and smooth divestiture decisions. According to our analysis:

a) Managers have in many divestiture activities the opportunity to leverage their acquisition practices. These opportunities primarily result from the partial symmetry of activities in acquisition and divestiture processes. These opportunities materialize not only in the application of tools, methods and expertise developed, but also in a more effective mindset change. If decision makers have already acquired, they know how acquirers think and what are they looking for. Activities in which this is the case are, for example, the

- Preparation of sales material, e.g. the application of an acquirer’s mindset to identify, frame and package the relevant information
- Execution of the vendor due diligence, e.g. the valuation and modelling of future value creation options and synergies for potential buyers
- Negotiation and bidder selection, e.g. the use of bargaining and negotiation techniques, the management of external advisors

b) However, just the application of acquisition practices alone is not to lead managers to successful divestiture processes. Divestiture decisions differ from acquisition decisions in many respects: the way decisions are perceived within the organization, the extent to which management can control the deal process, the degree of information symmetry in the deal process as well as the conflict of interest and reputational risks involved in the decision. Consequently, managers are also in the need to develop distinct practices to manage the divestiture process successfully. Activities, in which this is particularly the case are, for example, the

- Motivation of unit management, e.g. consensus-building on strategic rationale for divestiture, adjustment of incentive schemes for unit executives
- Timing of the exit, e.g. active mitigation of time pressure in the sales process, anticipation of operational issues before sales start
• Communication, e.g. promotion of unit management as primary communicator, assurance of commitments and guarantees

c) Virtually all activities in the divestiture process entail both opportunities to transfer existing acquisition practices and requirements to develop distinct divestiture practices. However, the intensity with which both approaches should be pursued differs considerably between the different activities in the divestiture process. Our findings are destined to support managers in this task and to help them generalize and discriminate their prior deal experience effectively.
BIBLIOGRAPHY


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Department: Strategic Management and Organization (SMO)  

Oct 98 – Mar 03  UNIVERSITY OF ST. GALLEN (HSG), Switzerland  Subject: Business Administration, Major: Strategy and Organization (STO)  
HSG Master Degree (lic.oec.) and CEMS-Master Degree with distinction  

Aug 01 – Dec 01  CARLSON SCHOOL OF MANAGEMENT (CSOM), University of Minnesota/USA  Participation in Carlson School’s 2nd Year MBA Program, named to Dean’s list  

Feb 01 – June 01  ECOLE DES HAUTES ETUDES COMMERCIALES (HEC), Paris/France  
Awarded scholarship to study in the International Management Program  

July 97 – July 98  EMERGENCY SERVICE OF THE GERMAN RED CROSS (DRK), Springe/Germany  
Social Service, Certification as First-Aid-Assistant  

Aug 90 – July 97  OTTO-HAHN HIGH SCHOOL (OHG), Springe/Germany  
High School Diploma with Award  

WORK EXPERIENCE  

Mar 07 –  THE BOSTON CONSULTING GROUP (BCG), Munich/Germany  
Project leader in Strategic Management Consulting Company  

Jan 06 – Feb 07  THE BOSTON CONSULTING GROUP (BCG), Paris/ France  
Ambassadorship awarded by BCG Germany  

Mar 04 – Dec 05  THE BOSTON CONSULTING GROUP (BCG), Munich/Germany  
Consultant in Strategic Management Consulting Company  

Apr 03 – Jul 03  THE BOSTON CONSULTING GROUP (BCG), Düsseldorf/Germany  
Visiting Associate in Strategic Management Consulting Company  

Nov 01 – Feb 02  UNIVERSITY OF MINNESOTA (UofM), Minneapolis/USA  
Carlson School of Management, Strategic Management Research Center  

Feb 00 – Apr 00  PANNELL KERR FORSTER (PKF), Perth/Australia  
Audit and Consulting Company, Department “Corporate Services”  

Feb 99 – Mar 99  DEUTSCHE IMMOBILIENFONDS AG (DIFA), Hamburg/Germany  
Real Estate Fund, Department “Facility Management and Corporate Services”  

LANGUAGE SKILLS  

German: Native language  
English, French: Fluent, written and spoken  
Spanish: Fluent spoken, basic knowledge written