# Perspectives on External Advisors in Mergers and Acquisitions

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Alexander Paul Wallot

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# List of abbreviations

| | |
|---|---|
| AoM | Academy of Management |
| SMJ | Strategic Management Journal |
| SMS | Strategic Management Society |

# Abstract

In management research, there is a long tradition of studying the performance implications of mergers and acquisitions (M&A). A widely neglected group of actors in this literature has been external advisors in the pre–closing M&A process, offering services to target and bidder firms in the decision–making process of M&A. This dissertation thesis aims to shed more light on the role external advisors play in firms' acquisition success. In this endeavor, we examine advisors in the M&A process from different perspectives. In all studies, experience plays a central role—a factor, which is considered a key determinant of success for professional services firms.

The first study aims to shed more light on the intertwined relationship between advisor experience, selection, and M&A outcome. In this explorative study, we identify a set of factors, which are commonly used as estimators of M&A outcome, and examine, whether these factors also affect advisor individuals' and firms' experience on a focal deal. We find that many of the identified estimators, indeed, also affect the experience of advisors on a focal deal. The second study builds on the experience and negotiation literatures and hypothesizes that advisor individuals' experience depth, breadth, and recency, as well as the relative experience of bidder versus target advisors help explain the acquisition premia paid by advised firms. Based on 668 financial advisor individuals on 2,872 public deals between 2005 and 2015, our findings largely support our hypotheses. The third study examines the interplay between formal hierarchies and expertise–based hierarchies, and how this interplay affects team performance. Examining 77 bidder financial advisors teams on 85 M&A deals in 2015, we find that financial advisor teams' experience, in general, is linked to more favorable acquisition outcome. However, financial advisor teams achieve less favorable acquisition premia for their clients, if their team members' experience is distributed incongruently to their formal hierarchy.

Taken together, in three distinct studies this dissertation examines independent variables along an individual, team, and firm level of analysis to offer a comprehensive understanding of the role of financial advisors in determining M&A success. While each study uses different focus literatures and, as such, intends to add to these literatures, all three studies aim to contribute to the literatures on M&A capabilities and external advisors in the M&A process.

# Zusammenfassung

Die Erforschung von Erfolgsfaktoren von M&A hat eine lange Tradition in der Managementliteratur. Externe Berater, welche Käufer und Akquisitionsziele während des M&A Prozesses beraten, standen bisher jedoch wenig im Fokus der Forschung. Ziel dieser Dissertation ist es, die Rolle externer Berater für den Akquisitionserfolg von Unternehmen näher zu untersuchen. Mit diesem Ziel untersucht diese Doktorarbeit Berater im M&A Prozess aus unterschiedlichen Perspektiven. In allen Studien spielt jedoch Erfahrung eine zentrale Rolle—ein Faktor, welcher als wesentlich für den Erfolg professioneller Dienstleistungsunternehmen gilt.

Die erste Studie untersucht die Beziehung zwischen Beratererfahrung, –auswahl und M&A Erfolg. In dieser explorativen Studie identifizieren wir eine Reihe von Faktoren, welche häufig zur Evaluierung von M&A Erfolg herangezogen werden und untersuchen, ob diese Faktoren auch die Erfahrung von Beratern und Beraterfirmen auf einer Transaktion beeinflussen. Wir stellen fest, dass viele der identifizierten Faktoren, in der Tat, auch die Erfahrung von Beratern auf einer Transaktion beeinflussen. Die zweite Studie untersucht, inwiefern die Erfahrungstiefe, –breite und –aktualität individueller Finanzberater sowie die relative Erfahrung zwischen Käufer– und Akquisitionsziel–Beratern die Akquisitionsprämie beeinflussen. Basierend auf 668 Finanzberatern, die zwischen 2005 und 2015 2,872 öffentliche Transaktionen beraten, können wir unsere Hypothesen weitestgehend bestätigen. Die dritte Studie untersucht das Zusammenspiel zwischen formalen und kompetenzbasierten Hierarchien. In einem Datensatz von 242 Finanzberaterindividuen, die in 77 Teams 85 Transaktionen in 2015 begleiten, finden wir, dass sich die Erfahrung von Beraterteams generell positiv auf die Akquisitionsprämie auswirkt. Jedoch erzielen die Teams weniger günstige Prämien, wenn die Erfahrung der Teammitglieder inkongruent zur formalen Teamhierarchie verteilt ist.

In drei verschiedenen Studien untersuchen wir Variablen auf Individuum–, Team– und Firmen–Level, um zu einem umfassenderen Verständnis der Rolle von Finanzberatern bei der Bestimmung des M&A Erfolgs beizutragen. Während in jeder Studie unterschiedliche Schwerpunktliteraturen verwendet werden und daher beabsichtigt ist, diese zu ergänzen, sollen alle drei Studien einen Beitrag zu den Literaturen zu M&A Fähigkeiten und externen Beratern im M&A Prozess leisten.

# 1 Introduction

This thesis follows the form of a cumulative dissertation project, i.e. a collection of multiple essays. In line with the University of St. Gallen's regulations, this thesis consists of three essays, complying with the quality standard customary in renowned international journals. All studies in this thesis examine the same broader phenomenon—the role of external advisors in the M&A process. This may cause some minor redundancies when reading the three studies subsequently. However, the three studies of this dissertation represent autonomous research articles, evident in different research questions, theoretical views applied, and level of analyses.

The remaining part of the dissertation is organized as followed. In this chapter, we provide an overview of our motivation for this dissertation project and offer an overview of the three studies of this dissertation. The overview aims at illustrating how all three studies contribute towards a larger research question, while remaining autonomous in themselves. Furthermore, the overview covers study–specific information, such as the theoretical lens applied and the specific research question of each study. In chapter 2, we offer an overview of previous research on financial advisors in the M&A process.

## 1.1 Background and relevance

In management research, there is a long tradition of studying the performance implications of M&A. Many organizations rely on M&A to grow, diversify, gain access to new markets and strengthen their market positions (Haleblian *et al.*, 2009)—evident in 49,448 deals worth USD 3.6 trillion announced in 2017 (Thomson Reuters, 2017). In light of the prevailing finding, that many acquisitions fail to fully reach their intended objectives (King *et al.*, 2004), a significant body of research focused on the question what determines M&A outcome. For instance, a number of scholars examined the role of firm–specific characteristics in affecting M&A outcome. Findings in this stream of research show that private targets are commonly acquired at a discount due to information asymmetries (Capron & Shen, 2007), asset relatedness positively affects M&A outcome (Chatterjee, 1986; Finkelstein & Haleblian, 2002), while past performance (Porrini, 2004) and acquisition experience (Haleblian & Finkelstein, 1999; Hayward, 2002; Heimeriks, Schijven, & Gates, 2012; Meschi & Métais, 2013) show

mixed effects on M&A success. Also psychological and cognitive aspects of firms' top management teams have been found to affect M&A outcome, such as anchoring biases (Malhotra, Zhu, & Reus, 2015), growth pressures (Kim, Haleblian, & Finkelstein, 2011) or hubris (Hayward & Hambrick, 1997) and celebrity (Cho et al., 2016) of top managers. Another stream of research examines the link between the M&A process and M&A outcome. A central assumption in this research stream posits that M&A are complex and infrequent activities, affecting and involving a variety of internal and external actors (Jemison & Sitkin, 1986). Viewing M&A activities as a process, promises to allow a more differentiated analysis of the many links, which form the chain that, ultimately, decides over M&A success or failure. Research in this stream has revealed, for instance, that organizations, which possess the capabilities to orchestrate the M&A process through an internal M&A function, perform above the involved parties expectations (Trichterborn, Zu Knyphausen-Aufseß, & Schweizer, 2016). Another stream of research has focused on the role of post–merger integration on M&A outcome. The main tenet of this stream of research is that M&A success can only be achieved, if the post merger integration is incorporated early on in the M&A process (Graebner, 2004; Graebner *et al.*, 2017; Heimeriks, Schijven, & Gates, 2012; Jemison & Sitkin, 1986; Zollo & Singh, 2004). In fact, scholars have argued that integration is essential to the success or failure of an acquisition (Pablo, 1994) and that value creation takes place only after the acquisition (Haspeslagh & Jemison, 1991).

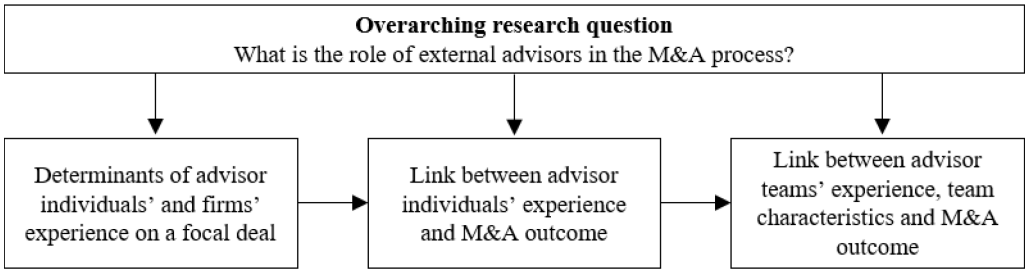
The plurality of approaches taken by researchers in their pursuit to answer the question of what determines M&A success reflects a central characteristic of any M&A deal: the enormous complexity, which organizations are commonly faced with in M&A transactions (Duhaime & Schwenk, 1985; Haleblian & Finkelstein, 1999; Zollo & Meier, 2008). In an attempt to simplify decision–making processes and reduce information asymmetries in the M&A process, organizations commonly rely on multiple external advisors (Hayward, 2003; Kesner, Shapiro, & Sharma, 1994; Sleptsov, Anand, & Vasudeva, 2013). External advisors occupy an important position in capital markets (Hunter & Walker, 1990), reflected in global M&A advisory fees totaling in USD 38.7 billion in 2017 or 1.1 percent of total deals' value announced the same year (Thomson Reuters, 2017). Prior management literature has noted the presence of external advisory firms and, for instance, has examined potential agency problems between advisors and their clients (Hayward, 2003; Kesner, Shapiro, &

Sharma, 1994; Sleptsov, Anand, & Vasudeva, 2013) or advisors' role as conduits for contagion (Haunschild, 1994; Haunschild & Miner, 1997). Yet, research so far has been surprisingly silent on how advisors may help their clients to achieve more favorable acquisition outcomes.

## 1.2 Objectives and research questions

The overall objective of this dissertation lies in advancing our understanding of the role of external advisors in the M&A process. More specifically, we seek to address the overarching research question: *What is the role of external advisors in the M&A process?* In addressing this research question, we first shed light on factors affecting advisors' experience on a focal deal. While professional services firms' experience may often remain ambiguous to their clients (Von Nordenflycht, 2010), M&A advisors' experience is more visible to their client firms in in the form of league table rankings and league tables have been shown to affect the selection of advisors (e.g. Derrien & Dessaint, 2018; Du & Huang, 2016; Ismail, 2010). We identify a set of common estimators of M&A outcome and examine, whether these estimators are linked to advisor experience on a focal deal. Second, we analyze the link between advisor individuals' experience and M&A outcome. M&A deals are usually advised by only a handful of people (Zhu, 2013) and knowledge–intensive service firms, such as financial advisory firms, heavily rely on the experience of the individuals working for the firms (Hitt, Harrison, & Ireland, 2001; Von Nordenflycht, 2010). Third, we examine the role of team–related characteristics in determining M&A outcome. Firms commonly rely on advisor teams on high–stakes projects, such as M&A, hoping to build on experts' cumulative expertise to accomplish results, exceeding individual abilities (Argote, Gruenfeld, & Naquin, 2001; Thomas-Hunt & Phillips, 2003). Figure 1 shows an aggregated illustration of the individual building blocks of this dissertation project.

**Figure 1: Conceptual framework**



## 1.3 Theoretical foundations

Advisors in M&A have been studied from a number of different theoretical perspectives, such as learning and experience (e.g. Barkema, Bell, & Pennings, 1996; Finkelstein & Haleblian, 2002; Heimeriks, Schijven, & Gates, 2012; Meschi & Métais, 2013; Zollo & Singh, 2004), behavioral and agency theory (e.g. Cho *et al.*, 2016; Graebner, 2004, 2009; Hayward & Hambrick, 1997; Kim, Haleblian, & Finkelstein, 2011; Malhotra, Zhu, & Reus, 2015; Wright *et al.*, 2002), or an industrial organization perspective (e.g. Capron & Shen, 2007; Devers *et al.*, 2008; Dikova, Sahib, & Van Witteloostuijn, 2010). This dissertation advances a behavioral perspective. Research in the Carnegie tradition highlights, that organizational decision–making is often impaired by cognitive limitations and personal interests (Cyert & March, 1963; March & Simon, 1958; Simon, 1945). Today, this perspective aims to "bring realistic assumptions about human cognition, emotions, and social behavior to the strategic management of organizations" (Powell, Lovallo, & Fox, 2011, p. 1371). A central assumption of the behavioral perspective is the bounded rationality of economic actors, which refers to the circumstance that "human behavior is intendedly rational but only boundedly so" (Simon, 1945, p. 88). The concept of bounded rationality rests on the observations that individuals are limited in their span of attention, ability to store and retrieve information, and ability to execute complex calculations.

While this thesis aims mainly at contributing towards our understanding of the role of advisors in the M&A process, the individual studies also entail a range of theoretical contributions to the behavioral perspective in management research. Our first study offers mainly an empirical contribution for further research on (experience of) advisors in the M&A process. However, in examining prior collaboration and other firms' behavior as drivers of advisors' experience on a focal deal, we highlight that the process of advisor selection, just like any organizational decision–making process, is likely to be restricted by cognitive limits and personal interests (Cyert & March, 1963; March & Simon, 1958; Simon, 1945).

In our second study, we argue that while effort is made to evaluate targets' value objectively, ultimately, the acquisition premium is a result of a negotiation process (Walsh, 1989), in which each sides' bargaining position affects the acquisition premium. This argumentation is closed linked to one of the Carnegie school's core

propositions that organizations and individuals can merely 'satisfice', instead of maximizing their search for relevant information (Simon, 1945)—meaning that they can search only for available information until an acceptable outcome is met. This does not mean that firms will lack rationality completely in the M&A process; rather, firms cannot examine and process all relevant information before making a decision. In linking types of advisor individuals' experience to negotiation success in the M&A process, which, ultimately, lead to bargaining power for bidders, we extend our understanding of how organizations and individuals cope with the search for relevant information.

The third study examines whether the interplay between formal hierarchies and expertise–based hierarchies affects team performance. We conceptualize that incongruence between formal and expertise–based hierarchies foster conflicts of preferences between members of financial advisor teams, ultimately, leading to status conflicts that negatively affect teams' performance. In focusing on the role of social behavior and specific context, we advance our understanding of realistic assumptions about human cognition, emotions, and social behavior to the strategic management of organizations (Powell, Lovallo, & Fox, 2011).

## 1.4 Structure of dissertation project

The PhD thesis' focal topic is the role of external advisors in the M&A process. Based on this theme, we examine advisors in the M&A process in a three–layered approach—from a broader explorative study to studying more detailed phenomena, affecting M&A outcome. All studies contribute to our understanding of the role of advisors in the M&A process.

In the first study, we explore the intertwined relationship between advisor experience, selection, and M&A outcome on an individual– and firm–level of analysis. We find that many estimators commonly used to predict M&A outcome also affect the experience of advisors on a focal deal. The second study focuses on the role of financial advisor individuals. Building on the experience and negotiation literatures, we hypothesize that the depth, breadth, and recency of advisors' experience, as well as the relative experience of bidder versus target advisors help explain acquisition premia. Our findings suggest that acquisition premium links to the proposed advisor experience composition and are contingent to the opposite sides' level of experience. The third

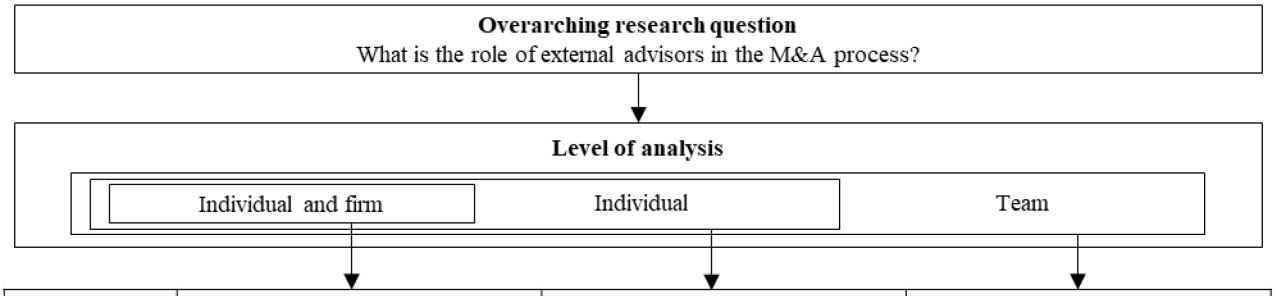
study focuses on the team level of analysis and examines how the interplay between financial advisor project teams' formal hierarchies and expertise–based informal hierarchies help explaining M&A outcome. Building on the team hierarchy and team expertise literatures, we propose that team leaders' expertise is positively linked to team performance; while increasing team staff expertise without increasing team leader expertise is negatively linked to team performance. We find that financial advisor teams' experience, in general, is linked to more favorable acquisition outcome. However, financial advisor teams achieve less favorable acquisition premia for the clients, if their team members' experience is distributed incongruently to their formal hierarchy. Further, we find that deal complexity strengthens this negative effect. Figure 2 provides an overview of the thesis structure.

## 1.5 Data and methods

All three studies in this dissertation use quantitative analyses to test the developed hypotheses. While focusing on different samples, all studies in this dissertation examine advisors advising public M&A deals where both the target and bidder operate headquarters in the United States. We collected three different datasets, which have in common that the main source of information is the financial information service provider Mergermarket. Employing 300 dedicated M&A journalists and analysts in 67 locations globally and also relying on data provided by financial advisors (Mergermarket, 2018), Mergermarket offers comprehensive data on M&A. Mergermarket is widely used among professional service firms due to the richness of its M&A data and has also been used in prior strategy research (e.g. Chatain & Meyer-Doyle, 2017).

In Study 1, the empirical context is the M&A advisory market from 2009 to 2017. Based on data from Mergermarket, we compiled all public deals in this period where both the bidder and target had headquarters in the United States. We crosschecked and verified the characteristics of the covered deals in our sample based on data from Thomson Reuters. Our final sample comprises 53,467 data points, corresponding to 23,858 financial, legal, and public relations (PR) advisor individuals on 2,407 public M&A deals between 2009 and 2017.

## Figure 2: Overview research questions and studies




| | Study 1 | Study 2 | Study 3 |
|---|---|---|---|
| **Research question** | What affects the individual and firm experience of financial, legal, and PR advisors on a focal deal? | Does financial advisor individuals' experience affect their clients' bargaining power and, consequently, the price paid by their clients? | How does the interplay between formal hierarchies and expertise–based informal hierarchies affect team performance in the context of financial advisor teams in the M&A process? |
| **Title** | *An Explorative Study of Determinants of M&A Advisor Experience* | *The Impact of Advisor Individuals' Experience Patterns on their Clients' Bargaining Position in M&A* | *Informal Hierarchies and Team Performance: Evidence from the M&A Advisory Context* |
| **Type of study** | Empirical, explorative | Empirical, deductive theory-testing | Empirical, deductive theory-testing |
| **Theoretical perspective** | Experience and network | Experience and negotiation | Team expertise and team hierarchy |
| **Data** | 23,858 financial, legal, and PR advisor individuals on 2,407 public M&A deals between 2009 and 2017 | 668 financial advisor individuals in 2,872 public deals between 2005 and 2015 | Hierarchy levels and experience of 242 financial advisor individuals in 77 bidder financial advisors teams advising 85 M&A deals in 2015 |
| **Approach** | Quantitative<br>Data collection via Mergermarket | Quantitative<br>Data collection via Mergermarket, Brokercheck.org (US-state regulated) | Quantitative<br>Data collection via Mergermarket, Brokercheck.org (US-state regulated) |
| **Contributions** | Intertwined relationship between advisor experience, advisor selection, and M&A outcome; methodological contribution to future research on the role of advisor experience in M&A | Financial advisor individuals' experience depth, breadth, and recency as determinants of bidders' ability to negotiate acquisition premia in their favor | Interaction between financial advisor teams' formal and experience-based informal hierarchies as a determinant of team effectiveness and acquisition premia |
| **Linking elements** | All studies examine the role of external advisors in the M&A process and contribute to our understanding of behavioral aspects of the M&A process<br>Study 2 and 3 consider the role of financial advisors experience on M&A outcome<br>Study 1 and 3 account for the fact that a multitude of (different) advisors are involved in a single M&A deals | | |
| **Submission status** | Paper proposal accepted at SMS annual conference Minneapolis 2019 | Full paper accepted at AOM annual conference Boston 2019<br>Paper proposal accepted and presented at Warwick M&A conference London 2019<br>Paper proposal accepted and presented at SMS annual conference Paris 2018 | Paper proposal accepted at SMS annual conference Minneapolis 2019 |

For the second study, we created a data set that comprises 5,052 observations, embracing 2,872 deals advised by 668 unique financial advisor individuals between 2005 and 2015. In order to ensure the reliability of the individual experience profiles of the individual advisors, which constitute the main data source for all our independent variables, we crosschecked each individual advisor profile with the Brokercheck database. Brokercheck is an online database on financial advisors that is provided by the US state–regulated Financial Industry Regulatory Authority (FIRA). For advisors where no information could be found on Brokercheck, we crosschecked the employers and employment dates via LinkedIn. LinkedIn is an online professional networking service with over 560 million members in 200 countries (LinkedIn, 2018). As employers and headhunting firms use LinkedIn actively for recruiting job seekers, members have an incentive to provide accurate and up to date information via LinkedIn. Prior literature has used the service to verify information on individuals (Siming, 2014).

In the third study, we observe the link between formal hierarchies and expertise–based hierarchies. In order to do so, we extracted individual level information on financial advisor team members' hierarchy levels from Mergermarket. We collected hierarchy levels of financial advisor individuals on 77 bidder financial advisors teams advising 85 M&A deals in 2015, we analyze the distribution of 242 financial advisor individuals' experience across team hierarchy levels. To verify the individual and deal characteristics, we used the same crosschecks as for Study 2.

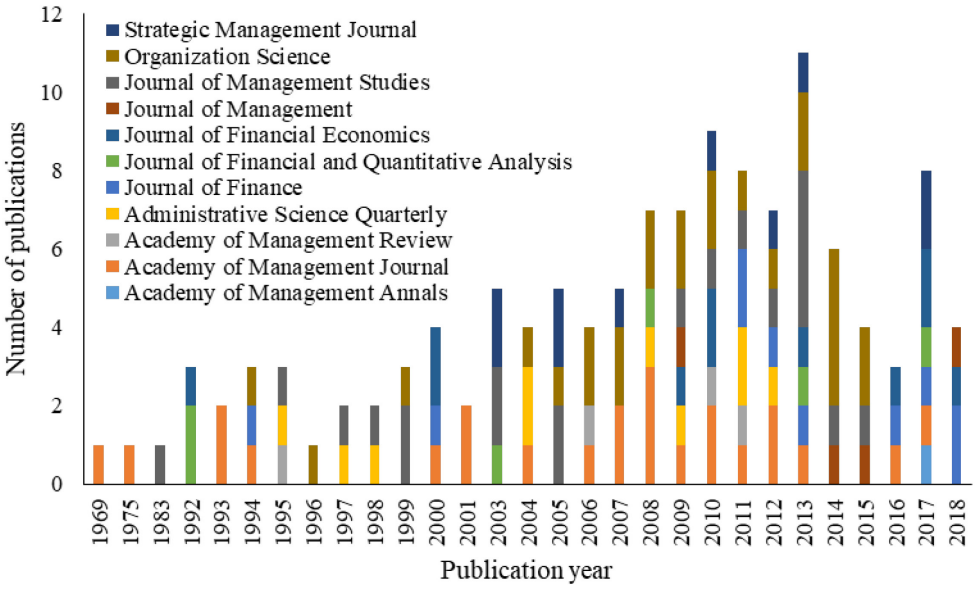
# 2 Prior research on advisors in the M&A process

To provide an overview of prior research on M&A advisors, we aggregate findings in the management literature to date. Given the limited body of literature on external M&A advisors in the management literature, we highlight three particular themes in research on external advisors. With this approach, we aim to outline an agenda for future research on the role of advisors in the M&A process.

Following published M&A reviews (e.g. Barkema & Schijven, 2008; Haleblian *et al.*, 2009) in the management literature, we review studies published in eight leading management journals: *Academy of Management Annals, Academy of Management Review, Academy of Management Journal, Administrative Science Quarterly, Journal of Management, Strategic Management Journal, Organization Studies, and Journal of Management Studies*. As much of the work on external advisors in M&A—in particular

on banks and financial advisors—has been published in finance journals, we also include studies published in three leading finance journals: *Journal of Finance, Journal of Financial Economics, and Journal of Financial and Quantitative Analysis*. We employ the key word search technique via Thomson Reuters' Web of Science, searching for 16 keywords[1]. Out of an initial body of 2,247 articles, we identify 29 articles, observing external advisors in the context of M&A. Given the limited scope of this literature body, we also include articles investigating advisors in contexts other than M&A and articles using advisory firms or individuals as an empirical setting. Furthermore, we include articles, which observe 'advice–seeking' in applicable contexts, i.e. top management team and board advice–seeking (e.g. Anderson, Baker, & Robinson, 2017; Bridwell-Mitchell & Lant, 2014; Carpenter & Westphal, 2011; Chua, Ingram, & Morris, 2008) and external advice–seeking of members of organizations (e.g. Alexiev *et al.*, 2010; McDonald, Khanna, & Westphal, 2008). In sum, we identified 125 articles, spanning over a period of almost fifty years, as illustrated in Figure 3.

**Figure 3: Publications on external advisors (1969–2018)**




The following literature overview is organized in three themes, which we consider as central to extend our understanding of advisors in the M&A process. The highlighted

[1] advisor* OR adviser* OR advise* OR advice* OR coach* OR "service* firm*" OR "external actor*" OR "external expert*" OR consultan* OR bank* OR lawyer* OR attorney* OR advocate* OR counselor* OR attorney* OR barrister*

themes also serve as major motivations of the three studies presented subsequently as part of this dissertation.

## 2.1 One deal, many advisors

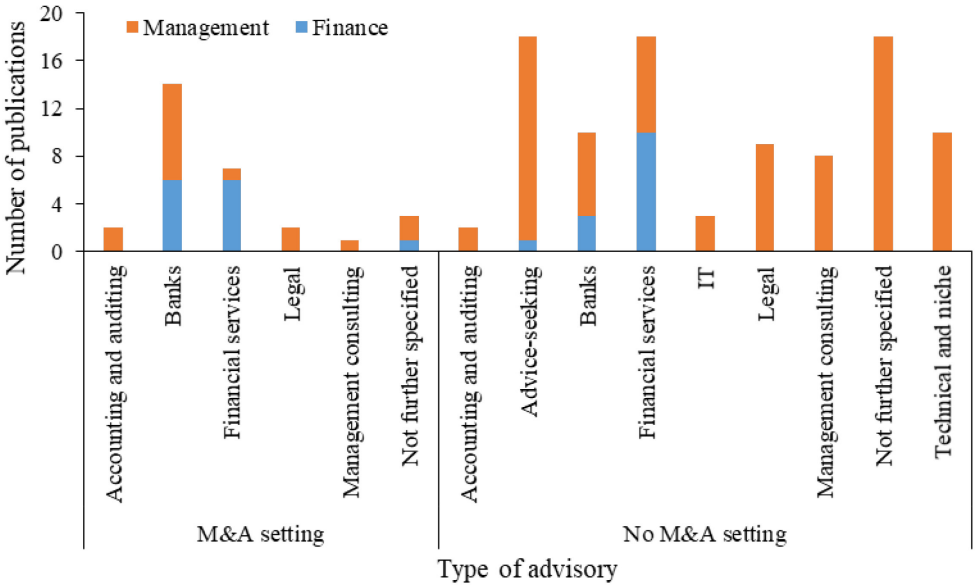
While the management literature in general has featured a variety of external advisor types, as illustrated in Figure 4, studies on advisors in the M&A context are limited mainly to banks (e.g. Hayward, 2003; Kesner, Shapiro, & Sharma, 1994; Shipilov & Li, 2008; Sleptsov, Anand, & Vasudeva, 2013) and providers of other financial services (e.g. Hayward & Boeker, 1998; Mehra et al., 2006; Meyer et al., 2015; Shipilov, 2009). It seems as no surprise, that finance scholars equally have focused on banks (e.g. Chemmanur & Fulghieri, 1994; Kisgen, Qian, & Song, 2009; Phelan, 2017; Rau, 2000) and providers of other financial services (e.g. Bodnaruk & Rossi, 2016; Dimmock, Gerken, & Graham, 2018; Golec, 1992; Golubov, Petmezas, & Travlos, 2012). Financial services providers and banks play an important role in the M&A process (Soda & Zaheer, 2012), however, there are also many other external advisors who are involved in the M&A process. For instance, PR advisors play an important role in acquisitions (Gamache et al., 2015). Firms use PR to reduce information asymmetry for stakeholder (Bergh & Gibbons, 2011) and manage the information provided—a task often actively managed by PR advisors in the form of shareholder letters or press releases (Gamache et al., 2015). As illustrated in Figure 5, scholars have examined the role of shareholder information and communication in the contexts of advisory by drawing on signaling theory, for instance, to observe the role of advisor reputation (e.g. Greenwood et al., 2005; Kale, Kini, & Ryan, 2003). Yet, we could not identify a single study that observed the role or impact of PR advisors in the M&A process. Enhancing our understanding of these less obvious neo–professional services firms (Von Nordenflycht, 2010), such as PR advisors, will help enhancing our understanding of M&A process and outcome.

## 2.2 M&A process and advisors

Scholars have long established that M&A activities consist of a process, usually split into three phases: post–announcement, negotiation and post–merger (Jemison & Sitkin, 1986), with each phase featuring a unique set of tasks and requirements (Haspeslagh & Jemison, 1991). Equally, the link between M&A outcome and the input external advisors provide is likely to be process–specific. For instance, in the pre–announcement

process negotiations play a critical role (Haspeslagh & Jemison, 1991), while the post–merger phase depends more on the coordination and alignment of the affected elements within an organization (e.g. Graebner *et al.*, 2017). However, the link between different phases of the M&A process and the respective impact of advisor types seem to have been somewhat neglected by scholars thus far. A common empirical approach in the identified body of literature is to link financial advisor characteristics to stock market reactions (e.g. Bergh & Gibbons, 2011; Golubov, Petmezas, & Travlos, 2012; Kale, Kini, & Ryan, 2003; Lee, 2013). Many external advisors involved in the M&A process may never become visible to the stock market or do not influence aspects affecting the stock market's valuation of a M&A activity. Furthermore, many scholars—in particular in the domain of management literature—do not reveal details about the advisors observed at all (Kim, Haleblian, & Finkelstein, 2011; Shah, Cross, & Levin, 2018; Strike & Rerup, 2016). In fact, the second largest group of advisors within the identified body of literature are no further specified advisors, as illustrated in Figure 4. Some scholars refer to investment banks as advisors (e.g. Haunschild & Miner, 1997; Lee, 2013; Rau, 2000; Shipilov & Li, 2008), while others, for instance, Kim and colleagues simply refer to "acquirer advisors" (2011, p. 41). Exploring the role of specific advisors more explicitly in the M&A process, would potentially enhance our understanding of role of the numerous actors involved in the M&A process.

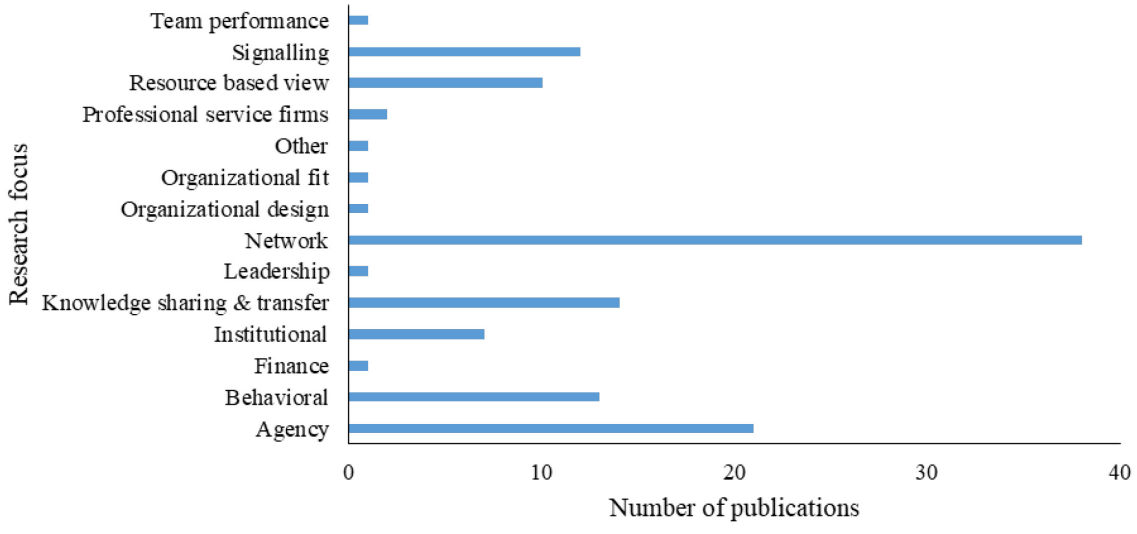
**Figure 4: Type of advisory and M&A setting in the identified publications**



## 2.3 The role of advisor experience

A vast body of research in the management literature focused on the question of whether and how firms M&A outcome is affected by their experience (for a review, see Barkema & Schijven, 2008). As illustrated in Figure 5, a significant amount of studies (52) examined the role of (knowledge) networks and knowledge sharing and transfer in the context of M&A advisory (e.g. Bensaou, Galunic, & Jonczyk-Sédès, 2014; Boh *et al.*, 2007; Caimo & Lomi, 2015; Levine & Prietula, 2012). Interestingly, research so far has been surprisingly silent on how external advisors' experience may help their clients to achieve more favorable acquisition outcomes. In a more recent study, Kim and colleagues (2011) analyzed the role of acquirer advisors, concluding that "the acquisition experience of advisors tends to have a more significant influence on the relationship between growth patterns and acquisition premiums than the acquisition experience of the acquirers themselves" (p.52). Yet, research has neglected more detail examinations of advisor experience to date. For instance, advisors in the post announcement phase may benefit from specific experience types, such as technical experience with a certain financing type. Being more specific about advisor experience in the M&A process may also improve our general understanding of the role of experience in M&A, which remains inconclusive, ranging from positive (Barkema, Bell, & Pennings, 1996), to non–significant (Zollo & Singh, 2004), and even negative (Haleblian & Finkelstein, 1999) relationships between experience and performance. To conclude, scholars have paid significant attention to the role of acquirers' and sellers' learning and experience, yet, we know little about external advisor experience in M&A.

**Figure 5: Research focus publications in the identified publications**



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# 3 Study 1: An Explorative Study of Determinants of M&A Advisor Experience


## Abstract

Prior research has highlighted that experience is a key factor for advisors to help their clients achieving favorable M&A outcome. Unlike in other professional services industries, potential clients can assess the experience of M&A advisors through league tables, which have been shown to affect the selection of M&A advisors. As such, not only the success of advisors on their clients' M&A outcome is affected by how experienced advisors are, but also the advisor selection itself. Future research on the role of advisory in M&A will benefit from accounting for the intertwined relationship between advisor experience, advisor selection, and M&A outcome. In this explorative study, we identify prior collaboration, other firms' behavior, client experience, payment and deal type, and target industry, as factors, which are commonly used as estimators of M&A outcome and may also affect advisor experience on a focal deal. In a unique data set, we analyze the experience of 23,858 financial, legal, and public relations advisor individuals on 2,407 public M&A deals between 2009 and 2017 to test the links between the identified factors and advisor individuals' experience. We find that many of the identified estimators, indeed, also affect the experience of advisors on a focal deal. Furthermore, we find that the determinants of advisor experience vary across different levels of analyses, i.e. between bidders and targets, individual and firm level, and across financial, legal, and public relations advisors. With this explorative empirical study, we aim to contribute to future work on the role of advisor experience and, more generally, external advisory in M&A.



## Keywords

Merger and Acquisition, External Advisors, Advisor Experience

## 3.1 Introduction

Financial advisors are omnipresent in firms' M&A activities (e.g. Hayward, 2003). Yet, the role of advisors in the M&A process still remains fairly obscure. M&A advisors have been considered as a source for agency problems (Sleptsov, Anand, & Vasudeva, 2013) and as conduits for contagion (Haunschild, 1994). At the same time, M&A advisors charge high fees for their services, reflected in global M&A advisory fees totaling in USD 38.7 billion in 2017 or 1.1% of total deals' value announced the same year (Thomson Reuters, 2017). In an attempt to shed more light on what determines advisor success in M&A, a limited number of studies have examined financial advisor characteristics, such as, reputation and skill set (Song, Wei, & Zhou, 2013), advisors' prior performance, and prior ties with advisor (Lee, 2013).

Experience has been noted to play a key role for advisors in M&A, helping advisors to deliver their services in an effective and profitable manner (Bowers & Miller, 1990; Golubov, Petmezas, & Travlos, 2012; Hunter & Walker, 1990; Morris & Empson, 1998; Servaes & Zenner, 1996). While professional services firms' experience may often remain ambiguous to their clients (Von Nordenflycht, 2010), M&A advisors' experience is more visible to their client firms in in the form of league table rankings. Indeed, league tables have been shown to affect the selection of advisors (e.g. Derrien & Dessaint, 2018; Du & Huang, 2016; Ismail, 2010). This points towards an important observation: advisor experience not only affects advisors' ability to contribute towards their clients' M&A outcome, but may also affect the selection of advisors.

In this study, we aim to offer a comprehensive analysis of factors affecting the experience of advisors on a focal deal. First, we review variables that are commonly used to estimate M&A outcome and may affect the experience of advisors on a focal deal. Acknowledging prior work on partner selection, which has noted network relations (e.g. Gulati, 1995; Uzzi & Lancaster, 2004) and access to complementary resources (e.g. Chung, Singh, & Lee, 2000; Shah & Swaminathan, 2008) as two key determinants of partner selection, we identify five types of relational and resource–driven factors. In a second step, we analyze how the identified variables affect the experience of advisor individuals based on 2,407 public M&A deals between 2009 and 2017. Furthermore, we examine differences between bidders and targets in two different sub–samples. As experience at the level of the firm is dependent on the experience of

individuals in the firm (Crossan, Lane, & White, 1999; Hitt, Harrison, & Ireland, 2001; Von Nordenflycht, 2010) and the acquirer–advisor relationship is characterized by significant personal interactions (Eccles & Crane, 1988; Lee, 2013), we also compare our individual–level results with results on an organizational level. Lastly, we analyze, whether the identified variables differ between financial, legal and public relations (PR) advisors in the M&A process, as a key feature of external advisors in M&A deals is that they are manifold in type and relevance (Hayward, 2003).

The overall objective of this study, thus, is not to explain variation in M&A outcome. Rather, it is to dive into independent variables commonly used in empirical studies focusing on M&A outcome and assess how they affect the experience of advisors on M&A deals. In doing so, we aim to offer a methodological contribution to future research on the role of advisor experience in M&A and, more generally, external advisory in M&A.

## 3.2 Common estimators of M&A outcome

In this section, we identify a set of common estimators of M&A outcome, which we expect to affect the experience of advisors on a focal deal. As two reviews have been published more recently on the acquisition–performance relationship (Graebner *et al.*, 2017; Haleblian *et al.*, 2009), this overview of estimators of M&A outcome owes much of its insight to these reviews. We also acknowledge that there is an ongoing debate about the definition of M&A outcome itself. Zollo and Meier (2008, p. 55) noted "despite the massive amount of research done, there is little or no agreement both across and within the disciplines on how to measure acquisition performance". Acknowledging the need of clarity on definitions of M&A outcome, we will for now accept that "acquisition performance is by its nature an extremely complex concept—a concept that can certainly be approached in different ways, but for which no individual way seems to suffice" (Zollo & Meier, 2008, p. 73).

### 3.2.1 Relational factors

In light of the prevailing finding that many acquisitions fail to fully reach their intended objectives (King *et al.*, 2004), a significant body of research has examined determinants of M&A outcome that go beyond 'technical' aspects of a deal, such as deal type. In tradition of the Carnegie School, which posits that organizational decision–making is

often impaired by cognitive limitations and personal interests (Cyert & March, 1963; March & Simon, 1958), research has revealed a number of links between M&A outcome and cognitive factors, such as managers' conflicts of interests (Datta, Iskandar-Datta, & Raman, 2001; Wright *et al.*, 2002).

*3.2.1.1 Prior collaboration*

Building on the work by Granovetter (1973) and other sociologists, management research has pointed out that prior collaboration between actors affects firms' acquisition behavior. For instance, Haunschild and Beckman (1998) found that the number of acquisitions made by firms was positively related to the number of acquisitions completed by interlock partners. Westphal and colleagues (2001) found that changes in the acquisition activity of firms with prior interaction had significant positive effects on changes in focal firm acquisition activity. These studies reveal organizations' desire to achieve peer isomorphism as an important determinant of acquisition behavior (Haleblian *et al.*, 2009). Prior collaboration may equally be a determinant of advisor experience on a focal deal. Research on partner selection and alliances suggests that relational factors affect partner selection (Chung, Singh, & Lee, 2000; Gulati & Gargiulo, 1999; Lee, 2013). Each advisor firm and individual has a distinct set of work processes, terminology, and way of work and culture (Srikanth & Puranam, 2011). Ties from repeated interactions between the same actors provide unique mechanisms for the dissemination of information (Powell & Smith-Doerr, 1994) and stimulates sharing of private information (Gulati, 1995; Uzzi & Lancaster, 2004). Firms that have worked previously with specific advisors may have a more nuanced understanding whether and how they can benefit from these advisors' experience.

*3.2.1.2 Other firms' behavior*

Firms typically monitor the behavior of similar referent organizations in the same competitive environment in their search for strategic options (Huff, Huff, & Thomas, 1992; McGee & Thomas, 1986). In anticipation of this, scholars have also observed the role of inter–organizational links and their effect on M&A outcome (e.g. Casciaro & Piskorski, 2005; Palmer *et al.*, 1995). For instance, Haunschild (1993) found that firms imitate the acquisition activities of other firms to which they are tied through directorships. Stearns and Allen (1996) reported that merger waves occur when a business community imitates an increasingly successful fringe player's innovations.

Other actors' behavior may affect advisor individuals' experience on a focal deal, as it allows firms to assess the impact of advisor experience on other firms' M&A outcome. This argument is also in line with the observation that firms imitate practices that produce salient, attractive outcomes (March, Sproull, & Tamuz, 1991). Furthermore, firms may also refer to other firms' practices as a source of legitimacy (Dimaggio & Powell, 1983). In the context of M&A, this may be particularly relevant, as outside experts, such as M&A advisors, are used to legitimate and rationalize organizational decisions (Pfeffer, 1981).

## 3.2.2 Resource–driven factors

*3.2.2.1 Client experience*

A number of studies examined the link between acquisition experience and performance (for a review, see Barkema & Schijven, 2008). While collective evidence on the experience–performance link remains inconclusive, ranging from positive (Barkema, et al., 1996), to negative (Haleblian & Finkelstein, 1999), most scholars agree that experience in some way links to acquisition behavior and outcome. More recent evidence suggests that firms establish routines and functions to execute M&A, for instance, via dedicated M&A functions (e.g. Trichterborn, Zu Knyphausen-Aufseß, & Schweizer, 2016). Organizations tend to join forces with other firms, which possess complementary resources or capabilities (e.g. Chung, Singh, & Lee, 2000; Mitsuhashi & Min, 2016; Shah & Swaminathan, 2008). While less experienced firms may find it inefficient to rely on in–house resources or capabilities and seek the expertise of experienced M&A advisors (e.g. Heinz, Nelson, & Laumann, 2001), firms already in possession of M&A experience may consider the need for experienced advisors less relevant. Indeed, Servaes and Zenner (1996) find that financial advisors are more likely to be used when the acquirer is less experienced. In a recent study, Westbrock and colleagues (2018) empirically demonstrated the link between firms experience and experience of legal advisors in M&A. The authors find that, while determinants of lawyers' performance on their clients' M&A outcome differ in domestic and international deals, initially firms do not realize this and only adjust their selection criteria with accumulating M&A experience. As such, we expect client experience to affect the experience of advisor experience on a focal deal.

*3.2.2.2 Payment type*

Several studies have observed M&A deals' financing method and found that cash–financed deals are more beneficial or at least less detrimental to bidding firms' (e.g. Bouwman, Fuller, & Nain, 2009; Carow, Heron, & Saxton, 2004; Huang & Walkling, 1987; Loughran & Vijh, 1997; Travlos, 1987). A common argument asserts that financing acquisitions with cash adds less complexity to the M&A process compared to other financing methods (e.g. Hayward, 2003). Firms aim to reduce complexity in the M&A process and increasingly search for information and advice in complex deals (Haunschild, 1994). As the support on finance–related matters in the M&A process requires specialized experience (Soda & Zaheer, 2012), we expect non–cash financed deals to be linked to advisor individuals' experience on a focal deal.

*3.2.2.3 Deal type*

M&A differ from each other in many forms—one characteristic, which has received significant attention is the link between tender vs. merger deals and M&A outcome (e.g. Comment & Schwert, 1995; Datta & Pinches, 1992; Levi, Li, & Zhang, 2010; Loughran & Vijh, 1997). In tender offers, a bidder issues an offer directly to the focal target's shareholders. The target shareholders then decide, whether they would like to tender their shares to the bidder. In mergers, bidder and target's management negotiate the deal before going to a shareholder vote (Datta & Pinches, 1992). A common notion on tender offers is that a tender offer, in which the bidder approaches the target shareholders directly and attempts to replace the target's incumbent (poor) management team, performs better than a management–negotiated merger (Jensen, 1986; Jensen Richard & Michael, 1983). Consistent with this notion, a number of studies report superior performance for tender offers relative to mergers (Bouwman, Fuller, & Nain, 2009; Jensen Richard & Michael, 1983; Loughran & Vijh, 1997; Rau & Vermaelen, 1998). The tender process requires great care regarding the bid offered, as a too high price will reduce the subsequent return on investment, while a too low price may result in a failed offer and the loss of a profitable opportunity (e.g. Walkling & Edmister, 1985). As one key role of advisors in the M&A process consists of advising their clients on the buying or selling price (Haunschild, 1994; Kisgen, Qian, & Song, 2009), we expect tender offers to be linked to advisor experience.

#### *3.2.2.4 Target industry*

Different industries feature different dynamics and characteristics. In many papers on M&A performance, target industries are used as control variables (e.g. Haunschild, 1994; Hayward & Hambrick, 1997; Laamanen, 2007) or moderators (e.g. McNamara, Haleblian, & Dykes, 2008). For instance, McNamara and colleagues (2008) use target industry as a moderator of M&A outcome in acquisition waves, arguing that industries feature varying levels of munificence and stability. Servaes and Zenner (1996) find that financial advisors are more likely to be used when the transaction is more complex. Given the different levels of uncertainty and complexity associated to different target industries, we expect a focal deal's target industry to be linked to advisor individuals' experience on a focal deal.

## 3.3 Data and analysis

### 3.3.1 Sample and data sources

The empirical context of this study is the M&A advisory market from 2009 to 2017. Based on data from Mergermarket, we compiled all public deals in this period where both the bidder and target had headquarters in the United States. Mergermarket is widely used among professional service firms due to the richness of its M&A data and has also been used in prior strategy research (e.g. Chatain & Meyer-Doyle, 2017). We crosschecked and verified the characteristics of the covered deals in our sample based on data from Thomson Reuters. Our final sample comprises 53,467 data points, corresponding to 23,858 financial, legal, and public relations advisor individuals on 2,407 public M&A deals between 2009 and 2017. Table 1 provides an overview of our measures. We report pairwise correlations and descriptive statistics in Table 2.

### 3.3.2 Dependent variable

Our dependent variable for all hypotheses is *advisor experience*. We measure advisor experience as the count of deals an advisor individual has advised prior to the focal deal's announcement date. For the firm–level analysis, the advisor experience variable measures the count of deals an advisor firm has advised prior to the focal deal's announcement date.

**Table 1: Study 1 variable definitions**

| Variable | Definition |
|---|---|
| *Dependent variable* | |
| 1 Advisor individual experience | Count of deals, which an individual advisor on a focal deal has advised prior to the focal deal's announcement |
| *Relational factors* | |
| 2 Advisor-client prior collaboration | Count of deals, on which advisor individual and client firm on focal deal have worked together prior to the focal deal's announcement |
| 3 Other firms | Average advisor individual experience on other deals in target industry within last 12 months |
| *Client experience* | |
| 4 Client's experience | Count of deals, which bidder or target has executed prior to deal announcement |
| 5 Buyout, yes=1 | Deal is an Institutional or Management Buyout |
| *Payment type* | |
| 6 Cash payment, yes=1 | Deal is cash-financed |
| 7 Equity payment, yes=1 | Deal is equity-financed |
| *Deal type* | |
| 8 Tender, yes=1 | Offer to purchase some or all of shareholders' shares in a corporation, usually, at a premium to the market price. |
| 9 Merger, yes=1 | Transaction to combine separate businesses into one, with equal holding and governance rights assigned to the respective shareholders of each company. |
| *Target industry characteristics* | |
| 10 Target in technology–intensive industry | Targets in industries with the two–digit SIC codes of 28, 35, 36, 38, 48, 73, 80, and 87 |
| 11 Target or bidder in public scrutiny industry | Targets in industries with the two–digit SIC codes of 1,2, 20, 40, 41, 42, 60-64 ,80, 84, 91-97 and/or target or bidder is member of Fortune 500 at time of deal announcement |

**Table 2: Study 1 pairwise correlations and descriptive statistics (n=53,467)**

| Variables | Mean | S.D. | Min | Max | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Depenedent variable* | | | | | | | | | | | | | | |
| 1 Advisor individual's experience | 3.81 | 10.1 | 0 | 205 | | | | | | | | | | |
| *Relational factors* | | | | | | | | | | | | | | |
| 2 Advisor individual-client prior collaboration | 0.06 | 0.31 | 0 | 9 | 0.08** | | | | | | | | | |
| 3 Other firms' behavior | 3.48 | 1.71 | 0.3 | 6.3 | 0.17** | 0.06** | | | | | | | | |
| *Client experience* | | | | | | | | | | | | | | |
| 4 Client's experience | 1.28 | 2.22 | 0 | 17 | 0.08** | 0.22** | 0.26** | | | | | | | |
| 5 Buyout, yes=1 | 0.14 | 0.35 | 0 | 1 | -0.03** | -0.02** | -0.05** | 0.15** | | | | | | |
| *Payment type* | | | | | | | | | | | | | | |
| 6 Cash payment, yes=1 | 0.79 | 0.41 | 0 | 1 | -0.01** | 0 | -0.05** | 0.09** | 0.21** | | | | | |
| 7 Equity payment, yes=1 | 0.46 | 0.5 | 0 | 1 | 0.03** | 0.01** | 0.1** | -0.09** | -0.34** | -0.52** | | | | |
| *Deal type* | | | | | | | | | | | | | | |
| 8 Tender, yes=1 | 0.16 | 0.37 | 0 | 1 | 0 | 0.02** | -0.08** | 0.04** | 0.02** | 0.2** | -0.28** | | | |
| 9 Merger, yes=1 | 0.06 | 0.24 | 0 | 1 | 0 | -0.02** | 0 | -0.08** | -0.1** | -0.39** | 0.22** | -0.08** | | |
| *Target industry characteristics* | | | | | | | | | | | | | | |
| 10 Target in technology-intensive industry | 0.45 | 0.5 | 0 | 1 | -0.01* | 0 | -0.06** | 0.11** | 0.09** | 0.18** | -0.24** | 0.16** | -0.05** | |
| 11 Target or bidder in public scrutiny industry | 0.25 | 0.43 | 0 | 1 | 0.01** | 0.07** | 0.03** | 0.03** | -0.12** | -0.04** | 0.16** | -0.12** | 0 | |

Significant at †10%; *5%; **1%. All tests are two tailed.
Target industry and acquisition year dummy variables excluded.

### 3.3.3 Independent variables

We measure *advisor–client prior collaboration* as the count of deals, on which a focal deal's advisor individual and client firm have worked together prior to the focal deal's announcement. The variable *other firms* measures the average experience of advisor individuals, which have advised deals in the focal deal's target industry within the last 12 months of the focal deal's announcement. Similar to advisor experience, the variable *client experience* measures the count of deals an advisor's client firm, e.g. bidder, target or seller, has been involved in prior to the focal deal. The binary variable *buyout* measures, whether a deal is an institutional or management buyout. In an institutional buyout, a financial institution, ordinarily a principal finance house or private equity firm operates without a trade partner and usually acquires 100% of the target. In a management buyout, a firms' incumbent management team, which usually is backed by a venture capitalist or a private equity investor, acquires its firm. The binary variable *cash payment* measures, whether a transaction is financed via cash payments, while the binary variable *equity payment* measures, whether a deal is equity–financed. The binary variables *tender* and *merger* measure, whether a transaction is a tender or a merger, respectively. To measure *target industry*, we include 21 dummy variables. The binary variable *target in technology–intensive industry* measures, whether the target operates in industries with the two–digit SIC codes of 28, 35, 36, 38, 48, 73, 80, and 87 (Laamanen, 2007). The binary variable *target or bidder in public scrutiny industry* measures, whether the bidder or target operates in industries with the two–digit SIC codes of 1,2, 20, 40, 41, 42, 60–64 ,80, 84, 91–97 and/or the target or bidder is a member of the Fortune 500 list at the time of the focal deal's announcement.

### 3.3.4 Control variables

Following earlier research on M&A advisors and experience in M&A (Barkema, Bell, & Pennings, 1996; Haleblian & Finkelstein, 1999; Rau, 2000; Zollo & Singh, 2004), we include dummy variables to denote the *year of the acquisition announcement*.

Given that each dependent variable used to test our models is a count, we apply a Poisson regression model. Poisson regression models have been used in previous studies on M&A, in which the dependent variable is a count (e.g. Haunschild, 1994).

## 3.4 Main results

Previously, we identified advisor–client prior collaboration and other firms' behavior as potential estimators of advisor individuals' experience on a focal deal. Furthermore, we identified a focal deal's payment type, deal type, and target industry as potential estimators of advisor experience. This section presents our findings and is structured as followed. First, we discuss the examined links between the identified estimators and advisor individuals' experience on a focal deal. Second, we compare, whether the examined links differ between targets and bidders in our sample. Third, we examine, whether our findings change when observed on a firm, instead of an individual level of analysis. Lastly, we observe the identified estimators across different advisor types.

### 3.4.1 Do relational factors affect the experience of advisor individuals on a focal deal?

As reported in Table 3 (Model 1), we found that *advisor individual–client prior collaboration* has a significant positive effect on advisor individuals' experience on a focal deal (p−value=0.000). The coefficient of the variable *advisor individual–client prior collaboration* reveals that with every additional deal an advisor individual and client have previously engaged in, the advisor individuals' experience on the focal deal increases by 0.3082. This result also holds true in the combined Model 8.

Equally, we found that *other firms'* behavior has a significant positive effect on individual advisor experience on a focal deal (p−value=0.000), as reported in Table 3 (Model 1). The coefficient of the variable *other firms* reveals that, if advisor individuals on other deals in the focal deal's target industry within the last 12 months advised on average one more deal, the advisor individuals' experience on the focal deal increases by 0.2232. The combined Model 8 confirms this result.

### 3.4.2 Do resource–based factors affect the experience of advisor individuals on a focal deal?

As reported in Table 3 (Model 2), we found that *client experience* has a significant positive effect on advisor individuals' experience on a focal deal (p−value=0.000). This result also holds true in the combined Model 8.

# Table 3: Study 1 Poisson regression with advisor individuals' experience as dependent variable

| VARIABLES | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
|---|---|---|---|---|---|---|---|---|
| *Relational factors* | | | | | | | | |
| Advisor individual-client prior collaboration | 0.3082 (0.000) [0.018] | | | | | | | 0.2771 (0.000) [0.018] |
| Other firms' behavior | 0.2232 (0.000) [0.018] | | | | | | | 0.2177 (0.000) [0.019] |
| *Client experience* | | | | | | | | |
| Client's experience | | 0.0368 (0.000) [0.004] | | | | | | 0.0294 (0.000) [0.005] |
| Buyout, yes=1 | | | -0.1478 (0.000) [0.030] | | | | | -0.1600 (0.000) [0.033] |
| *Payment type* | | | | | | | | |
| Cash payment, yes=1 | | | | 0.0266 (0.406) [0.032] | | | | 0.0123 (0.727) [0.035] |
| Equity payment, yes=1 | | | | 0.0733 (0.005) [0.026] | | | | 0.0608 (0.030) [0.028] |
| *Deal type* | | | | | | | | |
| Tender, yes=1 | | | | | 0.0911 (0.004) [0.031] | | | 0.0829 (0.010) [0.032] |
| Merger, yes=1 | | | | | 0.0311 (0.500) [0.046] | | | 0.0225 (0.670) [0.053] |
| *Target industry* | | | | | | | | |
| Agriculture | | | | | | 0.6220 (0.007) [0.230] | | 0.5802 (0.011) [0.228] |
| Automotive | | | | | | -0.1918 (0.198) [0.149] | | -0.2171 (0.145) [0.149] |
| Biotechnology | | | | | | 0.1204 (0.368) [0.134] | | -0.0585 (0.675) [0.140] |
| Chemicals and materials | | | | | | 0.0265 (0.809) [0.110] | | -0.1325 (0.252) [0.116] |
| Computer | | | | | | 0.1818 (0.061) [0.097] | | -0.0008 (0.994) [0.107] |
| Construction | | | | | | 0.4020 (0.010) [0.156] | | 0.3535 (0.023) [0.156] |
| Consumer | | | | | | 0.2425 (0.017) [0.101] | | 0.1705 (0.093) [0.101] |
| Defence | | | | | | 0.1942 (0.167) [0.141] | | 0.0454 (0.749) [0.142] |
| Energy | | | | | | 0.2901 (0.004) [0.101] | | 0.1919 (0.057) [0.101] |
| Financial services | | | | | | 0.1878 (0.052) [0.096] | | 0.0583 (0.568) [0.102] |
| Industrial | | | | | | 0.0785 (0.458) [0.106] | | -0.0241 (0.826) [0.110] |
| Internet | | | | | | 0.4727 (0.000) [0.114] | | 0.3015 (0.013) [0.121] |
| Leisure | | | | | | 0.0583 (0.605) [0.113] | | 0.0435 (0.696) [0.112] |
| Manufacturing | | | | | | 0.1738 (0.220) [0.142] | | 0.1587 (0.260) [0.141] |
| Media | | | | | | 0.2519 (0.023) [0.111] | | 0.0599 (0.597) [0.113] |
| Medical | | | | | | 0.2326 (0.020) [0.100] | | 0.0611 (0.571) [0.108] |
| Mining | | | | | | 0.1581 (0.639) [0.337] | | 0.0453 (0.893) [0.338] |
| Real Estate | | | | | | 0.1697 (0.117) [0.108] | | 0.0712 (0.513) [0.109] |
| Services | | | | | | 0.1036 (0.332) [0.107] | | 0.0378 (0.722) [0.106] |
| Telecommunications | | | | | | 0.1733 (0.096) [0.104] | | -0.0298 (0.791) [0.112] |
| Transportation | | | | | | 0.1165 (0.382) [0.133] | | 0.0896 (0.500) [0.133] |
| *Target industry characteristics* | | | | | | | | |
| Target in technology-intensive industry | | | | | | | 0.0353 (0.141) [0.024] | 0.0760 (0.095) [0.045] |
| Target or bidder in public scrutiny industry | | | | | | | 0.0383 (0.151) [0.027] | 0.0382 (0.330) [0.039] |
| *Control variables* | | | | | | | | |
| Acquisition year | Included | Included | Included | Included | Included | Included | Included | Included |
| Observations | 53,467 | 53,467 | 53,467 | 53,467 | 53,467 | 53,467 | 53,467 | 53,467 |
| Constant | 0.5239 (0.000) [0.076] | 1.4160 (0.000) [0.026] | 1.4864 (0.000) [0.026] | 1.4090 (0.000) [0.044] | 1.4547 (0.000) [0.026] | 1.2698 (0.000) [0.097] | 1.4473 (0.000) [0.029] | 0.3385 (0.005) [0.120] |

P-value in parenthesis. Standard errors between square brackets. All tests are two-tailed.

The coefficient of the variable *client experience* reveals that with every additional deal a client has previously engaged in, advisor individuals' experience increases by 0.0368. A potential explanation may be that more experienced firms prefer advisors that match their own experience and, as such, pick advisors that are more experienced. To shed further light on the relationship between client experience and advisor individuals' experience, we examined the link between *buyouts* and advisor individuals' experience. Actors in buyouts are ordinarily principal finance houses or private equity firms, which we expect to possess additional capabilities and resources, such as M&A functions (e.g. Trichterborn, Zu Knyphausen-Aufseß, & Schweizer, 2016), to execute M&A. Indeed, we found a significant negative linkage between buyouts and advisor individuals' experience. As reported in Table 3 (Model 3), our findings suggest that buyouts are linked to less experienced advisor individuals (p−value=0.000). The coefficient of the variable *buyout* suggests that buyout deals are linked to an advisor individuals' experience decrease by 0.1478, confirmed in Model 8.

We found a significant positive link between *equity payment* deals and advisor individuals' experience on a focal deal (p−value=0.005), as reported in Table 3 (Model 4). The coefficient of the variable *equity payment* suggests that equity deals are linked to an increase of advisor individuals' experience by 0.0733. In contrast, we found no significant link between *cash payment* and advisor experience (p−value=0.406). This result also holds true in the combined Model 8. Our findings are in line with our expectation that non–cash financed deals add complexity to the M&A process (e.g. Hayward, 2003), which firms aim to reduce through external advice (Haunschild, 1994) in the form of more experienced advisor individuals.

As reported in Table 3 (Model 5), we found that the deal type affects advisor individuals' experience on a focal deal. We found a positive correlation between *tender* deals and advisor individuals' experience (p−value=0.004). The coefficient of the variable *tender* suggests that tender deals are linked to an advisor individuals' experience increase by 0.0911. We could confirm this result in the combined Model 8. This result also holds true in the combined Model 8. The positive linkage confirms our expectation that tender offers are linked to more experienced advisor individuals. The tender process requires great care regarding the bid offered (e.g. Walkling & Edmister, 1985) and a key role of advisors in the M&A process consists of advising their clients on the buying or selling price (Haunschild, 1994; Kisgen, Qian, & Song, 2009).

We found that the *deal industry* affects advisor individuals' experience on a focal deal, as reported in Table 3 (Model 6). To shed further light on the relationship between target industry and advisor individuals' experience, we tested two overarching industry–related characteristics as potential determinants of advisor individuals' experience on a focal deal. First, *targets in technology–intensive industries* have been reported to contribute towards information asymmetry due to greater intangible assets in the form of R&D expenditure (Aboody & Lev, 2000). Laamanen (2007) showed that M&A in technology–intensive industries affect M&A outcome. Firms pursuing transactions in technology–intensive industries are faced with increased uncertainty regarding the evaluation of future cash flows from the accumulated R&D investments of technology (Laamanen, 2007). We expect deals in technology–intensive industries to be linked to advisor individuals' experience. However, as reported in Table 3 (Model 7), we did not find a significant link between the variable *target in technology–intensive industry* and advisor individuals' experience on a focal deal (p−value=0.141). In our combined Model 8, we found a weak link between *target in technology–intensive industry* and advisor individuals' experience (p−value=0.095).

Second, certain firms are exposed to a higher level of public scrutiny. The public scrutiny of these companies may stem from the fact that these firms operate in industries of greater public interest, such as Healthcare, or their sheer size. These organizations constitute a site of large, visible, diversified, and prominent organizations (Rao & Sivakumar, 1999) and are exposed to more criticism of the public (Menon & Pfeffer, 2003). In an effort to maintain legitimacy, firms exposed to higher scrutiny have a higher awareness for the needs of stake– and shareholder management (Rao & Sivakumar, 1999). We expect deals under public scrutiny to be linked to advisor individuals' experience, as firms use advisors in the M&A process to reduce information asymmetry for stakeholders and manage the information provided (Bergh & Gibbons, 2011; Gamache *et al.*, 2015). Yet, as reported in Table 3 (Model 5), we did not find a significant link between the variable *target or bidder in public scrutiny industry* and individual advisor experience on a focal deal (p−value=0.151).

### 3.4.3 Are there differences between bidders and sellers?

As reported in Table 4 and Table 5, we also observed the effect of the identified estimators of advisor individual experience separately for bidder and targets.

# Table 4: Study 1 Poisson regression with bidder advisor individuals' experience as dependent variable

| VARIABLES | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |
|---|---|---|---|---|---|---|---|---|
| *Relational factors* | | | | | | | | |
| Advisor individual-client prior collaboration | 0.3009 (0.000) [0.018] | | | | | | | 0.3116 (0.000) [0.019] |
| Other firms' behavior | 0.2445 (0.000) [0.023] | | | | | | | 0.2529 (0.000) [0.024] |
| *Client experience* | | | | | | | | |
| Bidder's experience | | 0.0171 (0.002) [0.005] | | | | | | -0.0021 (0.764) [0.007] |
| Buyout, yes=1 | | | -0.3306 (0.000) [0.035] | | | | | -0.2892 (0.000) [0.040] |
| *Payment type* | | | | | | | | |
| Cash payment, yes=1 | | | | -0.0485 (0.279) [0.045] | | | | -0.0366 (0.448) [0.048] |
| Equity payment, yes=1 | | | | 0.0984 (0.007) [0.037] | | | | 0.0465 (0.260) [0.041] |
| *Deal type* | | | | | | | | |
| Tender, yes=1 | | | | | 0.1049 (0.014) [0.043] | | | 0.1175 (0.008) [0.044] |
| Merger, yes=1 | | | | | 0.1735 (0.020) [0.075] | | | 0.1717 (0.039) [0.083] |
| *Target industry* | | | | | | | | |
| Agriculture | | | | | | 0.6813 (0.060) [0.362] | | 0.6342 (0.076) [0.357] |
| Automotive | | | | | | -0.0714 (0.718) [0.197] | | -0.0493 (0.804) [0.198] |
| Biotechnology | | | | | | 0.2942 (0.128) [0.193] | | 0.2175 (0.291) [0.206] |
| Chemicals and materials | | | | | | -0.0271 (0.858) [0.152] | | -0.0623 (0.702) [0.163] |
| Computer | | | | | | 0.2520 (0.060) [0.134] | | 0.1846 (0.237) [0.156] |
| Construction | | | | | | 0.2148 (0.307) [0.210] | | 0.1885 (0.370) [0.210] |
| Consumer | | | | | | 0.1249 (0.359) [0.136] | | 0.1292 (0.347) [0.137] |
| Defence | | | | | | 0.3213 (0.080) [0.184] | | 0.2633 (0.159) [0.187] |
| Energy | | | | | | 0.3470 (0.011) [0.137] | | 0.2957 (0.033) [0.139] |
| Financial services | | | | | | 0.2573 (0.053) [0.133] | | 0.1326 (0.354) [0.143] |
| Industrial | | | | | | 0.1271 (0.385) [0.146] | | 0.1110 (0.474) [0.155] |
| Internet | | | | | | 0.4886 (0.001) [0.154] | | 0.4457 (0.008) [0.168] |
| Leisure | | | | | | 0.0222 (0.887) [0.156] | | 0.1069 (0.495) [0.157] |
| Manufacturing | | | | | | 0.1444 (0.511) [0.220] | | 0.1703 (0.435) [0.218] |
| Media | | | | | | 0.2078 (0.166) [0.150] | | 0.1355 (0.386) [0.156] |
| Medical | | | | | | 0.2771 (0.044) [0.138] | | 0.2351 (0.125) [0.153] |
| Mining | | | | | | 0.4245 (0.295) [0.405] | | 0.3208 (0.432) [0.408] |
| Real Estate | | | | | | 0.1753 (0.213) [0.141] | | 0.1187 (0.405) [0.143] |
| Services | | | | | | 0.0947 (0.519) [0.147] | | 0.0835 (0.574) [0.148] |
| Telecommunications | | | | | | 0.0532 (0.707) [0.142] | | 0.0241 (0.879) [0.158] |
| Transportation | | | | | | 0.1711 (0.351) [0.184] | | 0.1243 (0.499) [0.184] |
| *Target industry characteristics* | | | | | | | | |
| Target in technology-intensive industry | | | | | | | 0.0282 (0.399) [0.033] | 0.0150 (0.835) [0.072] |
| Target or bidder in public scrutiny industry | | | | | | | 0.0613 (0.099) [0.037] | 0.0782 (0.184) [0.059] |
| *Control variables* | | | | | | | | |
| Acquisition year | Included | Included | Included | Included | Included | Included | Included | Included |
| Observations | 26,748 | 26,748 | 26,748 | 26,748 | 26,748 | 26,748 | 26,748 | 26,748 |
| Constant | 0.4102 (0.000) [0.101] | 1.4237 (0.000) [0.036] | 1.4746 (0.000) [0.036] | 1.4239 (0.000) [0.060] | 1.4186 (0.000) [0.037] | 1.2297 (0.000) [0.133] | 1.4158 (0.000) [0.040] | 0.1831 (0.269) [0.166] |

P-value in parenthesis. Standard errors between square brackets. All tests are two-tailed.

# Table 5: Study 1 Poisson regression with target advisor individuals' experience as dependent variable

| VARIABLES | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 |
|---|---|---|---|---|---|---|---|---|
| *Relational factors* | | | | | | | | |
| Advisor individual-client prior collaboration | 0.3848 (0.000) [0.037] | | | | | | | 0.2847 (0.000) [0.048] |
| Other firms' behavior | 0.2038 (0.000) [0.028] | | | | | | | 0.2099 (0.000) [0.029] |
| *Client experience* | | | | | | | | |
| Target's experience | | 0.0927 (0.000) [0.017] | | | | | | 0.0639 (0.002) [0.021] |
| Buyout, yes=1 | | | -0.0137 (0.759) [0.045] | | | | | 0.0073 (0.880) [0.049] |
| *Payment type* | | | | | | | | |
| Cash payment, yes=1 | | | | 0.1010 (0.027) [0.046] | | | | 0.0528 (0.309) [0.052] |
| Equity payment, yes=1 | | | | 0.0623 (0.088) [0.037] | | | | 0.0603 (0.115) [0.038] |
| *Deal type* | | | | | | | | |
| Tender, yes=1 | | | | | 0.0753 (0.101) [0.046] | | | 0.0709 (0.134) [0.047] |
| Merger, yes=1 | | | | | -0.0652 (0.270) [0.059] | | | -0.0712 (0.323) [0.072] |
| *Target industry* | | | | | | | | |
| Agriculture | | | | | | 0.5244 (0.072) [0.291] | | 0.4725 (0.108) [0.294] |
| Automotive | | | | | | -0.3641 (0.107) [0.226] | | -0.4548 (0.044) [0.225] |
| Biotechnology | | | | | | -0.0508 (0.784) [0.186] | | -0.2939 (0.123) [0.190] |
| Chemicals and materials | | | | | | 0.0538 (0.734) [0.158] | | -0.1878 (0.250) [0.163] |
| Computer | | | | | | 0.0919 (0.511) [0.140] | | -0.1296 (0.373) [0.146] |
| Construction | | | | | | 0.4922 (0.025) [0.219] | | 0.3854 (0.079) [0.220] |
| Consumer | | | | | | 0.3300 (0.025) [0.148] | | 0.2108 (0.153) [0.147] |
| Defence | | | | | | 0.0529 (0.806) [0.216] | | -0.1340 (0.536) [0.216] |
| Energy | | | | | | 0.2096 (0.156) [0.148] | | 0.0743 (0.612) [0.146] |
| Financial services | | | | | | 0.1018 (0.466) [0.140] | | -0.0055 (0.970) [0.145] |
| Industrial | | | | | | 0.0109 (0.943) [0.153] | | -0.1499 (0.336) [0.156] |
| Internet | | | | | | 0.4362 (0.010) [0.168] | | 0.1960 (0.255) [0.172] |
| Leisure | | | | | | 0.0499 (0.758) [0.162] | | 0.0083 (0.958) [0.159] |
| Manufacturing | | | | | | 0.1833 (0.319) [0.184] | | 0.1353 (0.461) [0.184] |
| Media | | | | | | 0.2652 (0.101) [0.162] | | -0.0095 (0.953) [0.163] |
| Medical | | | | | | 0.1755 (0.227) [0.145] | | -0.0550 (0.716) [0.151] |
| Mining | | | | | | -0.5222 (0.081) [0.299] | | -0.5977 (0.043) [0.295] |
| Real Estate | | | | | | 0.1518 (0.352) [0.163] | | 0.0659 (0.686) [0.163] |
| Services | | | | | | 0.0901 (0.559) [0.154] | | -0.0402 (0.791) [0.152] |
| Telecommunications | | | | | | 0.2575 (0.089) [0.151] | | -0.0436 (0.781) [0.157] |
| Transportation | | | | | | 0.0532 (0.783) [0.193] | | 0.0189 (0.921) [0.191] |
| *Target industry characteristics* | | | | | | | | |
| Target in technology-intensive industry | | | | | | | 0.0389 (0.257) [0.034] | 0.1276 (0.023) [0.056] |
| Target or bidder in public scrutiny industry | | | | | | | 0.0198 (0.606) [0.038] | 0.0113 (0.835) [0.054] |
| *Control variables* | | | | | | | | |
| Acquisition year | Included | Included | Included | Included | Included | Included | Included | Included |
| Observations | 26,719 | 26,719 | 26,719 | 26,719 | 26,719 | 26,719 | 26,719 | 26,719 |
| Constant | 0.6201 (0.000) [0.112] | 1.4521 (0.000) [0.038] | 1.5013 (0.000) [0.036] | 1.3874 (0.000) [0.063] | 1.4926 (0.000) [0.038] | 1.3307 (0.000) [0.140] | 1.4784 (0.000) [0.043] | 0.4303 (0.012) [0.171] |

P-value in parenthesis. Standard errors between square brackets. All tests are two-tailed.

We could confirm the results from our overall sample (see Table 3) in our bidder sample, as reported in Table 4 (Models 9–16). As reported in Table 5, in our target sample we could confirm the significant positive link between *advisor individual–client prior collaboration* and *other firms' behavior* (Model 17) and advisor individuals' experience, which we found in our overall sample. However, we could not find a linkage between the other estimators and advisor experience in our target sample. While we expect advisor experience to play a role for targets as well, resource–related factors may be less important for targets. As targets are the object of valuation, targets are likely to be more familiar with aspects of the transaction, which are yet unfamiliar to bidders.

### 3.4.4 Are there differences between the individual level and firm level?

The relationship between advisors and clients in the M&A process is characterized by significant personal interactions in all phases of the process (Eccles & Crane, 1988; Lee, 2013). However, measuring M&A outcome at the individual level is inevitably linked to the firm level (e.g. Zollo & Meier, 2008). For instance, individual–level integration process performance positively affects the likelihood of creating value through the entire transaction (Haspeslagh & Jemison, 1991; Jemison & Sitkin, 1986). Simultaneously, the value created through the acquisition will have a positive effect on the overall firm performance, since the realization of cost and revenue improvements are clearly included in consolidated accounting statements, which in turn will be reflected in stock price movements and consequent returns (Jensen Richard & Michael, 1983; Zollo & Meier, 2008). As reported in Table 6 (Model 25), we could confirm the positive significant links between *advisor firm–client prior collaboration* and *other firms'* behavior (p–values of 0.000 and 0.000, respectively), which we already found on an individual level. A comparison between the firm–level coefficient sizes of advisor–client prior collaboration and other firms' behavior, and the individual–level coefficient sizes of these relational factors (see Table 3) reveals that the coefficients are larger on an individual–level. Other than that, we could not confirm much of the individual–level findings. This may point towards the crucial role of the individual in the M&A process. M&A deals are usually advised by only a handful of people (Zhu, 2013) and knowledge–intensive service firms, such as financial advisory firms, heavily rely on the experience of the individuals working for the firms (Hitt, Harrison, & Ireland, 2001; Von Nordenflycht, 2010)

# Table 6: Study 1 Poisson regression with advisor firms' experience as dependent variable

| VARIABLES | 25 | 26 | 27 | 28 | 29 | 30 | 31 | 32 |
|---|---|---|---|---|---|---|---|---|
| *Relational factors* | | | | | | | | |
| Advisor individual-client prior collaboration | 0.0792 (0.000) [0.037] | | | | | | | 0.0647 (0.000) [0.048] |
| Other firms' behavior | 0.0130 (0.000) [0.028] | | | | | | | 0.0141 (0.000) [0.029] |
| *Client experience* | | | | | | | | |
| Target's experience | | 0.0316 (0.000) [0.017] | | | | | | 0.0216 (0.002) [0.021] |
| Buyout, yes=1 | | | 0.1009 (0.759) [0.045] | | | | | 0.0195 (0.880) [0.049] |
| *Payment type* | | | | | | | | |
| Cash payment, yes=1 | | | | 0.0783 (0.027) [0.046] | | | | 0.1140 (0.309) [0.052] |
| Equity payment, yes=1 | | | | -0.0519 (0.088) [0.037] | | | | 0.0136 (0.115) [0.038] |
| *Deal type* | | | | | | | | |
| Tender, yes=1 | | | | | 0.1192 (0.101) [0.046] | | | 0.0582 (0.134) [0.047] |
| Merger, yes=1 | | | | | 0.1476 (0.270) [0.059] | | | 0.1928 (0.323) [0.072] |
| *Target industry* | | | | | | | | |
| Agriculture | | | | | | 0.1611 (0.072) [0.291] | | 0.1053 (0.108) [0.294] |
| Automotive | | | | | | -0.0395 (0.107) [0.226] | | -0.1442 (0.044) [0.225] |
| Biotechnology | | | | | | -0.1082 (0.784) [0.186] | | -0.2275 (0.123) [0.190] |
| Chemicals and materials | | | | | | 0.0409 (0.734) [0.158] | | -0.0970 (0.250) [0.163] |
| Computer | | | | | | 0.0224 (0.511) [0.140] | | -0.1423 (0.373) [0.146] |
| Construction | | | | | | -0.0910 (0.025) [0.219] | | -0.2065 (0.079) [0.220] |
| Consumer | | | | | | -0.0378 (0.025) [0.148] | | -0.1508 (0.153) [0.147] |
| Defence | | | | | | 0.1717 (0.806) [0.216] | | 0.0750 (0.536) [0.216] |
| Energy | | | | | | -0.0121 (0.156) [0.148] | | -0.0845 (0.612) [0.146] |
| Financial services | | | | | | -0.2853 (0.466) [0.140] | | -0.3928 (0.970) [0.145] |
| Industrial | | | | | | -0.0794 (0.943) [0.153] | | -0.2098 (0.336) [0.156] |
| Internet | | | | | | 0.1169 (0.010) [0.168] | | -0.0513 (0.255) [0.172] |
| Leisure | | | | | | -0.0272 (0.758) [0.162] | | -0.0901 (0.958) [0.159] |
| Manufacturing | | | | | | -0.0512 (0.319) [0.184] | | -0.1185 (0.461) [0.184] |
| Media | | | | | | 0.0176 (0.101) [0.162] | | -0.1629 (0.953) [0.163] |
| Medical | | | | | | -0.0068 (0.227) [0.145] | | -0.1424 (0.716) [0.151] |
| Mining | | | | | | -0.4531 (0.081) [0.299] | | -0.4916 (0.043) [0.295] |
| Real Estate | | | | | | 0.0344 (0.352) [0.163] | | -0.0428 (0.686) [0.163] |
| Services | | | | | | -0.0918 (0.559) [0.154] | | -0.1726 (0.791) [0.152] |
| Telecommunications | | | | | | -0.0162 (0.089) [0.151] | | -0.1775 (0.781) [0.157] |
| Transportation | | | | | | 0.0186 (0.783) [0.193] | | -0.0456 (0.921) [0.191] |
| *Target industry characteristics* | | | | | | | | |
| Target in technology-intensive industry | | | | | | | 0.0916 (0.257) [0.034] | 0.0453 (0.023) [0.056] |
| Target or bidder in public scrutiny industry | | | | | | | -0.1351 (0.606) [0.038] | 0.0088 (0.835) [0.054] |
| *Control variables* | | | | | | | | |
| Acquisition year | Included | Included | Included | Included | Included | Included | Included | Included |
| Observations | 10,971 | 10,971 | 10,971 | 10,971 | 10,971 | 10,971 | 10,971 | 10,971 |
| Constant | 3.3534 (0.000) [0.057] | 4.1475 (0.000) [0.023] | 4.1791 (0.000) [0.022] | 4.1580 (0.000) [0.037] | 4.1596 (0.000) [0.023] | 4.2492 (0.000) [0.085] | 4.1902 (0.000) [0.025] | 3.2889 (0.000) [0.103] |

P-value in parenthesis. Standard errors between square brackets. All tests are two-tailed.

### 3.4.5 Are there differences across different advisor types?

As reported in Table 7, Table 8, and Table 9 (Models 33–56), we observed separately how the identified estimators affect advisor individuals' experience of financial, legal, and PR advisors. Across all advisors types, we could find significant positive links between the variables *advisor individual–client prior collaboration* (Models 38, 46, 54), and *other firms'* behavior (Models 39, 47, 55) and advisor individuals' experience. These findings hold also true in the combined Models 40, 48, and 56. As reported in Table 7 (Models 33–40), the coefficient sizes of our independent variables and advisor individuals' experience are largest in our financial advisor sample. For instance, in our overall sample (see Table 3, Model 1), we found a coefficient of 0.3082 for the variable *advisor individual–client prior collaboration*. In our financial advisor sample, we found a coefficient of 0.7232. Interestingly, we found that *tender* deals (Model 37) are negatively correlated to financial advisor individuals' experience (p–value=0.000). This result contradicts with our findings in our overall sample where we found—in line with our expectation—that tender deals is positively linked to advisor individuals' experience. A possible explanation for the negative link between auction deals and advisor individuals' experience may be bidders' concerns about information leakage. Indeed, Chang and colleagues (2016) recently demonstrated that acquirers are reluctant to share advisors with rival firms in the same industry, and are more likely to switch to new advisors if their former advisors have advisory relationship with their industry rivals. In line with this argument, we found that tender deals have a significant positive impact on legal advisor individuals' experience (p–value=0.011), as reported in Table 8 (Model 45). Firms' sensitivity to information leakage in tender deals may lead them to avoid more experienced—and potentially also well–connected—financial advisors, while simultaneously making sure that sufficient legal support is provided to protect and potentially sue against information leakage.

# Table 7: Study 1 Poisson regression with financial advisor individuals' experience as dependent variable

| VARIABLES | 33 | 34 | 35 | 36 | 37 | 38 | 39 | 40 |
|---|---|---|---|---|---|---|---|---|
| *Relational factors* | | | | | | | | |
| Advisor individual-client | 0.7232 | | | | | | | 0.5445 |
| prior collaboration | (0.000) [0.056] | | | | | | | (0.000) [0.059] |
| Other firms' behavior | 0.2450 | | | | | | | 0.2999 |
| | (0.000) [0.035] | | | | | | | (0.000) [0.036] |
| *Client experience* | | | | | | | | |
| Target's experience | | 0.0804 | | | | | | 0.0663 |
| | | (0.000) [0.019] | | | | | | (0.003) [0.023] |
| Buyout, yes=1 | | | -0.4462 | | | | | -0.0985 |
| | | | (0.000) [0.069] | | | | | (0.189) [0.075] |
| *Payment type* | | | | | | | | |
| Cash payment, yes=1 | | | | -0.1160 | | | | -0.1222 |
| | | | | (0.025) [0.052] | | | | (0.019) [0.052] |
| Equity payment, yes=1 | | | | 0.3651 | | | | 0.1429 |
| | | | | (0.000) [0.044] | | | | (0.002) [0.047] |
| *Deal type* | | | | | | | | |
| Tender, yes=1 | | | | | -0.2939 | | | 0.0703 |
| | | | | | (0.000) [0.062] | | | (0.281) [0.065] |
| Merger, yes=1 | | | | | -0.0172 | | | 0.0816 |
| | | | | | (0.870) [0.105] | | | (0.463) [0.111] |
| *Target industry* | | | | | | | | |
| Agriculture | | | | | | -2.3601 | | -2.2698 |
| | | | | | | (0.018) [1.002] | | (0.023) [0.996] |
| Automotive | | | | | | 0.0124 | | 0.0993 |
| | | | | | | (0.971) [0.341] | | (0.767) [0.335] |
| Biotechnology | | | | | | 0.4764 | | 0.4717 |
| | | | | | | (0.086) [0.277] | | (0.095) [0.283] |
| Chemicals and materials | | | | | | 0.3600 | | 0.2317 |
| | | | | | | (0.152) [0.252] | | (0.364) [0.255] |
| Computer | | | | | | 0.4893 | | 0.4613 |
| | | | | | | (0.034) [0.231] | | (0.051) [0.237] |
| Construction | | | | | | -0.0702 | | -0.0348 |
| | | | | | | (0.836) [0.339] | | (0.914) [0.321] |
| Consumer | | | | | | 0.0200 | | 0.1266 |
| | | | | | | (0.933) [0.238] | | (0.582) [0.230] |
| Defence | | | | | | 0.1770 | | 0.2409 |
| | | | | | | (0.560) [0.303] | | (0.411) [0.293] |
| Energy | | | | | | 0.3441 | | 0.2369 |
| | | | | | | (0.140) [0.233] | | (0.288) [0.223] |
| Financial services | | | | | | 1.0123 | | 0.9624 |
| | | | | | | (0.000) [0.226] | | (0.000) [0.226] |
| Industrial | | | | | | 0.2674 | | 0.2457 |
| | | | | | | (0.278) [0.247] | | (0.310) [0.242] |
| Internet | | | | | | 0.2898 | | 0.2395 |
| | | | | | | (0.264) [0.260] | | (0.364) [0.264] |
| Leisure | | | | | | 0.0957 | | 0.3147 |
| | | | | | | (0.732) [0.279] | | (0.244) [0.270] |
| Manufacturing | | | | | | -0.0965 | | -0.0380 |
| | | | | | | (0.753) [0.307] | | (0.898) [0.298] |
| Media | | | | | | 0.3703 | | 0.2854 |
| | | | | | | (0.135) [0.248] | | (0.246) [0.246] |
| Medical | | | | | | 0.2475 | | 0.1986 |
| | | | | | | (0.290) [0.234] | | (0.418) [0.245] |
| Mining | | | | | | -0.0046 | | 0.0149 |
| | | | | | | (0.991) [0.401] | | (0.969) [0.383] |
| Real Estate | | | | | | 0.0916 | | 0.0851 |
| | | | | | | (0.756) [0.295] | | (0.774) [0.296] |
| Services | | | | | | 0.1833 | | 0.2210 |
| | | | | | | (0.453) [0.244] | | (0.345) [0.234] |
| Telecommunications | | | | | | 0.3334 | | 0.1739 |
| | | | | | | (0.162) [0.238] | | (0.480) [0.246] |
| Transportation | | | | | | -0.2876 | | -0.2946 |
| | | | | | | (0.336) [0.299] | | (0.310) [0.290] |
| *Target industry characteristics* | | | | | | | | |
| Target in technology- | | | | | | | -0.0518 | 0.0774 |
| intensive industry | | | | | | | (0.218) [0.042] | (0.391) [0.090] |
| Target or bidder in public | | | | | | | 0.5851 | 0.0156 |
| scrutiny industry | | | | | | | (0.000) [0.042] | (0.833) [0.074] |
| *Control variables* | | | | | | | | |
| Acquisition year | Included | Included | Included | Included | Included | Included | Included | Included |
| Observations | 7,544 | 7,544 | 7,544 | 7,544 | 7,544 | 7,544 | 7,544 | 7,544 |
| Constant | -0.3241 | 0.6616 | 0.7427 | 0.5680 | 0.7491 | 0.1834 | 0.4679 | -1.0870 |
| | (0.021) [0.140] | (0.000) [0.049] | (0.000) [0.046] | (0.000) [0.074] | (0.000) [0.047] | (0.425) [0.230] | (0.000) [0.050] | (0.000) [0.267] |

P-value in parenthesis. Standard errors between square brackets. All tests are two-tailed.

# Table 8: Study 1 Poisson regression with legal advisor individuals' experience as dependent variable

| VARIABLES | 41 | 42 | 43 | 44 | 45 | 46 | 47 | 48 |
|---|---|---|---|---|---|---|---|---|
| *Relational factors* | | | | | | | | |
| Advisor individual-client prior collaboration | 0.2856 (0.000) [0.017] | | | | | | | 0.2663 (0.000) [0.017] |
| Other firms' behavior | 0.2066 (0.000) [0.021] | | | | | | | 0.2171 (0.000) [0.022] |
| *Client experience* | | | | | | | | |
| Target's experience | | 0.0931 (0.000) [0.012] | | | | | | 0.0817 (0.000) [0.014] |
| Buyout, yes=1 | | | -0.1746 (0.000) [0.033] | | | | | -0.1408 (0.000) [0.037] |
| *Payment type* | | | | | | | | |
| Cash payment, yes=1 | | | | 0.0251 (0.499) [0.037] | | | | -0.0007 (0.987) [0.041] |
| Equity payment, yes=1 | | | | 0.0822 (0.005) [0.030] | | | | 0.0350 (0.268) [0.032] |
| *Deal type* | | | | | | | | |
| Tender, yes=1 | | | | | 0.0889 (0.011) [0.035] | | | 0.0948 (0.008) [0.036] |
| Merger, yes=1 | | | | | 0.0110 (0.835) [0.053] | | | -0.0230 (0.709) [0.062] |
| *Target industry* | | | | | | | | |
| Agriculture | | | | | | 0.7726 (0.004) [0.269] | | 0.7494 (0.005) [0.266] |
| Automotive | | | | | | -0.0361 (0.833) [0.171] | | -0.0748 (0.661) [0.171] |
| Biotechnology | | | | | | 0.1532 (0.313) [0.152] | | -0.0107 (0.946) [0.159] |
| Chemicals and materials | | | | | | 0.0193 (0.877) [0.125] | | -0.1235 (0.344) [0.131] |
| Computer | | | | | | 0.2274 (0.039) [0.110] | | 0.0889 (0.461) [0.121] |
| Construction | | | | | | 0.5306 (0.002) [0.174] | | 0.4983 (0.004) [0.174] |
| Consumer | | | | | | 0.3258 (0.004) [0.114] | | 0.2625 (0.022) [0.115] |
| Defence | | | | | | 0.2573 (0.102) [0.157] | | 0.0938 (0.556) [0.159] |
| Energy | | | | | | 0.3808 (0.001) [0.114] | | 0.2758 (0.016) [0.115] |
| Financial services | | | | | | 0.2747 (0.013) [0.111] | | 0.1469 (0.205) [0.116] |
| Industrial | | | | | | 0.1305 (0.276) [0.120] | | 0.0499 (0.688) [0.124] |
| Internet | | | | | | 0.5709 (0.000) [0.128] | | 0.4134 (0.002) [0.135] |
| Leisure | | | | | | 0.0629 (0.623) [0.128] | | 0.0800 (0.530) [0.127] |
| Manufacturing | | | | | | 0.2776 (0.080) [0.158] | | 0.2814 (0.075) [0.158] |
| Media | | | | | | 0.3107 (0.013) [0.126] | | 0.0897 (0.488) [0.129] |
| Medical | | | | | | 0.2901 (0.011) [0.114] | | 0.1447 (0.235) [0.122] |
| Mining | | | | | | 0.2317 (0.550) [0.387] | | 0.1237 (0.750) [0.389] |
| Real Estate | | | | | | 0.2201 (0.073) [0.123] | | 0.1438 (0.245) [0.124] |
| Services | | | | | | 0.1751 (0.147) [0.121] | | 0.1111 (0.358) [0.121] |
| Telecommunications | | | | | | 0.2361 (0.046) [0.118] | | 0.0331 (0.795) [0.127] |
| Transportation | | | | | | 0.2493 (0.100) [0.152] | | 0.2454 (0.105) [0.152] |
| *Target industry characteristics* | | | | | | | | |
| Target in technology-intensive industry | | | | | | | 0.0123 (0.646) [0.027] | 0.0649 (0.193) [0.050] |
| Target or bidder in public scrutiny industry | | | | | | | 0.0559 (0.072) [0.031] | 0.0454 (0.310) [0.045] |
| *Control variables* | | | | | | | | |
| Acquisition year | Included | Included | Included | Included | Included | Included | Included | Included |
| Observations | 43,156 | 43,156 | 43,156 | 43,156 | 43,156 | 43,156 | 43,156 | 43,156 |
| Constant | 0.6411 (0.000) [0.085] | 1.4784 (0.000) [0.030] | 1.5371 (0.000) [0.029] | 1.4523 (0.000) [0.051] | 1.5039 (0.000) [0.030] | 1.2512 (0.000) [0.110] | 1.5005 (0.000) [0.034] | 0.3449 (0.012) [0.138] |

P-value in parenthesis. Standard errors between square brackets. All tests are two-tailed.

# Table 9: Study 1 Poisson regression with PR advisor individuals' experience as dependent variable

| VARIABLES | 49 | 50 | 51 | 52 | 53 | 54 | 55 | 56 |
|---|---|---|---|---|---|---|---|---|
| *Relational factors* | | | | | | | | |
| Advisor individual-client prior collaboration | 0.3670 (0.000) [0.050] | | | | | | | 0.3385 (0.000) [0.059] |
| Other firms' behavior | 0.2003 (0.000) [0.037] | | | | | | | 0.2282 (0.000) [0.039] |
| *Client experience* | | | | | | | | |
| Target's experience | | 0.0607 (0.036) [0.029] | | | | | | 0.0025 (0.940) [0.033] |
| Buyout, yes=1 | | | 0.0303 (0.704) [0.080] | | | | | 0.0340 (0.684) [0.084] |
| *Payment type* | | | | | | | | |
| Cash payment, yes=1 | | | | 0.0807 (0.314) [0.080] | | | | 0.1567 (0.079) [0.089] |
| Equity payment, yes=1 | | | | 0.0395 (0.531) [0.063] | | | | 0.0490 (0.489) [0.071] |
| *Deal type* | | | | | | | | |
| Tender, yes=1 | | | | | 0.0624 (0.372) [0.070] | | | 0.1326 (0.076) [0.075] |
| Merger, yes=1 | | | | | 0.1277 (0.194) [0.098] | | | 0.2556 (0.026) [0.115] |
| *Target industry* | | | | | | | | |
| Agriculture | | | | | | -0.0243 (0.952) [0.401] | | 0.0019 (0.996) [0.403] |
| Automotive | | | | | | -0.5518 (0.111) [0.346] | | -0.6821 (0.045) [0.340] |
| Biotechnology | | | | | | -0.5548 (0.051) [0.284] | | -0.6482 (0.023) [0.286] |
| Chemicals and materials | | | | | | -0.0615 (0.808) [0.253] | | -0.1647 (0.514) [0.252] |
| Computer | | | | | | -0.4445 (0.045) [0.222] | | -0.6200 (0.007) [0.231] |
| Construction | | | | | | -0.5766 (0.053) [0.299] | | -0.7187 (0.015) [0.294] |
| Consumer | | | | | | -0.4059 (0.077) [0.229] | | -0.5267 (0.017) [0.221] |
| Defence | | | | | | -0.1431 (0.689) [0.358] | | -0.1916 (0.589) [0.354] |
| Energy | | | | | | -0.1740 (0.459) [0.235] | | -0.2601 (0.241) [0.222] |
| Financial services | | | | | | -0.6585 (0.005) [0.237] | | -0.6931 (0.003) [0.235] |
| Industrial | | | | | | -0.3380 (0.170) [0.246] | | -0.4730 (0.055) [0.246] |
| Internet | | | | | | -0.4559 (0.129) [0.300] | | -0.6469 (0.035) [0.308] |
| Leisure | | | | | | -0.3450 (0.173) [0.253] | | -0.4171 (0.083) [0.241] |
| Manufacturing | | | | | | -0.6854 (0.021) [0.298] | | -0.8209 (0.004) [0.289] |
| Media | | | | | | -0.3816 (0.121) [0.246] | | -0.6038 (0.014) [0.244] |
| Medical | | | | | | -0.2461 (0.274) [0.225] | | -0.3956 (0.093) [0.236] |
| Mining | | | | | | -0.0278 (0.948) [0.431] | | -0.0499 (0.909) [0.435] |
| Real Estate | | | | | | -0.2282 (0.328) [0.233] | | -0.3072 (0.163) [0.220] |
| Services | | | | | | -0.5242 (0.031) [0.243] | | -0.6081 (0.009) [0.234] |
| Telecommunications | | | | | | -0.2606 (0.286) [0.244] | | -0.3888 (0.128) [0.256] |
| Transportation | | | | | | -0.1640 (0.555) [0.278] | | -0.2306 (0.382) [0.264] |
| *Target industry characteristics* | | | | | | | | |
| Target in technology-intensive industry | | | | | | | 0.0165 (0.772) [0.057] | 0.0373 (0.724) [0.106] |
| Target or bidder in public scrutiny industry | | | | | | | -0.0785 (0.308) [0.077] | -0.0368 (0.683) [0.090] |
| *Control variables* | | | | | | | | |
| Acquisition year | Included | Included | Included | Included | Included | Included | Included | Included |
| Observations | 2,767 | 2,767 | 2,767 | 2,767 | 2,767 | 2,767 | 2,767 | 2,767 |
| Constant | 0.9834 (0.000) [0.162] | 1.8333 (0.000) [0.057] | 1.8672 (0.000) [0.054] | 1.7827 (0.000) [0.098] | 1.8482 (0.000) [0.057] | 2.2219 (0.000) [0.222] | 1.8770 (0.000) [0.064] | 1.1209 (0.000) [0.248] |

P-value in parenthesis. Standard errors between square brackets. All tests are two-tailed.

## 3.5 Discussion

The overall objective of this study was to dive into the independent variables commonly used in empirical studies focusing on the M&A process and assess how these variables affect advisors' experience on M&A deals. We explored links between five categories of M&A outcome estimators and advisor individuals and firms' experience on a focal deal. Based on a large dataset of 23,858 financial, legal, and PR advisor individuals on 2,407 public M&A deals between 2009 and 2017, we could show significant links between a number of common estimators of M&A outcome and advisor experience.

Our study aims to contribute to existing literature in several ways. Primarily, we reveal that a range of variables commonly used to estimate M&A outcome also affect advisor experience on a focal deal. This is an important finding, as it will help future studies on the role of external advisors on M&A outcome and the role of advisor experience on M&A outcome to isolate the observed links more accurately and control for endogeneity issues. For instance, Lee (2013) found that firms, which repeatedly hire the same investment banks as financial advisors, tend to overpay for acquisition targets, arguing that repeated exchange results in relational hazards. Our findings reveal that there is a significant positive link between repeated exchange and advisor experience on a focal deal. As such, the adverse results on M&A outcome found by Lee may be a result of the interplay between advisor experience and prior collaboration, rather than the repeated exchange. Indeed, Hayward (2003) found that banks with specialized expertise direct clients to complex solutions harming acquirer performance, such as stock–financed deals.

Next, we include an analysis and comparison how common estimators of M&A outcome affect advisor experience for both bidders and targets. In this effort, we also add to the few studies that have examined both acquirers and targets in M&A deals (e.g. Cuypers, Cuypers, & Martin, 2017; Seth, Song, & Pettit, 2000, 2002). Studies that consider both bidders and targets are critical, as focusing solely on bidders or sellers leads to an incomplete picture of our understanding under what conditions acquirers and targets benefit from M&A.

Furthermore, our analysis reveals differences between the individual and firm level of analysis. Contrasting prior studies, which examined experience accumulation of buyers and sellers from a monolithic, firm–level perspective (Barkema & Schijven,

2008), we adopt a more fine–grained view, by examining experience at the individual level of analysis. In this vein, our study advances a micro–foundational understanding of organizational capabilities, stressing the role of individuals as key levers of organizational performance (Coff & Kryscynski, 2011; Felin & Foss, 2005).

Lastly, empirical work on the selection of advisors has neglected the multitude of advisor types in M&A deals or does not reveal details about the advisors observed (e.g. Kim, Haleblian, & Finkelstein, 2011). In our analysis, we consider different key advisors types, i.e. financial, legal, and PR advisors. In pointing out that the different advisor types yield different results, we underline the importance of being more specific about the type of advisor observed in the M&A process. In this vein, we also add to our understanding of less obvious neo–professional services firms (Von Nordenflycht, 2010).

### 3.5.1 Avenues for future research

There are limitations in our study, which point to opportunities for future research. First, this study is purely explorative and its contribution lies in the empirical investigation and discussion of independent variables commonly used to estimate M&A outcome. In this effort, we do not dive deeper in the theoretical mechanisms and processes that may lie behind many of the findings, which we report. In particular, diving deeper into the process of advisor selection would be intriguing. A point of departure could be the sales pitch process, which many firms use when hiring advisors (e.g. Graebner & Eisenhardt, 2004). In this sales pitch, multiple advisors present their approach to supporting the focal M&A deal. Subsequently, firms will need to decide within a short period of time, which advisors are most suitable. As professional services firms' outputs, such as those of M&A advisors, are intangible applications of complex knowledge, it is difficult for clients to weigh the relative competence of advisors (Greenwood *et al.*, 2005). Still, firms will have to select certain advisors. Which role does which kind of advisor experience play in this process? For instance, Gardner (2012) argued that domain–specific expertise enables audit consulting teams to customize their work for the clients, allowing the consulting teams to better satisfy their clients' needs.

Second, we found a small but significant positive link between client experience and advisor experience. However, in an additional analysis we found a significant negative link between buyouts and advisor experience. It would be interesting to see

further analyses on these links. A potential explanation may be found in the emerging stream of research on deliberate learning mechanisms (e.g. Haleblian, Kim, & Rajagopalan, 2006; Heimeriks & Duysters, 2007; Zollo & Singh, 2004). For instance, Zollo and Winter (2002) showed that infrequently performed tasks with high levels of heterogeneity and causal ambiguity require learning mechanisms, such as experience articulation and codification to link experience to tangible outcomes. The ordinary actors in institutional and management buyouts, principal finance houses, private equity firms or venture capitalists, may possess the deliberate learning mechanisms required to transfer deal experience into tangible outcome.

Next, the role of advisor fees in M&A has received significant attention—in particular in the finance literature. For instance, the reputation of investment banks has been demonstrated to affect the level of advisor fees (Chahine & Ismail, 2009; Golubov, Petmezas, & Travlos, 2012). It would be interesting to see, how advisor experience and advisor fees interact with advisor experience on a focal deal. Indeed, advisors' industry expertise has also been linked to higher advisory fees (Chang *et al.*, 2016). How do firms evaluate the trade–off between the benefits of advisor experience and the fees of advisors in general and, for instance, in contexts where firms' ability to cope with advisor fees may be restricted, such as insolvency deals?

Lastly, while we analyze the link between a number of factors and advisor experience on a focal deal, we have not linked our analysis to M&A outcome. It would be exciting to see, whether the experience–performance link of advisors in M&A is contingent to selection determinant. For instance, does an advisor that is selected based on the payment type perform better or worse than an advisor that is selected based on advisor–client prior collaboration?

To sum up, based on previous literature on M&A outcome we identify a range of common estimators of M&A outcome, which also affect advisor individuals' experience on a focal deal. We test the hypothesized links and our findings indicate that a number of the identified estimators, indeed, are linked to advisor individuals' experience on a focal deal. Furthermore, we point out that a change of the level of analysis yields differing results in the context of experience and M&A advisors. We demonstrate this by analyzing bidders and targets separately, advisor experience on the firm and individual level, and by different advisor types.

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# 4 Study 2: The Impact of Advisor Individuals' Experience Patterns on their Clients' Bargaining Position in M&A


## Abstract

Building on the experience and negotiation literatures, we hypothesize that advisor individuals' experience affects their clients' ability in negotiating acquisition premia in their clients' favor. In particular, we posit that the depth, breadth, and recency of advisor individuals' experience, as well as the relative experience of bidder versus target advisors help explain the acquisition premia paid by advised firms. We examine the effect of the experience of 668 financial advisor individuals on the acquisition premia of their clients in 2,872 public deals between 2005 and 2015. Our findings largely support our hypotheses. Our study contributes to the literatures on mergers and acquisitions, financial intermediaries, and the micro–foundations of organizational capabilities.



## Keywords

Mergers and Acquisitions, Financial Advisors, Experience, Bargaining Power

## 4.1 Introduction

Financial advisors occupy an important position in capital markets (Hunter & Walker, 1990), reflected in global M&A advisory fees totaling in USD 38.7 billion in 2017 or 1.1% of total deals' value announced the same year (Thomson Reuters, 2017). Prior management literature has noted the presence of financial advisory firms and, for instance, has examined potential agency problems between advisors and their clients (Hayward, 2003; Kesner, Shapiro, & Sharma, 1994; Sleptsov, Anand, & Vasudeva, 2013) or advisors' role as conduits for contagion and diffusion of practices (Haunschild, 1994; Haunschild & Miner, 1997). Yet, our understanding of how advisors may help their clients in achieving more favorable acquisition outcomes remains surprisingly obscure. While a number of studies in the management and finance domains examined the link between advisor involvement and stock–price reactions to M&A announcements (e.g. Bergh & Gibbons, 2011; Golubov, Petmezas, & Travlos, 2012; Kale, Kini, & Ryan, 2003; Lee, 2013), these studies rely on the market efficiency hypothesis (Schijven & Hitt, 2012) and neglect that the involvement of external advisors is not visible to stock market participants in many cases.

In an attempt to capture advisors' value creation potential more accurately, this study explicitly focuses on the function of financial of advisors to influence their clients' buying price (Haunschild, 1994; Kisgen, Qian, & Song, 2009). To do so, we conceptualize acquisition premia as the result of a complex negotiation process, where both bidders and targets attempt to influence the acquisition premium in their favor (Walsh, 1989). For both parties this process is associated with high levels of uncertainty, complexity, and fear of deception (Coff, 1999; Duhaime & Schwenk, 1985; Graebner, 2009; Graebner & Eisenhardt, 2004; Pablo, Sitkin, & Jemison, 1996). Since experience has been shown to significantly contribute to negotiation success (Bazerman & Neale, 1982; Thompson, 1990; Thompson, Wang, & Gunia, 2010), we expect that financial advisor individuals' experience provides their clients with an "experience advantage" (Cuypers, Cuypers, & Martin, 2017, p. 612), allowing their clients to influence the acquisition premium in their favor. Even more, knowledge–intensive service firms, such as financial advisory firms, heavily rely on the expertise of their workforce (Hitt, Harrison, & Ireland, 2001; Von Nordenflycht, 2010) and usually each deal is advised

by only a handful of people (Zhu, 2013), pointing towards the crucial role of the individual in the M&A process.

As such, this study aims to answer the research question: Does financial advisor individuals' experience affect their clients' bargaining power and, consequently, the price paid by their clients? Building on the experience and negotiation literatures, we argue that different types of acquisition experience that financial advisors individuals have accumulated across their careers, enhance their clients' negotiation position in the M&A process. Specifically, we argue that experience depth, which we define as the number of previous deals an individual has advised in the focal deal's industry, affects advisors' ability to construct convincing assumptions for the negotiation process. Second, we propose that bidder advisor individuals' experience breadth, which we measure as the variety of industries an advisor has gained experience in, improves advisors' ability to develop a persuasive line of reasoning during M&A negotiation rounds. Third, we propose that the recency of advisors' experience helps advisors to benefit from their experience in the face of rapidly changing business environments. Finally, we argue that the impact of advisors' experience on acquisition premia is contingent to the relative experience between bidder and target financial advisors, as an increasing differential increases the level of stress perceived by the seller advisors.

The U.S. M&A advisory market from 2005 to 2015 represents the empirical context for this study. To test our hypotheses, we created a unique data set that embraces 5,052 observations, corresponding to 2,872 unique deals advised by 668 unique financial advisor individuals, over 11 years. Accounting for prior research on financial advisors (Haunschild, 1993; Lee, 2013; Rau, 2000) and acquisition premium (Hayward & Hambrick, 1997; Laamanen, 2007; Malhotra, Zhu, & Reus, 2015), we control for a range of financial advisor and deal characteristics. As we examine experience on the individual level of analysis, we also control for a number of individual and team–level characteristics. Our findings largely support our hypotheses.

## 4.2 Theory and hypotheses

The acquisition premium plays a focal role in the M&A process. While an increased acquisition premium offers greater incentives for the target to accept the bid (Bertrand, Betschinger, & Settles, 2016), overpaying may lead to an underperformance of the acquisition (Haunschild, 1994). Prior research has identified a number of objective

determinants affecting acquisition premium, such as demand and supply conditions (Shelton, 2000), relative valuations (Walkling & Edmister, 1985), and specific target characteristics, such as R&D–related assets (Laamanen, 2007). However, the acquisition premium is also influenced by subjective factors, such as anchoring bias (Malhotra, Zhu, & Reus, 2015), growth pressures (Kim, Haleblian, & Finkelstein, 2011), hubris (Hayward & Hambrick, 1997) and celebrity (Cho *et al.*, 2016) at the acquiring side or signaling of prestigious inter–organizational relationships on the target side (Reuer, Tong, & Wu, 2012). This points towards an important observation: While effort is made to evaluate targets' value objectively, this process is frequently distorted by personal preferences or cognitive and informational limitations of different actors. Ultimately, the acquisition premium is a result of a negotiation process (Bertrand, Betschinger, & Settles, 2016; Walsh, 1989), in which each sides' bargaining position affects the acquisition premium. Research on negotiations has highlighted that the credibility and persuasiveness of arguments brought up play an important role in the success of negotiation outcome (Adair & Brett, 2005; Jang, Elfenbein, & Bottom, 2018). While bidders and targets may set broad boundaries for their negotiation requirements, financial advisors' experience may be a key determinant of a bidder or target sides' bargaining position.

We argue that financial advisors with specific experience characteristics enable their clients to enhance the information quality of due diligence and the credibility of communication activities in the negotiation process. Financial advisor firms' expertise is linked to the individuals working for the firm (Hitt, Harrison, & Ireland, 2001; Von Nordenflycht, 2010), as experience at the level of the firm is dependent on the experience of individuals in the firm (Crossan, Lane, & White, 1999). We examine different dimensions of individual experience that enable financial advisors to provide their clients with an "experience advantage" (Cuypers, Cuypers, & Martin, 2017, p. 612) in the M&A negotiation process, ultimately, influencing the acquisition premium in favor of the advisors' clients: experience depth, breadth, and recency.

### 4.2.1 Advisor experience depth

Assumptions play a crucial role in M&A negotiations, and in part depend on the information materials available to the M&A negotiation parties (Defren, Wirtz, & Ullrich, 2012). We expect that financial advisor individuals' experience depth is linked

to advisors' ability to make accurate assumptions about the target, ultimately, enforcing their clients' bargaining position in convincing targets to accept lower acquisition premia. We define experience depth as the number of prior deals an advisor individual has advised in the focal deals' target industry.

Deals are often subject to high levels of complexity and involve many unknown variables (Duhaime & Schwenk, 1985), which distort involved parties' ability to evaluate a target's fair value (Laamanen, 2007). Even public companies disclose only limited information about themselves (Coff, 1999) and teams involved in the M&A process tend to share very little information that is not already held in common (Zhu, 2013). In fact, much of the assumptions that determine bidders' opinions on targets' acquisition premia are simply not readily available and require subjective judgment and estimation. One way to fill these 'information gaps' is to use quantitative or qualitative evaluation models. The usage of evaluation models and, more generally, tools and criteria to be used for evaluating acquisitions has been the subject of much work in finance and accounting (Bing, 1980; Copeland, Koller, & Murrin, 1992), however, many variables in the process of evaluating an acquisition remain uncertain and open to judgment (Trautwein, 1990). We posit that financial advisors with increasing experience in the focal deals' industry advance in creating evaluation models to evaluate the acquisition. Financial advisors with prior exposure to deals in the focal deals' industry have accumulated experience about the specific synergistic benefits and industry dynamics. While outcomes and elements of advisors' evaluation models may differ among deals, structural similarities of the models' will exist, facilitating the usage of prior experience (Gick & Holyoak, 1987; Salomon & Perkins, 1989). Advisor individuals are likely to use their experience on specific synergistic benefits and industry dynamics to improve their evaluation models. In filling 'information gaps' more adequately to the industry specific requirements and offering a more complete picture to their clients, we expect advisors to provide a more in–depth opinion on the price to be paid to their clients. The enhanced level of detail is likely to make the opinion less attackable and, ultimately, improve bidders' bargaining power in the acquisition premia negotiation processes.

The choice of information in a negotiation to justify lower acquisition premia may also play an important role. Bidders commonly rely on two main sources in the M&A negotiation process: publicly undisclosed materials in 'data rooms' and publicly

available materials. Targets prepare data rooms to grant bidders access to sensitive information about themselves, such as balance sheets. While some information materials are standardized, such as valuations of accruals, the accuracy of many materials provided in data rooms depends on targets' ability and willingness to provide accurate information. Bidders can also assemble assumptions about targets from publicly available materials, however, as these materials originate from a variety of sources, the accuracy may vary significantly. As bidders rely on data room material to develop their evaluation of acquisitions, bidders' accuracy of assumptions is linked to targets' ability and willingness to provide accurate information. One way of reducing the risk of relying on poor materials provided by the target is to understand targets' ability to provide accurate information and switch early to own estimations or other sources. In fact, when bidders are uncertain about the value of a target they may actively turn to others for information (Haunschild, 1994). We posit that financial advisors with increasing experience depth in the focal deal's industry may improve their clients' ability to evaluate the accuracy of available information in the M&A negotiation process. With increasing experience depth in an industry, advisors accumulate detailed insights into systems and processes of firms in the focal deal's industry. Industry experience has been highlighted to foster understanding of technological requirements and market dynamics (Finkelstein & Haleblian, 2002). As such, we expect that financial advisors with increasing experience in the focal deals' industry become better in evaluating to which extend the target is able to provide accurate information. Furthermore, advisors with experience in the focal deal's industry develop an understanding of reliable sources for information, such as industry associations. An awareness of these sources enables advisors to better differentiate between high and poor quality sources.

In sum, we posit that experience depth positively affects advisors' ability to better extrapolate information and evaluate the quality of sources of available information, enabling their clients to achieve a price in their favor. More specifically, most deals involve a number of unknown variables, which require filling information gaps. We propose that financial advisors with increasing experience depth will become better in supporting their clients in filling these gaps. Besides unknown variables, there is a vast amount of public and internal information available to the bidder in the M&A negotiation process. However, the quality of the information may vary substantially.

We propose that financial advisors with increasing experience depth enable their clients to develop assumptions that are more accurate by supporting their clients in evaluating targets' ability to provide accurate information and assess the information sources.

> **Hypothesis 1 (H1)** *The experience depth of bidder financial advisor individuals influences acquisition premium in favor of their clients.*

### 4.2.2 Advisor experience breadth

Criteria beyond information–based assumptions may also affect the M&A negotiation process, that is, persuasive determinants affecting the opposite sides' M&A team decision–making. We posit that advisors use experience form different industry to sell the bidders' strategic vision for the prospectively combined entity, which in turn may improve bidders' ability to negotiate lower acquisition premia. We define experience breadth as the number of industries an advisor has advised deals in prior to the focal deal.

Targets can go through periods of extreme organizational uncertainty and fear, as targets' employees commonly react negatively to acquisitions (DeNisi & Schweiger, 1991; Larsson & Finkelstein, 1999). The negative attitude can have severe effects on the M&A negotiation—at worst—withdrawal from the acquisition process. One key antecedent of target employees' negative reaction to M&A activities are potentially severe disruption of their career plans by forcing layoffs, relocation, and the loss of individual influence (Walsh, 1989). Bidders that are able to demonstrate a common strategic vision for the combined post–acquisition entity may be able to reduce these fears. Moreover, acquisitions require some degree of longer–term strategic vision whereby value will be created by combining two businesses (Jemison & Sitkin, 1986), as opposed to gaining short–term return from the acquisition, encouraging targets' employees fear. Even if bidders openly communicate their plans of target restructuring, the calming effect of a bidders' compelling strategic vision may help to reduce fear. Furthermore, strategic knowledge has been associated with the ability to deal with complexity and cope with uncertainty (Custódio, Ferreira, & Matos, 2013; Finkelstein & Hambrick, 1990). Bidders that possess the ability to cope with the challenges of the acquisition may be better in gaining targets' trust and, thus, reducing agony. However, how can bidder representatives convince target representatives about possessing the strategic understanding to maneuver the new combination of businesses into a safe

harbor? We posit that bidder financial advisors become better in helping their clients to demonstrate their strategic understanding with increasing experience breadth, as it provides bidders with a more generalist posture. For instance, CFOs with a broader generalist skill set have been characterized as possessing a "strategic knowledge–base" (Datta & Iskandar-Datta, 2014, p. 35). Bidder financial advisors with experience across industries can challenge their clients' viewpoint from different angles, motivating bidders to think outside the box. These exchanges between advisors and bidders may lead to broader, more reflected perspectives on the new combination of businesses. Ultimately, it enables bidders to convince targets of their strategic understanding during the M&A negotiation process and reducing targets' organizational uncertainty and fear.

> **Hypothesis 2 (H2)** *The experience breadth of bidder financial advisor individuals influences acquisition premium in favor of their clients.*

### 4.2.3 Advisor experience recency

The possession of recent experience may be particularly important in M&A negotiations, as rapidly changing business environments make previous knowledge quickly obsolete. Furthermore, bidders' argumentative power may diminish with the use of outdated examples. We posit that advisors' experience recency helps advisors to use experience on a focal deal in rapidly changing business environments and improves advisors' ability to develop persuasive examples, ultimately, improving bidders' ability to negotiate lower acquisition premia. We define experience recency as whether an advisor individual has advised at least one deal within the past 12 months prior to the focal deal.

M&A regularly lead to radical re–shaping of targets as part of its integration in the new business compound (Hitt, Harrison, & Ireland, 2001). Understanding the new business combination may be rather abstract for targets' M&A teams when the M&A negotiations take place. The resulting uncertainty of the future is a key antecedent of organizational uncertainty, of which targets in the M&A process commonly struggle (DeNisi & Schweiger, 1991; Larsson & Finkelstein, 1999; Teerikangas, 2012). Bidders that are able to enhance targets' understanding of the future of the new business combination and, thus, reduce targets' organizational uncertainty, may be better in convincing the target to accept a lower acquisition premia. Examples from past experience may play a key role in enhancing targets' understanding of the new business

combination, as examples are concrete and proximate (Haunschild, 1994). Indeed, using examples has been argued to help succeeding in negotiations, due to examples' persuasive power (Thompson, 2012). However, the persuasiveness of examples depends on whether the individual receivers can relate to it. This is in line with the argumentation that references falling outside a range of acceptable answers might be rejected quickly (Furnham & Boo, 2011), while those that are salient and compatible with a focal situation draw attention (Englich, Mussweiler, & Strack, 2006; Strack & Mussweiler, 1997). We posit that advisor individuals with recent experience are better in helping their clients to reduce targets' organizational uncertainty through examples the target can relate to, ultimately, improving bidders' ability to convince targets to accept lower premia.

Furthermore, experience depreciates over time, as individuals are faced with forgetting (Bailey, 1989; Darr, Argote, & Epple, 1995) and the changing environment is linked to evolving industry structures (Nadkarni & Barr, 2008). As industry outlines blur, it may become more complex for advisor individuals to recognize structural similarities and benefit from experience on the focal deal. The risk is that advisors may assume similarities between prior advised deals and the focal deal. However, as industry structures and dynamics have evolved since the advisors last experience, using experience may lead to over–generalization (Finkelstein & Haleblian, 2002). Contrarily, advisors with recent experience are more likely to benefit from their experience on the focal deal.

Taken together, we propose that advisors' experience recency improves the persuasiveness of bidders' line of negotiation and prevents bidder advisors to use outdated experience on a focal deal, ultimately, improving bidders' ability to negotiate lower acquisition premia. More specifically, the argumentative power of examples used by bidders in the M&A negotiation process may decay, as targets can no longer relate to the used examples. Furthermore, rapidly changing business environments make previous wisdom quickly obsolete. Financial advisors possessing recent experience may benefit more from prior experience on the focal deal, as they are the recent experience helps recognizing structural similarities and avoid applying outdated experience.

> **Hypothesis 3 (H3)** *The experience recency of bidder financial advisor individuals influences acquisition premium in favor of their clients.*

### 4.2.4 Target and bidder advisors' experience differential

In the previous sections, we have hypothesized that bidder advisors' experience enhances their clients' negotiation position in the M&A process. In practice, often both bidders and targets hire financial advisors (Kale, Kini, & Ryan, 2003). The need for bidders and targets to respond and adapt to the opposite sides' arguments in the negotiation process represents an invisible tie that inescapably confronts bidder and target advisors with each other. We posit that the differential between bidder and target advisors' experience strengthens the link between bidder advisors' experience and the acquisition premia paid by their clients. An increasing differential may provide bidders with a bargaining advantage, as an increasing differential between bidder and target advisors leads to disruptive pressure on the target advisor individuals.

The M&A process is highly complex, which increases the susceptibility to cognitive limitations (Duhaime & Schwenk, 1985). While increasing experience enhances the accurateness of decision makers' approximations (Bingham & Eisenhardt, 2011; Maitland & Sammartino, 2015), advisors that possess relative less experience may reach their cognitive limitations at an earlier stage. Based on the relative larger repository of prior experience, bidders' negotiation superiority should quickly become visible to the target, as argumentations lines are relatively better presented and informed. Initially, targets advisors may use this pressure as a motivation to provide better advice to their client (see Gardner, 2012). However, the target advisor may quickly realize that the bidder is always a step ahead, despite increased effort. Targets advisors may feel increasingly pressured to offer a strong reply, putting target advisors in a position of psychological inferiority. Pressure in teams undermines team efforts, as teams engage in suboptimal processes, for instance, failing to integrate members' relevant experience into their collective work (e.g. Bunderson & Sutcliffe, 2002; Gardner, 2012). This may result in individual uncertainty among the advisors, leading to a higher probability of making mistakes, as unexperienced advisors may apply approximations, increasing the probability of skewed valuations (Duhaime & Schwenk, 1985). Furthermore, the pressure associated with the position of psychological inferiority will slowly decrease advisors individuals' motivation (Cohen & Bailey, 1997). Decrease of motivation across members of the target advisor team is often linked to confrontations within teams, undermining members' willingness to express doubts or

accept others' opinions, negatively effecting the team effectiveness (Kozlowski *et al.*, 1999).

Taken together, we expect that the relative larger experience repositories of bidder advisors' compared to target advisors pose a position of psychological inferiority on target advisor teams. The pressure linked to this inferior position negatively affects the less experienced advisors' ability to use their experience on the focal deal to achieve favorable outcome for their clients.

**Hypothesis 4a (H4a)** *The impact of bidder financial advisor individuals' experience depth on acquisition premium is moderated by the differential between bidder and target advisor experience depth.*

**Hypothesis 4b (H4b)** *The impact of bidder financial advisor individuals' experience breadth on acquisition premium is moderated by the differential between bidder and target advisor experience breadth.*

**Hypothesis 4c (H4c)** *The impact of bidder financial advisor individuals' experience recency on acquisition premium is moderated by the differential between bidder and target advisor experience recency*

## 4.3 Data and methodology

### 4.3.1 Sample and data sources

The empirical context of this study is the U.S. M&A advisory market from 2005 to 2015. We created a unique data set that comprises 5,052 observations, corresponding to 2,872 deals advised by 668 unique financial advisor individuals, over 11 years.

We obtained our data from the financial information service provider Mergermarket, which has recently been discovered by strategy research (Chatain & Meyer-Doyle, 2017), and validated the employers and employment dates via Brokercheck, a U.S. state–regulated database, and LinkedIn. Mergermarket employs 300 dedicated M&A journalists and analysts in 67 locations globally, but does also rely on data provided by financial advisors (Mergermarket, 2018). The latter applies particularly for the advisor individuals involved in a deal, as firms are usually not legally obliged to publish advisors. In addition, official statements, such as press releases, frequently do not report advisor individuals. As such, the data provided by

Mergermarket may be subject to structural data incompleteness. Potential sources for structural incompleteness may be (1) financial advisors' nescience of Mergermarket, (2) failure to report information in time, and (3) confidentiality concerns. Furthermore, (4) advisors may claim credit for deals, which they have not advised. Yet, a number of considerations suggest that structural incompleteness is not a serious concern: Firstly, the Mergermarket database is widely used among investment banks and other professional service firms (Chatain & Meyer-Doyle, 2017)—evident in approximately 175,000 subscribers globally (Mergermarket, 2018). Data from Mergermarket is commonly used to create league tables of financial advisors. League tables play a major role for financial advisors, as clients rely on league tables to choose financial advisors (Derrien & Dessaint, 2018). The widespread use of Mergermarket among advisors and the importance of Mergermarket league tables make it seem unlikely that financial advisors do not report information to Mergermarket due to a lack of awareness. Secondly, Mergermarket claims to report deadlines for information submissions to advisors quarterly. Usually, the deadlines are between two and three weeks prior to the end of a quarter (Mergermarket, 2012). As Mergermarket accepts submission over the period of the quarter and communicates submission deadlines regularly, we consider it unlikely that advisors fail to submit information during this timeframe. Thirdly, non–disclosure agreements between advisors and clients usually only include the obligation to conceal participation in a deal prior to announcement, making it unlikely that advisor individuals prefer to avoid disclosing advisory mandates due to confidentiality concerns towards their clients. Lastly, although individual–level ranking lists, such as the *Top 100 Financial Advisors* list published annually by Dow Jones & Company's newspaper Barron's, may induce advisors to claim credit for deals they have not been involved in, Mergermarket actively attempts to prevent such behavior, by requiring advisors to provide press release or stock exchange announcements. For larger deals, where advisors are not indicated in a press release or stock exchange announcement, Mergermarket requires advisors to provide official documentation (Mergermarket, 2012).

We started by compiling all financial advisor individuals involved in public deals with U.S.–based targets and sellers announced in 2015, reported by Mergermarket. We extracted 668 unique financial advisor individuals. In a next step, we created deal experience profiles for each of these 668 individuals based on deal data provided by

Mergermarket. The financial advisor individuals' experience profiles embrace 5,052 observations between 2005 and 2015, corresponding to 2,872 unique deals. The number of unique deals differs from the number of observations, as in many cases multiple advisors advise on the same deal. In the experience profiles, we also included non–completed deals, as we assume that bidder advisors gain experience about the focal deal's industry even if a deal is not closed, for instance, via interaction with the bidder or market research in support of the M&A negotiations. After discarding deals with missing variables, we obtain a final sample of 652 observations between 2005 and 2015, where each observation represents a financial advisor individual advising a bidder in a specific deal.

In order to ensure the reliability of the experience profiles of the individual advisors, which constitute the main data source for all our independent variables, we crosschecked each individual advisor profile with the Brokercheck database and, if not possible, with LinkedIn data. Brokercheck is an online database on financial advisors that is provided by the U.S. state–regulated Financial Industry Regulatory Authority (FIRA). While Brokercheck does not provide information on the specific deals advised by each individual, it provides detailed employment records, allowing us to check whether all advisory firms an individual advisor has worked for, are covered in our experience profiles. In 19 cases, we were not able to find the respective advisor on Brokercheck. These advisors may not be covered in the database, because they have never registered with a U.S.–based financial advisor or a U.S.–based subsidiary of a foreign financial advisor active in the United States. For these advisors, we crosschecked the employers and employment dates via LinkedIn. LinkedIn is an online professional networking service with over 560 million members in 200 countries (LinkedIn, 2018). As employers and headhunting firms use LinkedIn actively for recruiting job seekers, members have an incentive to provide accurate and up to date information via LinkedIn. Prior literature has used the service to verify information on individuals (Siming, 2014).

### 4.3.2 Dependent variable

Our dependent variable for all hypotheses is acquisition premium. While the role of financial advisors in the M&A process may vary substantially, one key role consists of advising their clients on the buying or selling price (Haunschild, 1994; Kisgen, Qian, & Song, 2009); acquisition premia hence present a useful measure for the impact of advisors experience. We measure acquisition premia as acquirers' bid minus targets' market value 1 day prior to deal announcement, divided by the target's market value 1 day prior to deal announcement (e.g. Laamanen, 2007).

### 4.3.3 Independent variables

We measure *experience depth* as an individual's count of prior deals in the focal deal's target industry. *Experience breadth* measures an individual's experience count of unique industries at the time of the focal deal. We measure *experience recency* as whether an advisor advised at least one deal within the past 12 months prior to the focal deal. In Hypothesis 4, we posit that the link between an advisor's experience depth, breadth, and recency on the one hand, and acquisition premium on the other depends on the opposite side's experience. To measure the *experience depth advantag*e between bidder and target advisors, we subtract the experience depth of all advisors involved on the bidder side from all advisors' experience depth on the target side (Cuypers, Cuypers, & Martin, 2017). To measure the *experience breadth advantage*, we accumulate all bidder advisors' experience breadth and divide by both bidder and target advisors' experience breadth. To measure the *experience recency advantage*, we compare whether any of the bidder advisors possess experience within the last 12 month prior to the focal deal versus whether any of the target advisors possess experience within the last 12 month prior to the focal deal. If the bidder advisors possess experience recency, but not the target advisors the variable *experience recency advantage* assumes the value of 1, otherwise, 0. We use a dummy variable to remain consistent with our individual–level measurement of the variable *experience recency.* For our robustness check, we run a second model and included *length of advisors' total employment time*, which we measure as months between an advisor's first full–time position at a financial advisor firm until the advisor individual's retirement, if before 2015.

### 4.3.4 Control variables

As we examine experience on the individual level of analysis, we control for a number of individual and team–level characteristics. At the individual level, we control for the *advisors' gender*, as gender may affect advisors contribution to the negotiation. For instance, Levi, Li and Zhang (2010) argue that young male CEOs are more combative than their female counterparty, reporting that males are more likely to initiate acquisitions, while they are also more likely to withdraw an offer and force a bidder to recourse to a tender offer. We include dummy variables to control for the *hierarchical level* an advisor possesses at the time of the deal. Mergermarket provides the hierarchy level of each advisor at the time of the deal, where 'level 1' represents the highest level, usually managing director, and 'level 4' the lowest, commonly executive, analyst, or associate (Mergermarket, 2018). The weight given to a team member's opinion is affected by the hierarchical level of a team member (Fein, 2017). As such, the hierarchical level of an advisor may affect the link between the advisor's experience and acquisition premium, as the advisors' opinion may be given more or less weight. Furthermore, we control for teams with *multiple team leaders*, that is, at least two of the bidder advisor individuals hold the advisor team's highest rank. Research on hierarchies has suggested that flat hierarchies breed rivalry (Kilduff, Elfenbein, & Staw, 2010) and competition for status and resources (Ingram & Qingyuan Yue, 2008). In teams with multiple team leaders, these hierarchical conflicts may distort advisors' willingness to share their knowledge and experience. Furthermore, we include a control variable counting the *sum of advisor firms on the bidder and the target side* and a dummy variable, whether *both bidder and target rely on a financial advisor* at all. A larger relative count of individuals or firms may lead to greater resource availability, interpersonal connections or intimidation of the opposite side, which may affect the acquisition premium (Corwin & Schultz, 2005; Lee, 2013; Sleptsov, Anand, & Vasudeva, 2013). We also include a variable for the *number of financial advisor firms on target and bidder side involved*.

Following previous research on financial advisors (Rau, 2000), we control for *financial advisor firms' reputation* by including three dummy variables that categorize advisory firms into bulge bracket, major bracket, third tier, and no–tier banks, based on their previous year's deal volume, as reported by Mergermarket. We also control for *bidders' prior experience with M&A deals* (Barkema & Schijven, 2008; Finkelstein &

Haleblian, 2002; Haleblian, Kim, & Rajagopalan, 2006). In line with prior research on acquisition premia, we control for a number of deal characteristics. We control for *deal value* (Laamanen, 2007), measured in USD million as stake purchase including net debt. We include 100% of the net debt in the deal value, if the bidder acquires or accumulates (i.e. holds 30% and acquires a further 30%) 50% or more of the target's shares. If the acquired stake is less than 50%, we do not include net debt in the deal value. We further control for the *target firm's revenue and earnings* (Hayward & Hambrick, 1997), measured as reported figures before deal announcement in USD million. As the deal type (Malhotra, Zhu, & Reus, 2015) may also affect premia, we control for *buyouts* with a dummy variable. We also control for the method of payment (Ghosh & Ruland, 1998), via two dummy variables, *mixed payment type* and *equity payments*. We also control for targets' *price–to–earnings ratio*, as bidders may be willing to pay higher acquisition premia for relatively 'cheap' targets with lower price–to–earnings ratio and, vice–versa, pay lower premia for 'expensive' targets with higher price–to–earnings ratio (Laamanen, 2007). Furthermore, we control for deal *completion time* (Hunter & Jagtiani, 2003). Finally, we include 22 dummy variables to control for the *target firm's industry sector*, as provided by Mergermarket and add dummies to denote the *year of the acquisition announcement*.

### 4.3.5 Endogeneity

The link between advisor experience and acquisition premia may be endogenous, as the experience of advisor individuals on a particular deal may be motivated by firm–specific and other factors important to the constrained maximization of firm performance. In this case, advisor experience is not exogenous and the ordinary least squares (OLS) estimates will be biased. To deal with potential endogeneity concerns, we used a two–stage technique (e.g. Bascle, 2008). In the first stage, we conducted regression analyses to examine whether deal characteristics or bidder experience, which are linked to acquisition premia, affect experience depth, breadth, and recency. Our analyses revealed that deal value, target revenue, equity and buyout deals, and the price–to–earnings ratio affect the selection of advisors based on their experience depth. Bidder experience, deal value, target earnings, and equity deal affect the selection of advisors based on experience breadth. Lastly, target earnings and equity deals affect the selection of advisors based on experience recency. Ideally, correcting for endogeneity also

includes the identification of an instrumental variable, which affects the first–stage dependent variable without directly affecting the second–stage dependent variable. We used the instrumental binary variable *prior collaboration between advisor individual and client*. Repeated interaction between actors foster mutual understanding of each other (e.g. Uzzi & Lancaster, 2003). We expect prior collaboration between an advisor and a client firm to enable clients to gain a more fine–grained understanding, whether an advisor individuals' experience has contributed toward their bargaining outcome. In consequence, client firms may be more sensitive to choosing advisors based on their experience. We could find no significant link between *prior collaboration between advisor individual and client* and *acquisition premia*—our dependent variable in our second–stage model (see Table 10 and Table 12). Based on this instrumental variable and the above listed further explanatory factors, we calculated three inverse Mills ratios to capture the endogeneity advisor selection based on their experience depth, breadth, and recency. In a second step, we included the inverse Mills ratios as control variables in our models to predict the effect of advisor experience on their clients' acquisition premia.

## 4.4 Results

We report descriptive statistics and pairwise correlations in Table 10. The pairwise correlations are low to moderate and indicate that multicollinearity is not a severe issue in our data. The average acquisition premium in the sample is 26%, which is consistent with prior studies (Laamanen, 2007; Malhotra, Zhu, & Reus, 2015). Advisors in our sample possess experience with on average 4.25 deals matching the focal deals' industries. Experience depth ranges from 0 to 43 at a standard error of 6.23. As reported in Table 10, advisors in our sample possess experience with deals in on average 2.27 different industries at a standard error of 2.19. The 0.7% mean of the experience recency variable indicates that 70% of advisors in our sample have advised at least one deal within twelve months prior to the focal deal. The experience depth variable indicates that bidder advisors possess on average experience with 7.86 more deals than their counterparts, however, the range indicates that cases of highly experienced bidders and unskilled target advisors (max=96) and vice–versa (min= –101) exist in our sample.

# Table 10: Study 2 Descriptive statistics and pairwise correlations (n=652)

| Variables | Mean | S.D. | Min | Max | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Dependent variable* | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1 Acquisition premium | 0.26 | 0.26 | -0.44 | 2.3 | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| *Independent variables* | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2 H1: advisor experience depth | 4.02 | 6.11 | 0 | 43 | 0.08** | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3 H2: advisor experience breadth | 2.22 | 2.18 | 0 | 12 | -0.12** | 0.08** | | | | | | | | | | | | | | | | | | | | | | | | | |
| 4 H3: advisor experience recency | 0.65 | 0.48 | 0 | 1 | -0.04 | 0.34** | 0.37** | | | | | | | | | | | | | | | | | | | | | | | | |
| *Control variables* | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 5 Employment length prior to 2005, if any | 55.03 | 66.18 | 0 | 348 | 0.06† | 0.12** | 0.09** | 0.11** | | | | | | | | | | | | | | | | | | | | | | | |
| 6 Financial advisor individual's gender, male=1 | 0.96 | 0.18 | 0 | 1 | -0.02 | -0.02 | 0.08** | 0.03 | 0.03 | | | | | | | | | | | | | | | | | | | | | | |
| 7 Advisor Level 2 | 0.06 | 0.24 | 0 | 1 | 0.03 | -0.04 | -0.09** | -0.05† | -0.09** | 0.03 | | | | | | | | | | | | | | | | | | | | | |
| 8 Advisor Level 3 | 0.1 | 0.29 | 0 | 1 | 0.02 | -0.07* | -0.09** | -0.11** | -0.17** | -0.11** | -0.08** | | | | | | | | | | | | | | | | | | | | |
| 9 Advisor Level 4 | 0.08 | 0.27 | 0 | 1 | 0.03 | -0.09** | -0.19** | -0.13** | -0.18** | -0.15** | -0.08* | -0.1** | | | | | | | | | | | | | | | | | | | |
| 10 Multiple team leaders, yes=1 | 0.51 | 0.5 | 0 | 1 | -0.12** | 0 | 0.13** | -0.05 | 0 | 0.06† | -0.12** | -0.04 | -0.02 | | | | | | | | | | | | | | | | | | |
| 11 Involved advisors both sides | 3.66 | 2.38 | 1 | 15 | -0.28** | -0.13** | 0.11** | 0 | 0.09* | 0.02 | 0.01 | -0.03 | -0.07* | 0.22** | | | | | | | | | | | | | | | | | |
| 12 Financial advisor on both sides, yes=1 | 0.48 | 0.5 | 0 | 1 | -0.16** | -0.11** | 0 | -0.11** | 0 | -0.01 | -0.04 | 0.02 | 0.03 | 0.26** | 0.22** | | | | | | | | | | | | | | | | |
| 13 Advisor Firm is Bulge Bracket Bank, Yes=1 | 0.29 | 0.45 | 0 | 1 | -0.06* | -0.19** | -0.03 | -0.03 | 0.08* | -0.02 | -0.08** | -0.03 | -0.15** | -0.08** | 0.11** | 0.02 | | | | | | | | | | | | | | | |
| 14 Advisor Firm is Major Bracket Bank, Yes=1 | 0.31 | 0.46 | 0 | 1 | -0.14** | -0.1** | 0.07* | -0.09** | -0.08* | 0.04 | 0.06† | 0 | -0.01 | 0.09** | 0.18** | 0.07* | -0.42** | | | | | | | | | | | | | | |
| 15 Advisor Firm is Third-Tier Bank, Yes=1 | 0.03 | 0.16 | 0 | 1 | -0.03 | -0.05 | 0.07* | -0.01 | 0.01 | 0 | -0.04 | -0.01 | -0.03 | 0.03 | 0 | 0.01 | -0.11** | -0.11** | | | | | | | | | | | | | |
| 16 Bidder experience | 2.17 | 3.52 | 0 | 25 | -0.09** | 0.11** | 0.07* | -0.02 | 0.05 | -0.02 | -0.02 | 0.06* | 0.08** | 0.31** | 0.19** | 0.23** | -0.15** | 0.08** | 0.05† | | | | | | | | | | | | |
| 17 Deal value in USD m | 10762 | 26325 | 6 | 183739 | -0.18** | -0.08* | 0.13** | -0.01 | 0.13** | 0.02 | 0.01 | -0.05 | -0.06† | 0.27** | 0.48** | 0.27** | 0 | 0.13** | -0.03 | 0.35** | | | | | | | | | | | |
| 18 Target last reported revenue in USD m | 4721 | 9930 | 6 | 58167 | -0.21** | -0.08* | 0.05 | 0.03 | 0.05 | -0.02 | -0.04 | 0.03 | 0.03 | 0.19** | 0.52** | 0.19** | -0.05 | 0.18** | -0.04 | -0.02 | 0.68** | | | | | | | | | | |
| 19 Target last reported earnings in USD m | 178 | 710 | -6100 | 4638 | -0.11** | -0.04 | 0.15** | 0.08* | 0.03 | 0 | -0.01 | 0.03 | -0.02 | 0.13** | 0.36** | 0.2** | 0.05 | 0.09** | -0.04 | 0.02 | 0.69** | 0.5** | | | | | | | | | |
| 20 Mixed payment type, yes=1 | 0.29 | 0.46 | 0 | 1 | -0.06† | 0.03 | -0.03 | 0.02 | 0.03 | -0.01 | -0.02 | 0.04 | -0.01 | 0 | 0.21** | 0.15** | 0 | 0.07* | -0.05† | 0.01 | 0.1** | 0.15** | 0.02 | | | | | | | | |
| 21 Cash | 0.77 | 0.42 | 0 | 1 | 0.08* | -0.18** | 0.04 | -0.06† | -0.02 | 0.04 | -0.03 | 0 | -0.03 | 0 | 0.08** | 0.07* | 0.19** | 0.01 | -0.04 | -0.05 | -0.16** | -0.17** | -0.08* | 0.35** | | | | | | | |
| 22 Merger, yes=1 | 0.05 | 0.22 | 0 | 1 | -0.13** | -0.04 | 0.04 | 0.02 | -0.01 | -0.01 | -0.04 | 0.02 | -0.02 | 0.02 | 0.05 | 0.1** | 0 | 0.07* | 0.05 | -0.09** | 0.1** | 0.37** | 0.2** | -0.04 | -0.3** | | | | | | |
| 23 Price-to-earnings ratio | 0.07 | 2.18 | -40.8 | 11.16 | -0.02 | 0.04 | 0.01 | 0.01 | 0.04 | -0.01 | 0.01 | 0.01 | 0.01 | -0.03 | 0.03 | 0.04 | -0.02 | 0.02 | 0.05 | 0.03 | 0.04 | 0.03 | 0.03 | 0.04 | -0.03 | 0.01 | | | | | |
| 24 Deal completion time | 143.3 | 100.4 | 0 | 1161 | -0.09** | 0.03 | -0.02 | 0 | 0.03 | -0.05 | 0 | 0 | 0.03 | 0.01 | 0.23** | 0.12** | -0.07* | 0.12** | 0.01 | -0.06† | 0.48** | 0.62** | 0.34** | 0.19** | -0.25** | 0.26** | 0.05 | | | | |
| 25 Prior advisor-client collaboration | 0.12 | 0.32 | 0 | 1 | -0.03 | 0.27** | 0.11** | 0.16** | 0.11** | 0.05 | -0.01 | -0.07* | -0.07* | 0.07* | 0.03 | -0.01 | -0.14** | 0.02 | -0.04 | 0.4** | 0.11** | 0.04 | 0.05 | 0.02 | -0.07* | 0.01 | -0.01 | 0.04 | | | |
| 26 Inverse mills ratio for experience depth | 0.05 | 0.16 | 0 | 1.82 | -0.08* | -0.1** | -0.02 | -0.02 | -0.03 | -0.01 | -0.04 | -0.01 | 0.01 | 0.08* | 0.22** | 0.06 | -0.04 | 0.01 | -0.03 | -0.09* | 0.18** | 0.62** | 0.21** | -0.06† | 0 | 0.11** | -0.32** | 0.27** | -0.1** | | |
| 27 Inverse mills ratio for experience breadth | 0.05 | 0.03 | 0 | 0.35 | 0.04 | 0.02 | -0.19** | -0.06† | -0.05 | -0.06† | 0.01 | 0.05 | 0.07* | -0.16** | -0.21** | -0.11** | -0.15** | -0.08* | 0.02 | -0.22** | -0.34** | -0.12** | -0.6** | 0.3** | -0.28** | 0.01 | 0.01 | 0.08* | 0.36**[1] | -0.05 | |
| 28 Inverse mills ratio for experience recency | 0.57 | 0.13 | 0.14 | 1.12 | 0.09** | -0.29** | -0.1** | -0.18** | -0.09* | -0.02 | 0 | 0.02 | 0.05 | -0.06† | -0.15** | -0.08** | 0.15** | -0.07* | 0.05 | -0.31** | -0.35** | -0.32** | -0.45** | -0.29** | 0.29** | -0.17** | -0.03 | -0.3** | 0.81*[1] | 0 | 0.32** |

Significant at †10%; *5%; **1%. All tests are two tailed.

Variables 13 rounded to the nearest integer. Target industry, and reputation dummy variables excluded.

The experience breadth advantage variable indicates that bidder advisors possess on average 67% of the total experience breadth of bidder and targets' industry breadth experience.

In Hypotheses 1 to 3, we argue that advisors' experience depth, breadth, and recency are linked negatively to acquisition premia. As reported in Table 11, our findings support these hypotheses. In Models 1 to 3, we find statistically significant negative relationships between advisor experience depth (Hypothesis 1), advisor experience breadth (Hypothesis 2), advisor experience recency (Hypothesis 3) and acquisition premium (p−value=0.015, 0.000, and 0.009 respectively).

The coefficient of Model 1 indicates that one additional prior deal advised by an advisor matching the focal deal's industry, decreases the acquisition premia paid by the advised bidder by 0.5%. One additional industry in which the advisor has advised a deal prior to the focal deal decreases the acquisition premia paid by 1.5%. An advisor that has advised a deal in the past 12 month is linked to a 5% average decrease of acquisition premia.

In Hypotheses 4, we argue that advisors' experience depth, breadth, and recency is contingent to the opposite side's experience. In order to observe the differential effect between bidder and target advisor individuals' experience, we created a sub–sample, which also includes the target advisors' experience. This sub–sample is limited to deals in 2015. We report descriptive statistics and pairwise correlations in Table 12. As reported in Table 13, our findings support these hypotheses partly. In Model 4, we find a negative interaction (p−value=0.067) between advisors' experience depth and an experience depth advantage (Hypothesis 3). Model 5 suggests a negative significant interaction (p−value=0.009) between advisors' experience breadth and an experience breadth advantage (Hypothesis 4).

It should be noted that the reported coefficients, for instance a 0.5% decrease for Model 1, might seem rather small. However, the average deal value in our sample corresponds to USD 6,583 billion (see Table 10). Thus, in absolute terms, a 0.5% decrease corresponds to an average saving of USD 33 million for bidding firms. Furthermore, the average acquisition premium in our sample is 26% (see Table 10), meaning that a 0.5% decrease corresponds to a 2% decrease of the paid acquisition premium in relative terms.

## Table 11: Study 2 OLS regression with acquisition premium as dependent variable

| VARIABLES | Expected direction | Control variables only | 1 | 2 | 3 |
|---|---|---|---|---|---|
| *Hypotheses* | | | | | |
| H1: advisor experience depth | – | | -0.0033 | | |
| | | | (0.062) [0.002] | | |
| H2: advisor experience breadth | – | | | -0.0118 | |
| | | | | (0.001) [0.003] | |
| H3: advisor experience recency | – | | | | -0.0472 |
| | | | | | (0.018) [0.020] |
| *Control variables* | | | | | |
| Financial advisor individual's gender, male=1 | | -0.0415 | -0.0387 | -0.0358 | -0.0359 |
| | | (0.492) [0.060] | (0.524) [0.061] | (0.549) [0.060] | (0.542) [0.059] |
| Multiple team leaders, yes=1 | | 0.0279 | 0.0286 | 0.0270 | 0.0265 |
| | | (0.137) [0.019] | (0.128) [0.019] | (0.148) [0.019] | (0.156) [0.019] |
| Involved advisors both sides | | -0.0175 | -0.0177 | -0.0177 | -0.0179 |
| | | (0.000) [0.004] | (0.000) [0.004] | (0.000) [0.004] | (0.000) [0.004] |
| Financial advisor on both sides, yes=1 | | -0.0416 | -0.0430 | -0.0457 | -0.0434 |
| | | (0.026) [0.019] | (0.020) [0.019] | (0.014) [0.019] | (0.018) [0.018] |
| Bidder experience | | -0.0054 | -0.0045 | -0.0044 | -0.0053 |
| | | (0.061) [0.003] | (0.063) [0.002] | (0.090) [0.003] | (0.061) [0.003] |
| Deal value in USD m | | -0.0000 | -0.0000 | -0.0000 | -0.0000 |
| | | (0.054) [0.000] | (0.116) [0.000] | (0.136) [0.000] | (0.158) [0.000] |
| Target last reported revenue in USD m | | -0.0000 | -0.0000 | -0.0000 | -0.0000 |
| | | (0.803) [0.000] | (0.827) [0.000] | (0.469) [0.000] | (0.404) [0.000] |
| Target last reported earnings in USD m | | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| | | (0.141) [0.000] | (0.012) [0.000] | (0.218) [0.000] | (0.128) [0.000] |
| Mixed payment type, yes=1 | | 0.0514 | 0.0479 | 0.0497 | 0.0478 |
| | | (0.125) [0.033] | (0.160) [0.034] | (0.133) [0.033] | (0.157) [0.034] |
| Equity payment, yes=1 | | -0.0725 | -0.0427 | -0.0413 | -0.0514 |
| | | (0.099) [0.044] | (0.302) [0.041] | (0.315) [0.041] | (0.213) [0.041] |
| Merger, yes=1 | | -0.0696 | -0.0717 | -0.0676 | -0.0710 |
| | | (0.048) [0.035] | (0.041) [0.035] | (0.049) [0.034] | (0.039) [0.034] |
| Price-to-earnings ratio | | -0.0040 | -0.0041 | -0.0032 | -0.0034 |
| | | (0.053) [0.002] | (0.045) [0.002] | (0.066) [0.002] | (0.044) [0.002] |
| Deal completion time | | 0.0001 | 0.0001 | 0.0001 | 0.0001 |
| | | (0.437) [0.000] | (0.478) [0.000] | (0.392) [0.000] | (0.429) [0.000] |
| Inverse mills ratio for experience depth | | -0.0242 | -0.0329 | | |
| | | (0.639) [0.051] | (0.518) [0.051] | | |
| Inverse mills ratio for experience breadth | | 0.3689 | | -0.0878 | |
| | | (0.465) [0.504] | | (0.837) [0.425] | |
| Inverse mills ratio for experience recency | | -0.1048 | | | -0.0796 |
| | | (0.285) [0.098] | | | (0.324) [0.081] |
| Advisor individual level | | Included | Included | Included | Included |
| Advisor firm reputation | | Included | Included | Included | Included |
| Target industry | | Included | Included | Included | Included |
| Acquisition year | | Included | Included | Included | Included |
| Observations | | 652 | 652 | 652 | 652 |
| R-squared | | 0.268 | 0.271 | 0.278 | 0.276 |
| Constant | | 0.3372 | 0.3080 | 0.3051 | 0.3625 |
| | | (0.006) [0.123] | (0.004) [0.106] | [0.106] (0.004) | [0.106] (0.003) |

P-value in parenthesis. Standard errors between square brackets. All tests are two tailed.

# Table 12: Study 2 pairwise correlations sub–sample experience differential (N=218)

| Variables | Mean | S.D. | Min | Max | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 29 | 30 | 31 | 32 | 33 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Dependent variable* | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1 Acquisition premium | 0.24 | 0.21 | -0.01 | 1.05 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| *Independent variables* | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2 H4a: Advisor experience depth X Advisor experience depth advantage | 94.26 | 411.1 | -1620 | 4128 | 0.1† | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3 H4b: Advisor experience breadth X Advisor experience breadth advantage | 1.08 | 2.12 | -3 | 12 | -0.04 | 0.15** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 4 H4c: Advisor experience receny X Advisor experience receny advantage | 0.24 | 0.43 | 0 | 1 | -0.25** | 0.01 | 0.04 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| *Control variables* | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 5 H1: advisor experience depth | 4.01 | 6.63 | 0 | 43 | 0.04 | 0.65** | 0.18** | 0.1* | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 6 H2: advisor experience breadth | 2.25 | 2.51 | 0 | 12 | -0.16** | 0.04 | 0.69** | 0.23** | 0.15** | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 7 H3: advisor experience recency | 0.54 | 0.5 | 0 | 1 | -0.11* | 0.22** | 0.28** | 0.52** | 0.43** | 0.41** | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 8 Advisor experience depth advantage | 8.45 | 30.36 | -101 | 96 | 0.02 | 0.58** | 0.27** | 0.13* | 0.3** | 0.09† | 0.16** | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 9 Advisor experience breadth advantage | 0.37 | 0.56 | -1 | 1 | 0.13** | 0.31** | 0.56** | -0.06 | 0.17** | 0.17** | 0.15** | 0.54** | | | | | | | | | | | | | | | | | | | | | | | | | |
| 10 Advisor experience receny advantage | 0.08 | 0.27 | 0 | 1 | 0.04 | -0.03 | 0.02 | 0.11* | -0.05 | 0.07 | 0.01 | -0.01 | 0 | | | | | | | | | | | | | | | | | | | | | | | | |
| 11 Employment length prior to 2005, if any | 45.51 | 67.37 | 0 | 348 | -0.09 | 0.03 | 0.11† | 0.17** | 0.06 | 0.22** | 0.18** | 0.07 | -0.01 | 0 | | | | | | | | | | | | | | | | | | | | | | | |
| 12 Financial advisor individual's gender, male=1 | 0.95 | 0.22 | 0 | 1 | -0.06 | -0.11* | 0.09 | 0.07 | -0.01 | 0.13* | 0.08 | -0.02 | 0 | 0.02 | 0.01 | | | | | | | | | | | | | | | | | | | | | | |
| 13 Advisor Level 2 | 0.05 | 0.22 | 0 | 1 | 0.05 | -0.03 | -0.07 | -0.07 | -0.09† | -0.12* | -0.08 | 0.07 | 0.05 | -0.07 | -0.08 | 0.05 | | | | | | | | | | | | | | | | | | | | | |
| 14 Advisor Level 3 | 0.14 | 0.35 | 0 | 1 | 0.08 | 0 | -0.1† | -0.09† | -0.1* | -0.15** | -0.12* | -0.09 | -0.12* | 0.04 | -0.19** | -0.14** | -0.09† | | | | | | | | | | | | | | | | | | | |
| 15 Advisor Level 4 | 0.13 | 0.34 | 0 | 1 | 0.09† | 0.01 | -0.14** | -0.12* | -0.13* | -0.24** | -0.16** | 0.06 | 0.12* | 0.08 | -0.19** | -0.23** | -0.09† | -0.16** | | | | | | | | | | | | | | | | | | | |
| 16 Multiple team leaders, yes=1 | 0.75 | 0.43 | 0 | 1 | -0.22** | -0.1† | 0.12* | 0.16** | -0.18** | 0.17** | -0.09 | 0.12* | 0.05 | 0.07 | 0 | 0.09 | -0.03 | -0.13** | -0.18** | | | | | | | | | | | | | | | | | | |
| 17 Involved advisors both sides | 4 | 3 | 2 | 15 | -0.35** | 0.03 | -0.02 | 0.24** | -0.07 | 0.11* | 0.09† | 0.39** | -0.03 | -0.14** | 0.25** | 0.05 | 0.05 | -0.06 | -0.11* | 0.18** | | | | | | | | | | | | | | | | | |
| 18 Financial advisor on both sides, yes=1 | 1 | 0 | 0 | 1 | -0.28** | -0.27** | -0.3** | 0.33** | -0.19** | 0.02 | -0.08 | -0.24** | -0.63** | 0.17** | 0.17** | 0.02 | 0.04 | 0.01 | -0.11* | 0.22** | 0.21** | | | | | | | | | | | | | | | | |
| 19 Advisor Firm is Bulge Bracket Bank, Yes=1 | 0 | 0 | 0 | 1 | -0.07 | -0.06 | -0.15** | 0.09† | -0.07 | -0.05 | 0.04 | 0 | -0.25** | -0.09† | 0.03 | -0.02 | -0.08 | 0.05 | -0.11* | 0.02 | 0.19** | 0.19** | | | | | | | | | | | | | | | |
| 20 Advisor Firm is Major Bracket Bank, Yes=1 | 0.38 | 0.49 | 0 | 1 | -0.24** | -0.09† | 0.03 | -0.06 | -0.09 | 0.13** | -0.04 | -0.12* | -0.02 | -0.03 | -0.05 | 0.01 | 0.04 | -0.01 | 0 | 0.17** | 0.15** | -0.01 | -0.39** | | | | | | | | | | | | | | |
| 21 Advisor Firm is Third-Tier Bank, Yes=1 | 0.02 | 0.15 | 0 | 1 | -0.04 | -0.04 | -0.09† | 0 | -0.03 | -0.08 | -0.05 | -0.13** | -0.18** | -0.04 | -0.07 | -0.05 | -0.04 | -0.01 | -0.06 | 0.09† | -0.08 | 0.09† | -0.08 | -0.12* | | | | | | | | | | | | | |
| 22 Bidder experience | 4.06 | 4.6 | 0 | 25 | -0.12* | 0.09† | 0.16** | 0.09 | 0.06 | 0.08 | 0.06 | 0.18** | 0.21** | -0.21** | 0.18** | 0 | 0.04 | -0.01 | 0 | 0.24** | 0.27** | 0.08 | -0.1† | 0.06 | 0.17** | | | | | | | | | | | | |
| 23 Deal value in USD m | 20933 | 39852 | 10 | 183739 | -0.25** | -0.01 | 0.09† | 0.26** | -0.09† | 0.16** | 0.09† | 0.23** | 0.09† | -0.04 | 0.3** | 0.05 | 0.05 | -0.11* | -0.13** | 0.24** | 0.55** | 0.27** | 0.02 | 0.1† | -0.08 | 0.35** | | | | | | | | | | | |
| 24 Target last reported revenue in USD m | 6133 | 11969 | 5.9 | 58167 | -0.22** | -0.02 | -0.14* | 0.24** | -0.07 | 0.11† | 0.13* | -0.04 | -0.15* | -0.06 | 0.08 | -0.05 | -0.05 | 0.04 | 0.04 | 0.09 | 0.43** | 0.14* | 0.01 | 0.26** | -0.09 | -0.12† | 0.81** | | | | | | | | | |
| 25 Target last reported earnings in USD m | 308.7 | 785.7 | -745 | 3557 | -0.23** | -0.04 | -0.13* | 0.21** | -0.07 | 0.17** | 0.13* | -0.03 | -0.19** | -0.06 | 0.15* | 0.01 | -0.04 | 0.03 | -0.05 | 0.13* | 0.67** | 0.2** | 0.13* | 0.22** | -0.1† | -0.05 | 0.93** | 0.89** | | | | | | | | |
| 26 Mixed payment type, yes=1 | 0.37 | 0.48 | 0 | 1 | -0.12* | -0.06 | 0.01 | 0.08 | 0.01 | 0.07 | 0.1† | 0.05 | 0.02 | 0.2** | 0.06 | 0.01 | -0.01 | 0.03 | -0.06 | -0.09† | 0.28** | 0.07 | 0.14** | 0.1† | -0.12* | -0.06 | 0.06 | 0.12† | 0.06 | | | | | | | |
| 27 Equity payment, yes=1 | 0.62 | 0.49 | 0 | 1 | -0.19** | 0.1† | 0.03 | 0.16** | 0.15** | 0.07 | 0.2** | 0.11* | 0.07 | 0.05 | 0.04 | -0.04 | -0.01 | 0.03 | -0.08 | -0.13** | 0.09† | -0.01 | -0.11* | 0.05 | -0.04 | -0.04 | 0.25** | 0.29** | 0.11† | 0.56** | | | | | | |
| 28 Merger, yes=1 | 0.04 | 0.2 | 0 | 1 | -0.13* | -0.05 | -0.13* | 0.19** | -0.06 | 0.11* | 0.04 | -0.1† | -0.17** | 0.1* | 0 | -0.02 | -0.05 | 0 | 0.01 | 0.12* | 0.03 | 0.12* | -0.07 | 0.23** | -0.03 | -0.16** | 0.22** | 0.77** | 0.62** | -0.07 | 0.16** | | | | | |
| 29 Price-to-earnings ratio | 0.25 | 0.46 | -1.69 | 2.95 | -0.12* | -0.05 | -0.02 | -0.04 | -0.06 | 0.02 | 0.03 | -0.02 | -0.06 | -0.11† | 0.12† | 0.05 | -0.01 | -0.06 | -0.06 | 0.05 | 0.01 | 0.1 | 0.17** | -0.11† | 0.28** | 0.16** | 0.09 | 0 | 0.02 | -0.02 | 0.16*· | 0 | | | | |
| 30 Deal completion time | 160.2 | 118.7 | 37 | 629 | -0.26** | -0.04 | -0.18** | 0.21** | -0.07 | 0.06 | 0.09 | -0.2** | -0.23** | -0.03 | 0.07 | -0.03 | -0.05 | 0.03 | 0.02 | -0.03 | 0.4** | 0.16** | 0.01 | 0.2** | -0.05 | -0.18** | 0.67** | 0.87** | 0.75** | 0.19** | 0.37** | 0.55** | 0.02 | | | |
| 31 Prior advisor-client collaboration | 0.13 | 0.33 | 0 | 1 | -0.03 | 0.17** | 0.1† | 0.13* | 0.29** | 0.19** | 0.23** | 0.08 | 0.06 | -0.08 | 0.27** | 0.05 | -0.05 | -0.13* | -0.1† | 0.02 | 0.1† | 0 | -0.08 | 0.01 | 0 | 0.4** | 0.18** | 0.03 | 0.07 | 0.03 | 0.12* | -0.08 | 0.01 | 0.04 | | |
| 32 Inverse mills ratio for experience depth | 0.05 | 0.13 | 0 | 0.69 | -0.19** | -0.09 | -0.11 | 0.13* | -0.16* | -0.05 | -0.01 | -0.04 | -0.09 | -0.09 | -0.02 | -0.03 | -0.05 | 0.01 | 0.06 | 0.12† | 0.08 | 0.08 | -0.07 | 0.1 | 0.32** | 0 | 0.35** | 0.62** | 0.47** | 0.19** | -0.02 | 0.56** | 0.37** | 0.52** | -0.15* | | |
| 33 Inverse mills ratio for experience breadth | 0.05 | 0.03 | 0 | 0.13 | 0.26** | -0.09 | 0.04 | -0.16** | -0.17** | -0.23** | -0.23** | -0.03 | 0.12* | 0.02 | -0.23** | -0.02 | 0.03 | 0.1† | 0.16** | -0.08 | -0.39** | -0.17** | -0.1† | -0.16** | 0.07 | -0.1† | -0.6** | -0.53** | 0.51*· | -0.3** | -0.4** | -0.34** | -0.07 | -0.49** | -0.64** | -0.06 | |
| 34 Inverse mills ratio for experience recency | 0.77 | 0.24 | 0.16 | 1.06 | 0.18** | -0.15** | -0.01 | -0.19** | -0.28** | -0.22** | -0.31** | -0.03 | 0.02 | 0.04 | -0.15* | 0 | 0.07 | 0.03 | 0.11† | 0.09 | -0.23** | -0.01 | 0.1† | -0.1† | 0.04 | -0.16** | -0.42** | -0.47** | 0.42*· | -0.4** | -0.7** | -0.26** | 0.07 | -0.48** | -0.73** | -0.05 | 0.81** |

Significant at †10%; *5%; **1%. All tests are two tailed.

Variables 13 rounded to the nearest integer. Target industry, and reputation dummy variables excluded. Insolvency dummy dummy variable excluded, as no insolvecy cases exist in this sub-sample

## Table 13: Study 2 OLS regression with acquisition premium as dependent variable (continued)

| VARIABLES | Expected direction | Control variables only | 4 | 5 | 6 |
|---|---|---|---|---|---|
| *Hypotheses* | | | | | |
| H4a: Advisor experience depth X Advisor experience depth advantage | – | | -0.0002 (0.088) [0.000] | | |
| H4b: Advisor experience breadth X Advisor experience breadth advantage | – | | | -0.0120 (0.045) [0.006] | |
| H4c: Advisor experience receny X Advisor experience receny advantage | – | | | | 0.0166 (0.545) [0.027] |
| *Control variables* | | | | | |
| H1: advisor experience depth | | -0.0044 (0.022) [0.002] | -0.0029 (0.348) [0.003] | | |
| Advisor experience depth advantage | | 0.0029 (0.061) [0.002] | 0.0017 (0.256) [0.001] | | |
| H2: advisor experience breadth | | -0.0049 (0.186) [0.004] | | -0.0026 (0.602) [0.005] | |
| Advisor experience breadth advantage | | 0.0045 (0.918) [0.044] | | 0.0335 (0.483) [0.048] | |
| H3: advisor experience recency | | -0.0449 (0.034) [0.021] | | | -0.0606 (0.020) [0.026] |
| Advisor experience receny advantage | | -0.1937 (0.004) [0.066] | | | -0.1302 (0.012) [0.051] |
| Financial advisor individual's gender, male=1 | | -0.0081 (0.806) [0.033] | -0.0350 (0.342) [0.037] | -0.0403 (0.286) [0.038] | -0.0059 (0.866) [0.035] |
| Multiple team leaders, yes=1 | | -0.0352 (0.323) [0.035] | -0.0126 (0.720) [0.035] | -0.0049 (0.890) [0.035] | -0.0054 (0.877) [0.035] |
| Involved advisors both sides | | -0.0153 (0.185) [0.011] | -0.0220 (0.030) [0.010] | -0.0182 (0.110) [0.011] | -0.0195 (0.046) [0.010] |
| Financial advisor on both sides, yes=1 | | -0.0168 (0.736) [0.050] | -0.0617 (0.033) [0.029] | -0.0656 (0.076) [0.037] | -0.0668 (0.043) [0.033] |
| Bidder experience | | -0.0042 (0.299) [0.004] | -0.0017 (0.588) [0.003] | -0.0004 (0.880) [0.003] | -0.0023 (0.506) [0.003] |
| Deal value in USD m | | 0.0000 (0.783) [0.000] | -0.0000 (0.363) [0.000] | -0.0000 (0.469) [0.000] | -0.0000 (0.891) [0.000] |
| Target last reported revenue in USD m | | 0.0000 (0.017) [0.000] | 0.0000 (0.002) [0.000] | 0.0000 (0.000) [0.000] | 0.0000 (0.000) [0.000] |
| Target last reported earnings in USD m | | -0.0001 (0.076) [0.000] | -0.0000 (0.486) [0.000] | -0.0001 (0.395) [0.000] | -0.0001 (0.270) [0.000] |
| Mixed payment type, yes=1 | | 0.1086 (0.043) [0.053] | 0.0535 (0.225) [0.044] | 0.0732 (0.100) [0.044] | 0.0773 (0.102) [0.047] |
| Equity payment, yes=1 | | -0.2194 (0.003) [0.073] | -0.1581 (0.002) [0.051] | -0.1592 (0.002) [0.050] | -0.1388 (0.009) [0.053] |
| Merger, yes=1 | | 0.1384 (0.419) [0.171] | -0.2120 (0.117) [0.135] | -0.1998 (0.060) [0.106] | -0.1170 (0.217) [0.095] |
| Price-to-earnings ratio | | 0.0193 (0.573) [0.034] | 0.0144 (0.631) [0.030] | 0.0131 (0.616) [0.026] | 0.0111 (0.647) [0.024] |
| Deal completion time | | -0.0001 (0.895) [0.000] | -0.0004 (0.402) [0.000] | -0.0003 (0.294) [0.000] | -0.0005 (0.149) [0.000] |
| Inverse mills ratio for experience depth | | -0.3040 (0.032) [0.141] | -0.1309 (0.164) [0.094] | | |
| Inverse mills ratio for experience breadth | | 1.6887 (0.140) [1.140] | | 0.4095 (0.348) [0.436] | |
| Inverse mills ratio for experience recency | | -0.1605 (0.232) [0.134] | | | 0.0416 (0.445) [0.054] |
| Advisor individual level | | Included | Included | Included | Included |
| Advisor firm reputation | | Included | Included | Included | Included |
| Target industry | | Included | Included | Included | Included |
| Observations | | 211 | 211 | 211 | 211 |
| R-squared | | 0.613 | 0.576 | 0.573 | 0.584 |
| Constant | | 0.4893 (0.020) [0.208] | 0.7853 (0.000) [0.186] | 0.7344 (0.000) [0.187] | 0.6268 (0.000) [0.163] |

P-value in parenthesis. Standard errors between square brackets. All tests are two tailed.

We found a mean variance inflations factor (VIF) of ~7.19 across our models. While Models 1 to 3 show a low VIF of ~2.5, Models 4 to 6, which include moderation variables, mainly drive the high mean VIF. Models with moderators commonly show higher VIFs, as the moderators correlate with the two main effects terms, which are used to calculate the moderators (Kromrey & Foster-Johnson, 1998). The multicollinearity may cause greater uncertainty to the model, as the coefficients tend to be estimated with higher standard errors. As reported in Table 13, the key variables of interest, i.e. *advisor experience depth X advisor experience depth advantage* and *advisor experience breadth X advisor experience breadth advantage*, do not indicate high standard errors, 0.000 and 0.006 respectively. Further investigation showed that the 21 binary dummy variables for targets' industry largely contribute to the high mean VIF. We conclude that collinearity does not cause bias to our analysis.

## 4.5 Supplementary analysis

We have built our reasoning on the notion that experience accumulation occurs 'online', through active involvement in advisory mandates, and cannot be substituted by 'offline' experience accumulation (Gavetti & Levinthal, 2000). Nevertheless, our measurement of experience does not account for other opportunities that advisors have to accumulate experience. Financial advisors often go through periods without actually being involved in acquisition advisory mandates, and mostly spend their time doing market research, providing valuable information to colleagues within the advisory firm (Gardner, Gino, & Staats, 2012). These activities may all contribute towards individuals' advisory capability. Hence, employment time, rather than advisors' experience depth, breadth, and recency may be an alternative mechanism driving our results.

To measure, whether advisors' offline experience matters for acquisition premia, we extracted the earliest and last employment date (if prior to the end of our sample period) for all advisor individuals in our sample from Brokercheck. Based on this data, we ran a second analysis to examine the link between the length of advisors' total employment time and acquisition premia. As reported in Table 14, we did not detect a link between the length of advisors' total employment time and acquisition premia. When we included employment length as a control variable, all reported results remained virtually unchanged in direction, magnitude, and significance, as reported in Table 14 and Table 15 (Models 7 to 12).

## Table 14: Study 2 OLS regression with acquisition premium as dependent variable, employment time included

| VARIABLES | Expected direction | Control variables only | 7 | 8 | 9 |
|---|---|---|---|---|---|
| *Hypotheses* | | | | | |
| H1: advisor experience depth | - | | -0.0033 | | |
| | | | (0.060) [0.002] | | |
| H2: advisor experience breadth | - | | | -0.0124 | |
| | | | | (0.000) [0.003] | |
| H3: advisor experience recency | - | | | | -0.0477 |
| | | | | | (0.017) [0.020] |
| *Control variables* | | | | | |
| Employment length prior to 2005, if any | | 0.0001 | 0.0001 | 0.0002 | 0.0001 |
| | | (0.352) [0.000] | (0.351) [0.000] | (0.228) [0.000] | (0.335) [0.000] |
| Financial advisor individual's gender, male=1 | | -0.0424 | -0.0395 | -0.0364 | -0.0366 |
| | | (0.485) [0.061] | (0.517) [0.061] | (0.544) [0.060] | (0.536) [0.059] |
| Multiple team leaders, yes=1 | | 0.0287 | 0.0295 | 0.0279 | 0.0273 |
| | | (0.127) [0.019] | (0.119) [0.019] | (0.136) [0.019] | (0.146) [0.019] |
| Involved advisors both sides | | -0.0174 | -0.0176 | -0.0177 | -0.0178 |
| | | (0.000) [0.004] | (0.000) [0.004] | (0.000) [0.004] | (0.000) [0.004] |
| Financial advisor on both sides, yes=1 | | -0.0412 | -0.0427 | -0.0454 | -0.0430 |
| | | (0.027) [0.019] | (0.021) [0.019] | (0.014) [0.019] | (0.019) [0.018] |
| Bidder experience | | -0.0057 | -0.0048 | -0.0048 | -0.0056 |
| | | (0.049) [0.003] | (0.052) [0.002] | (0.070) [0.003] | (0.049) [0.003] |
| Deal value in USD m | | -0.0000 | -0.0000 | -0.0000 | -0.0000 |
| | | (0.044) [0.000] | (0.099) [0.000] | (0.105) [0.000] | (0.129) [0.000] |
| Target last reported revenue in USD m | | -0.0000 | -0.0000 | -0.0000 | -0.0000 |
| | | (0.783) [0.000] | (0.809) [0.000] | (0.499) [0.000] | (0.421) [0.000] |
| Target last reported earnings in USD m | | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| | | (0.136) [0.000] | (0.011) [0.000] | (0.203) [0.000] | (0.124) [0.000] |
| Mixed payment type, yes=1 | | 0.0508 | 0.0471 | 0.0487 | 0.0468 |
| | | (0.132) [0.034] | (0.168) [0.034] | (0.143) [0.033] | (0.167) [0.034] |
| Equity payment, yes=1 | | -0.0727 | -0.0416 | -0.0405 | -0.0507 |
| | | (0.099) [0.044] | (0.317) [0.042] | (0.326) [0.041] | (0.221) [0.041] |
| Merger, yes=1 | | -0.0683 | -0.0704 | -0.0655 | -0.0696 |
| | | (0.054) [0.035] | (0.045) [0.035] | (0.058) [0.034] | (0.043) [0.034] |
| Price-to-earnings ratio | | -0.0040 | -0.0040 | -0.0032 | -0.0034 |
| | | (0.056) [0.002] | (0.047) [0.002] | (0.067) [0.002] | (0.043) [0.002] |
| Deal completion time | | 0.0001 | 0.0001 | 0.0001 | 0.0001 |
| | | (0.462) [0.000] | (0.504) [0.000] | (0.414) [0.000] | (0.450) [0.000] |
| Inverse mills ratio for experience depth | | -0.0213 | -0.0303 | | |
| | | (0.679) [0.052] | (0.553) [0.051] | | |
| Inverse mills ratio for experience breadth | | 0.3872 | | -0.0802 | |
| | | (0.443) [0.505] | | (0.851) [0.428] | |
| Inverse mills ratio for experience recency | | -0.1090 | | | -0.0814 |
| | | (0.267) [0.098] | | | (0.316) [0.081] |
| Advisor individual level | | Included | Included | Included | Included |
| Advisor firm reputation | | Included | Included | Included | Included |
| Target industry | | Included | Included | Included | Included |
| Acquisition year | | Included | Included | Included | Included |
| Observations | | 963 | 963 | 963 | 963 |
| R-squared | | 0.1998 | 0.2003 | 0.1999 | 0.1999 |
| Constant | | 0.3295 | 0.2986 | 0.2934 | 0.3542 |
| | | (0.009) [0.125] | (0.006) [0.109] | (0.007) [0.109] | (0.005) [0.126] |

P-value in parenthesis. Standard errors between square brackets. All tests are two tailed.

## Table 15: Study 2 OLS regression with acquisition premium as dependent variable, employment time included (continued)

| VARIABLES | Expected direction | Control variables only | 10 | 11 | 12 |
|---|---|---|---|---|---|
| *Hypotheses* | | | | | |
| H4a: Advisor experience depth X Advisor experience depth advantage | – | | -0.0002<br>(0.051) [0.000] | | |
| H4b: Advisor experience breadth X Advisor experience breadth advantage | – | | | -0.0119<br>(0.053) [0.006] | |
| H4c: Advisor experience receny X Advisor experience receny advantage | – | | | | 0.0112<br>(0.683) [0.027] |
| *Control variables* | | | | | |
| H1: advisor experience depth | | -0.0043<br>(0.029) [0.002] | -0.0025<br>(0.420) [0.003] | | |
| Advisor experience depth advantage | | 0.0029<br>(0.069) [0.002] | 0.0016<br>(0.278) [0.001] | | |
| H2: advisor experience breadth | | -0.0056<br>(0.141) [0.004] | | -0.0033<br>(0.529) [0.005] | |
| Advisor experience breadth advantage | | 0.0024<br>(0.957) [0.045] | | 0.0301<br>(0.536) [0.048] | |
| H3: advisor experience recency | | -0.0462<br>(0.034) [0.022] | | | -0.0602<br>(0.022) [0.026] |
| Advisor experience receny advantage | | -0.1886<br>(0.006) [0.067] | | | -0.1279<br>(0.014) [0.052] |
| Employment length prior to 2005, if any | | 0.0001<br>(0.390) [0.000] | 0.0002<br>(0.270) [0.000] | 0.0002<br>(0.210) [0.000] | 0.0002<br>(0.266) [0.000] |
| Financial advisor individual's gender, male=1 | | -0.0068<br>(0.836) [0.033] | -0.0337<br>(0.355) [0.036] | -0.0383<br>(0.303) [0.037] | -0.0042<br>(0.903) [0.035] |
| Multiple team leaders, yes=1 | | -0.0319<br>(0.377) [0.036] | -0.0067<br>(0.851) [0.036] | 0.0004<br>(0.992) [0.036] | -0.0009<br>(0.979) [0.035] |
| Involved advisors both sides | | -0.0156<br>(0.180) [0.012] | -0.0222<br>(0.029) [0.010] | -0.0186<br>(0.105) [0.011] | -0.0196<br>(0.047) [0.010] |
| Financial advisor on both sides, yes=1 | | -0.0203<br>(0.689) [0.051] | -0.0637<br>(0.031) [0.029] | -0.0696<br>(0.063) [0.037] | -0.0664<br>(0.047) [0.033] |
| Bidder experience | | -0.0043<br>(0.284) [0.004] | -0.0020<br>(0.504) [0.003] | -0.0008<br>(0.784) [0.003] | -0.0025<br>(0.449) [0.003] |
| Deal value in USD m | | 0.0000<br>(0.907) [0.000] | -0.0000<br>(0.297) [0.000] | -0.0000<br>(0.367) [0.000] | -0.0000<br>(0.782) [0.000] |
| Target last reported revenue in USD m | | 0.0000<br>(0.013) [0.000] | 0.0000<br>(0.001) [0.000] | 0.0000<br>(0.000) [0.000] | 0.0000<br>(0.000) [0.000] |
| Target last reported earnings in USD m | | -0.0001<br>(0.100) [0.000] | -0.0000<br>(0.546) [0.000] | -0.0000<br>(0.465) [0.000] | -0.0001<br>(0.293) [0.000] |
| Mixed payment type, yes=1 | | 0.1033<br>(0.059) [0.054] | 0.0477<br>(0.282) [0.044] | 0.0681<br>(0.134) [0.045] | 0.0723<br>(0.132) [0.048] |
| Equity payment, yes=1 | | -0.2116<br>(0.005) [0.074] | -0.1497<br>(0.004) [0.051] | -0.1507<br>(0.003) [0.050] | -0.1316<br>(0.016) [0.054] |
| Merger, yes=1 | | 0.1237<br>(0.472) [0.172] | -0.2296<br>(0.081) [0.131] | -0.2130<br>(0.041) [0.103] | -0.1255<br>(0.174) [0.092] |
| Price-to-earnings ratio | | 0.0170<br>(0.615) [0.034] | 0.0127<br>(0.666) [0.029] | 0.0102<br>(0.692) [0.026] | 0.0088<br>(0.712) [0.024] |
| Deal completion time | | -0.0001<br>(0.844) [0.000] | -0.0004<br>(0.352) [0.000] | -0.0004<br>(0.233) [0.000] | -0.0005<br>(0.121) [0.000] |
| Inverse mills ratio for experience depth | | -0.2982<br>(0.035) [0.140] | -0.1308<br>(0.160) [0.093] | | |
| Inverse mills ratio for experience breadth | | 1.6496<br>(0.156) [1.157] | | 0.3750<br>(0.401) [0.445] | |
| Inverse mills ratio for experience recency | | -0.1588<br>(0.243) [0.135] | | | 0.0387<br>(0.486) [0.055] |
| Advisor individual level | | Included | Included | Included | Included |
| Advisor firm reputation | | Included | Included | Included | Included |
| Target industry | | Included | Included | Included | Included |
| Observations | | 210 | 210 | 210 | 210 |
| R-squared | | 0.614 | 0.577 | 0.574 | 0.585 |
| Constant | | 0.4966<br>(0.019) [0.209] | 0.7899<br>(0.000) [0.188] | 0.7401<br>(0.000) [0.188] | 0.5151<br>(0.000) [0.093] |

P-value in parenthesis. Standard errors between square brackets. All tests are two tailed.

Furthermore, we tested in our dataset, whether targets equally profit from the experience depth, breadth, and recency of their advisor individuals. In order to observe target advisor individuals' experience, we used the sub–sample created for Models 4 to 6, which also includes the target advisors' experience. This sub–sample is limited to deals in 2015. As reported in Table 16 and Table 17, in our dataset we could not confirm that experience effects targets premia. While advisors may play an important role to targets as well, negotiation success may depend on other factors for targets. As hypothesized, there is a link between negotiation success and previous experience. However, targets may possess most information required, as they are the object of valuation. As such, it may not be advisor individuals' experience that affects targets' negotiation success. Rather, negotiation success may depend on factors, which affect the exploitation of existing information on the value of the target. This may, for instance, be affected by targets' willingness to actually sell to a given bidder.

As a final note, Table 10 reports a positive correlation between *advisor experience* depth (H1) and acquisition premia and *advisor experience depth X advisor experience depth advantage* (H4a) and acquisition premia. This contradicts with the negative pre–sign we report in Model 1 and Model 4 in support of Hypotheses 1 and 4a respectively (see Table 11 and Table 13). In order to understand which control causes the variable coefficients' pre–signs to invert, we conducted separate regression analyses for each control variable (provided by author on request). We found that the control *target revenue* causes the flip of the variable coefficients' pre–sign. Equally, we found a significant relationship between target revenue and acquisition premia, where an increase in target revenue decreases the premia paid. This finding is in line with prior research that has found that firms pay smaller premia for larger firms (e.g. Alexandridis *et al.*, 2013). As such, we conclude that we filter out an important noise factor for analyzing the link between premia and experience and consider our results not weakened by the mismatch between the results of the positive direct correlation between premia and experience and the negative link between premia and experience after inclusion of our controls.

## Table 16: Study 2 OLS regression with acquisition premium as dependent variable, target perspective

| VARIABLES | Expected direction | Control variables only | 13 | 14 | 15 |
|---|---|---|---|---|---|
| *Hypotheses* | | | | | |
| H1: advisor experience depth | + | | -0.0055 | | |
| | | | (0.036) [0.003] | | |
| H2: advisor experience breadth | + | | | -0.0082 | |
| | | | | (0.271) [0.007] | |
| H3: advisor experience recency | + | | | | -0.0207 |
| | | | | | (0.548) [0.034] |
| *Control variables* | | | | | |
| Financial advisor individual's gender, male=1 | | -0.0612 | -0.0542 | -0.0514 | -0.0578 |
| | | (0.446) [0.080] | (0.495) [0.079] | (0.514) [0.079] | (0.445) [0.076] |
| Multiple team leaders, yes=1 | | -0.0138 | -0.0090 | -0.0287 | -0.0277 |
| | | (0.861) [0.079] | (0.909) [0.079] | (0.728) [0.083] | (0.732) [0.081] |
| Involved advisors both sides | | -0.0234 | -0.0289 | -0.0198 | -0.0209 |
| | | (0.125) [0.015] | (0.055) [0.015] | (0.215) [0.016] | (0.175) [0.015] |
| Financial advisor on both sides, yes=1 | | -0.1114 | -0.1122 | -0.0753 | -0.0778 |
| | | (0.007) [0.041] | (0.006) [0.040] | (0.051) [0.038] | (0.043) [0.038] |
| Target experience | | -0.0524 | -0.0314 | 0.0174 | 0.0171 |
| | | (0.196) [0.040] | (0.299) [0.030] | (0.453) [0.023] | (0.473) [0.024] |
| Deal value in USD m | | -0.0000 | -0.0000 | -0.0000 | -0.0000 |
| | | (0.359) [0.000] | (0.414) [0.000] | (0.074) [0.000] | (0.089) [0.000] |
| Target last reported revenue in USD m | | -0.0000 | 0.0000 | -0.0000 | -0.0000 |
| | | (0.821) [0.000] | (0.931) [0.000] | (0.838) [0.000] | (0.935) [0.000] |
| Target last reported earnings in USD m | | 0.0002 | 0.0001 | 0.0001 | 0.0001 |
| | | (0.136) [0.000] | (0.225) [0.000] | (0.141) [0.000] | (0.176) [0.000] |
| Mixed payment type, yes=1 | | 0.0333 | 0.0515 | 0.0067 | 0.0056 |
| | | (0.408) [0.040] | (0.184) [0.039] | (0.861) [0.038] | (0.887) [0.040] |
| Equity payment, yes=1 | | -0.1096 | -0.0645 | -0.0268 | -0.0758 |
| | | (0.232) [0.092] | (0.217) [0.052] | (0.626) [0.055] | (0.256) [0.067] |
| Merger, yes=1 | | -0.1324 | -0.1999 | -0.2159 | -0.1920 |
| | | (0.377) [0.150] | (0.198) [0.155] | (0.204) [0.169] | (0.214) [0.154] |
| Inverse mills ratio for experience depth | | -0.2745 | -0.3220 | | |
| | | (0.411) [0.334] | (0.348) [0.343] | | |
| Inverse mills ratio for experience breadth | | -0.1418 | | -0.5765 | |
| | | (0.822) [0.630] | | (0.048) [0.290] | |
| Inverse mills ratio for experience recency | | -0.4812 | | | -0.1835 |
| | | (0.171) [0.351] | | | (0.530) [0.292] |
| Advisor individual level | | Included | Included | Included | Included |
| Advisor firm reputation | | Included | Included | Included | Included |
| Target industry | | Included | Included | Included | Included |
| Acquisition year | | Included | Included | Included | Included |
| Observations | | 963 | 963 | 963 | 963 |
| R-squared | | 0.1998 | 0.2003 | 0.1999 | 0.1999 |
| Constant | | 1.2307 | 0.9235 | 0.9293 | 1.0390 |
| | | (0.000) [0.222] | (0.000) [0.108] | (0.000) [0.100] | (0.000) [0.201] |

P-value in parenthesis. Standard errors between square brackets. All tests are two tailed.

## Table 17: Study 2 OLS regression with acquisition premium as dependent variable, target perspective (continued)

| VARIABLES | Expected direction | Control variables only | 16 | 17 | 18 |
|---|---|---|---|---|---|
| *Hypotheses* | | | | | |
| Target advisor experience depth advantage X Target advisor experience depth adva | + | | -0.0002<br>(0.158) [0.000] | | |
| Target advisor experience breadth advantage X Target advisor experience breadth | + | | | 0.0167<br>(0.123) [0.011] | |
| Target advisor experience receny advantage X Target advisor experience receny ad | + | | | | -0.0242<br>(0.790) [0.091] |
| *Control variables* | | | | | |
| H1: advisor experience depth | | -0.0073<br>(0.114) [0.005] | -0.0008<br>(0.892) [0.006] | | |
| Target advisor experience depth advantage | | -0.0033<br>(0.156) [0.002] | -0.0021<br>(0.172) [0.002] | | |
| H2: advisor experience breadth | | -0.0107<br>(0.389) [0.012] | | -0.0009<br>(0.938) [0.012] | |
| Target advisor experience breadth advantage | | -0.0132<br>(0.871) [0.081] | | 0.0321<br>(0.600) [0.061] | |
| H3: advisor experience recency | | 0.0287<br>(0.525) [0.045] | | | -0.0241<br>(0.508) [0.036] |
| Target advisor experience receny advantage | | -0.0418<br>(0.591) [0.078] | | | -0.0765<br>(0.392) [0.089] |
| Financial advisor individual's gender, male=1 | | -0.0170<br>(0.849) [0.089] | -0.0346<br>(0.681) [0.084] | -0.0286<br>(0.734) [0.084] | -0.0402<br>(0.620) [0.081] |
| Multiple team leaders, yes=1 | | -0.0059<br>(0.945) [0.086] | 0.0093<br>(0.905) [0.078] | -0.0149<br>(0.881) [0.099] | -0.0251<br>(0.760) [0.082] |
| Involved advisors both sides | | -0.0257<br>(0.188) [0.019] | -0.0222<br>(0.182) [0.017] | -0.0151<br>(0.456) [0.020] | -0.0208<br>(0.245) [0.018] |
| Financial advisor on both sides, yes=1 | | -0.1375<br>(0.033) [0.064] | -0.1636<br>(0.001) [0.046] | -0.1705<br>(0.009) [0.065] | -0.0960<br>(0.021) [0.041] |
| Target experience | | 0.0221<br>(0.529) [0.035] | 0.0587<br>(0.029) [0.027] | 0.0806<br>(0.000) [0.021] | 0.0776<br>(0.001) [0.023] |
| Deal value in USD m | | -0.0000<br>(0.122) [0.000] | -0.0000<br>(0.008) [0.000] | -0.0000<br>(0.001) [0.000] | -0.0000<br>(0.002) [0.000] |
| Target last reported revenue in USD m | | -0.0000<br>(0.119) [0.000] | -0.0000<br>(0.153) [0.000] | -0.0000<br>(0.062) [0.000] | -0.0000<br>(0.064) [0.000] |
| Target last reported earnings in USD m | | 0.0001<br>(0.466) [0.000] | 0.0001<br>(0.354) [0.000] | 0.0001<br>(0.211) [0.000] | 0.0002<br>(0.105) [0.000] |
| Mixed payment type, yes=1 | | 0.1850<br>(0.008) [0.070] | 0.1391<br>(0.020) [0.059] | 0.1176<br>(0.100) [0.071] | 0.0948<br>(0.144) [0.065] |
| Equity payment, yes=1 | | -0.3947<br>(0.006) [0.143] | -0.2155<br>(0.007) [0.079] | -0.1704<br>(0.045) [0.085] | -0.2064<br>(0.023) [0.091] |
| Merger, yes=1 | | -0.0518<br>(0.736) [0.154] | -0.1337<br>(0.334) [0.138] | -0.1307<br>(0.401) [0.155] | -0.0947<br>(0.486) [0.136] |
| Deal completion time | | 0.0025<br>(0.007) [0.001] | 0.0022<br>(0.006) [0.001] | 0.0020<br>(0.013) [0.001] | 0.0021<br>(0.006) [0.001] |
| Inverse mills ratio for experience depth | | -0.5739<br>(0.271) [0.520] | -0.6118<br>(0.203) [0.479] | | |
| Inverse mills ratio for experience breadth | | 1.3544<br>(0.262) [1.204] | | -0.2962<br>(0.420) [0.367] | |
| Inverse mills ratio for experience recency | | -0.6979<br>(0.065) [0.376] | | | -0.3501<br>(0.236) [0.294] |
| Advisor individual level | | Included | Included | Included | Included |
| Advisor firm reputation | | Included | Included | Included | Included |
| Target industry | | Included | Included | Included | Included |
| Observations | | 282 | 282 | 286 | 286 |
| R-squared | | 0.5334 | 0.5241 | 0.5098 | 0.5054 |
| Constant | | 0.3720<br>(0.253) [0.325] | -0.0210<br>(0.896) [0.161] | 0.7123<br>(0.000) [0.185] | 0.8954<br>(0.000) [0.226] |

P-value in parenthesis. Standard errors between square brackets. All tests are two tailed.

## 4.6 Discussion

In this study, we propose that financial advisor individuals' experience is linked to acquisition outcomes. More specifically, we built on the experience and negotiation literatures to derive specific experience dimensions—experience depth, breadth, and recency—that are linked to advisors' ability to enable their clients to influence the acquisition premium in their favor. Furthermore, we argue that the link between experience and acquisition premium is contingent to the opposite side's experience. We find support for the idea that advisors' experience depth, breadth, and recency are linked to the acquisition premia paid by their clients'. We also find support that advisors' experience depth and breadth is contingent to the opposite sides' experience depth and breadth, but find no support for experience recency being contingent to the opposite sides experience recency. In Hypothesis 3, we argue that bidder advisors' experience recency improves the persuasiveness of bidders' line of negotiation, as the argumentative power of examples used by bidders in the M&A negotiation process may decay, as targets can no longer relate to the used examples. Further, we argue that experience recency helps bidder advisors to benefit from experience to the focal deal, as rapidly changing business environments make previous wisdom quickly obsolete. A potential reason for the lack of a differential effect for H4c may be that the role of persuading the opponent is more attributable to bidders than targets. While bidders may have a clearer vision of what to achieve with the new combination of businesses, targets are likely to be faced with high levels of organizational uncertainty during the M&A process (DeNisi & Schweiger, 1991; Larsson & Finkelstein, 1999; Teerikangas, 2012). Equally, the recency of experience may be less important for the target, as the target's M&A team is likely to be aware of recent trends in their 'home' industry.

Our study entails relevant contributions for both research and practice. First and most centrally, we add to a number of conversations in the M&A performance literature. By examining the impact of financial advisors, we shed light on a group of actors that is omnipresent in M&A processes across the globe, but whose ability to contribute to better M&A decision–making thus far has not been examined much. While prior research suggested that financial advisors have an interest to increase acquisition premia, in order to charge higher fees for their services (Kesner, Shapiro, & Sharma, 1994) and tend to negotiate similar premia across different deals (Haunschild, 1994),

our analysis suggests that individual advisors acquisition experience is linked to lower acquisition premia for bidders. As the acquisition premium significantly affects stock market reactions (Hayward & Hambrick, 1997; Schijven & Hitt, 2012) as well as firms' ability to create post–acquisition value, our analysis ultimately adds another relevant piece to the puzzle of M&A performance (Haleblian *et al.*, 2009). By theorizing how advisors impact M&A outcomes during the negotiation stage, we add to the limited body of research that touches upon M&A negotiations (Coff, 1999; Cuypers, Cuypers, & Martin, 2017; Graebner, 2009; Parola & Ellis, 2013; Walsh, 1989). We also add to the line of research that examined how acquisition experience translates into acquisition performance (Haleblian & Finkelstein, 1999; Heimeriks, Schijven, & Gates, 2012; Zollo & Singh, 2004). Similar to recent insights on how the M&A department effects M&A capability (Trichterborn, Zu Knyphausen-Aufseß, & Schweizer, 2016), we focus on the role of a particular actor in the M&A process. In doing so, we extend previous research on the acquiring firm to the financial advisor as the main experience repository of interest. Contrasting prior studies, which examined experience accumulation of buyers and sellers from a monolithic, firm–level perspective (Barkema & Schijven, 2008), we adopt a more fine–grained view by examining experience at the individual level of analysis. In this vein, our study advances a micro–foundational understanding of organizational capabilities, stressing the role of individuals as key levers of organizational performance (Coff & Kryscynski, 2011; Felin & Foss, 2005).

Furthermore, we contribute to the literature on professional service firms (Greenwood *et al.*, 2005; Hitt *et al.*, 2001). While this literature has found that reputation may be an important factor in explaining the performance of professional service firms (Greenwood *et al.*, 2005), our findings suggest that experience, rather than reputation, enables financial advisors to achieve more favorable acquisition outcomes. Interestingly, our findings indicate that advisory firm reputation does not have a significant impact on acquisition premia and is not correlated significantly with individual level experience depth, breadth, or recency. These insights suggest that factors that contribute to the market performance of professional service firms may be different from factors that contribute to the value advisors add for their clients.

From a managerial perspective, our study offers valuable insights both for firms selecting financial advisors and for financial advisor firms structuring career programs for their employees. With regards to advisor selection, firms have been reported to rely

on advisor reputation (Bao & Edmans, 2011; Sibilkov & McConnell, 2014). However, financial advisors' reputation has been found to be a poor predictor for success (Bowers & Miller, 1990; Golubov, Petmezas, & Travlos, 2012; Hunter & Jagtiani, 2003; Kale, Kini, & Ryan, 2003; Walter, Yawson, & Yeung, 2008). In fact, scholars have also reported that more prestigious financial advisors charge higher fees, while these fees are not related to performance delivered to clients (Chahine & Ismail, 2009; McLaughlin, 1992; Rau, 2000). Which may imply that firms pay 'more for less'. In contrast, we illustrate that advisor individuals' experience is a determinant of M&A negotiation success. As such, our findings provide an alternative criterion for the selection of financial advisors. For financial advisor firms, our study offers empirical support for the usefulness of actively influencing financial advisor professionals' experience. The results of our robustness check indicate that the sheer duration of employment does not affect advisors ability to negotiate more favorable acquisition premia for their clients, but instead hinges upon on–deal experience accumulation.

### 4.6.1 Avenues for future research

There are a number of limitations in our study that point to a range of opportunities for future research. For instance, our study examined the link between acquisition premia and advisors' experience depth, breadth, and recency as isolated constructs. Yet, in practice, advisors may very well possess either all or any combination of these three experience dimensions. The temporal perspective of accumulating these experience dimensions may be particular interesting. Prior literature has highlighted that the order of collecting experience may affect the outcome of the task (Bingham & Davis, 2012). Further research on a potential optimum between different experience dimensions and the role of order would add to the experience literature, offering a more fine–grained understanding of specific experience dimensions in a highly knowledge–intensive work environment.

Next, our study highlights the focal role of negotiations in the M&A process. We control for a number of deal characteristics, which affect acquisition premia. However, we do not explore the contingent role of deal characteristics, which may affect targets' negotiation position, on advisor experience. For instance, experience depth may be more important in industries with complex product specifications. Equally, the ownership structure may influence the impact of experience breadth on the negotiation

outcome. That is, entrepreneurial families holding significant parts of public firms may attach even greater importance on bidders' long–term ambitions. Further analyses of contingencies for advisor experience in M&A negotiations, would contribute to the negotiation literature, enhancing our understanding of mechanisms and success factors in M&A negotiations.

Next, future research could examine whether specific individuals do better in influencing the way they accumulate experience than others and how this links to their job performance. Professionals or their employers actively influence the type of professional experience individuals accumulate over time. Indeed, employees and employers seem to be aware of the upside of composing their own or employees' experience. For instance, lawyers have been reported to influence the staffing process in their favor (Chatain & Meyer-Doyle, 2017). Graduates interested in a career in financial advisory commonly aim at starting their careers at 'generalist' roles to accumulate a range of experience, only to apply for more specialized roles subsequently, e.g. with a focus on a specific industry or deal type. Equally, firms commonly offer specific programs for graduates to receive specific experience of the firm. Findings on whether and how individuals determine how much and what kind of experience they need to accumulate, would have high managerial relevance and add to the experience literature.

Financial advisor firms' compensation in the M&A process commonly represents a fraction of the deal value and is only paid in case of deal completion (McLaughlin, 1990). This suggests potential conflicts of interest between acquirers and their financial advisors, as advisor may aim at a higher deal value prices (higher premia), while it is in the interest of their clients to achieve a lower price (lower premia) (Golubov, Petmezas, & Travlos, 2012; Hunter & Jagtiani, 2003; McLaughlin, 1992). However, we expect that the compensation of financial advisors does not cause bias to the link between advisor individuals' experience and acquisition premia. First, acquisition premia allow clients to evaluate, whether hired financial advisors have contributed towards their M&A success. This is relevant, as professional services, such as financial advisory in the M&A process, have often been considered highly 'opaque' activities (Von Nordenflycht, 2010), in which output quality is hard for clients to evaluate, even after the output is delivered (Løwendahl, Revang, & Fosstenløkken, 2001). Its seems unlikely that financial advisors risk their market reputation in exchange

for a one off increased fee (McLaughlin, 1990). However, the issue of conflicts of interest based on deal value–based compensation may persist in certain settings. Further research on how compensation types affect financial advisors' performance and usage of experience would be interesting.

Lastly, our sample is limited to advisors that where involved in public deals in 2015 where both the bidder and the target where headquartered in the United States. The sample for the experience profiles of the examined financial advisors cover public and private deals in virtually all industries and of highly varying sizes. The U.S. M&A market remains the largest market global and standards set by the FINRA commonly serve as blueprints for the remaining world's capital markets. Furthermore, today's capital markets offer such a level of interconnection. However, the focus on U.S. deals in our sample may limit the generalizability of our findings to some extent. Future research could use a sample with multiple countries.

To conclude, based on the experience and negotiation literatures we derive specific financial advisor individuals' experience dimensions that positively link to their clients' negotiation position over acquisition premia in M&A. We test the hypothesized links and our findings indicate that advisor individuals' experience indeed is linked to acquisition outcome.

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# 5 Study 3: Informal Hierarchies and Team Performance: Evidence from the M&A Advisory Context


## Abstract

In an effort to understand what determines team performance, scholars have examined team hierarchies and expertise. While research has acknowledged that hierarchies can arise from expertise, the link between formal hierarchies and expertise–based hierarchies has not yet received much attention. Building on the team expertise and hierarchy literatures, we posit that the interplay between formal hierarchies and expertise–based hierarchies affects team performance. We examine this relationship in the M&A advisory context, conceptualizing team performance as financial advisor teams' success in helping their clients to achieve more favorable acquisition premia as a result of efficiently exploiting advisor teams' expertise. Based on 77 bidder financial advisors teams advising 85 M&A deals in 2015, we analyze the distribution of 242 financial advisor individuals' experience across formal team hierarchy levels. Our findings suggest that bidder financial advisor teams' experience, in general, is linked to more favorable acquisition premia for their clients. However, financial advisor teams achieve less favorable acquisition premia for the clients, if their team members' experience is distributed incongruently to their formal hierarchy. Further, we find that deal complexity strengthens this negative effect.



## Keywords

Team Performance, Expertise, Team Hierarchies, M&A, Financial Advisors, Project Teams

## 5.1 Introduction

Teams have become a common setup for organizational decision–making and task execution. Firms use expert teams on high–stakes projects, hoping to build on experts' cumulative expertise to accomplish results, exceeding individual abilities (Argote, Gruenfeld, & Naquin, 2001; Thomas-Hunt & Phillips, 2003). The more important the outcome, the more important it is that the team maximizes the use of its expertise (Bunderson & Sutcliffe, 2002; Hackman & Morris, 1975). However, many teams consistently fail to fully use their members' expertise, causing lower–quality decisions and outcomes (Baumann & Bonner, 2004; Bunderson, 2003; Hackman, 2011). It remains a puzzle in research on team performance, why some teams are better in exploiting the full potential of their members' expertise than others (Bunderson, 2003; Gardner, Gino, & Staats, 2012; Hackman, 2011).

As an "unavoidable reality of group life" (Bunderson et al., 2016, p. 1265), formal hierarchies in teams have received significant attention as a determinant of improved team performance. Yet, collective evidence remains inconclusive, ranging from positive (Ahuja & Carley, 1999; Rulke & Galaskiewicz, 2000) to negative (Halevy, Chou, & Galinsky, 2011; Siegel & Hambrick, 2005) relationships between formal hierarchies and team performance. Besides hierarchies based on an imposed structure, hierarchies can also arise from perceived merit, such as team members' expertise (Bunderson et al., 2016; Halevy, Chou, & Galinsky, 2011; Ravlin & Thomas, 2005), pointing towards an important observation. Team expertise and hierarchies are highly intertwined, as the distribution of team members' expertise across team members' hierarchical positions in the team may result in the formation of expertise–based hierarchies. Yet, research to date seems to have neglected the link between formal and expertise–based hierarchies, as most prior work has rested on the assumption that only one main hierarchy is in play at any one time (Magee & Galinsky, 2008). This comes as a surprise, as team hierarchies are almost always a mixture of both formal and expertise–based hierarchies (Halevy, Chou, & Galinsky, 2011; Ravlin & Thomas, 2005). Furthermore, teams' formal and expertise–based hierarchies may be congruent, whereas for others they may not. As the link between team expertise and performance is contingent to team processes, which enable teams to exploit their expertise (Kogut & Zander, 1992), the co–existence of and interplay between formal and expertise–based

hierarchies in teams may be an important, yet underexplored, contingency of expertise–use processes and, ultimately, team performance.

This study addresses the question: How does the interplay between formal hierarchies and expertise–based informal hierarchies affect team performance in the context of financial advisor teams in the M&A process? We consider financial advisor teams in the M&A process as a particularly relevant context to our theoretical argument, as expertise and hierarchies play a key role for the performance of financial advisor teams in the M&A process. M&A deals are usually advised by only a handful of people (Zhu, 2013). Offering knowledge–intensive services, financial advisor firms in the M&A process heavily rely on the expertise of their M&A teams (Hitt, Harrison, & Ireland, 2001; Von Nordenflycht, 2010). Furthermore, deals are subject to a high level of complexity and involve many unknown variables (Duhaime & Schwenk, 1985). The creation of solutions to complex and unknown problems requires the flow of expertise within a team, as team expertise is less valuable by itself, but rather gains value when the team constellation permits the seamless flow of expertise (Kogut & Zander, 1992). Hierarchies can allow expertise to flow more efficiently between members (e.g. Ahuja & Carley, 1999; Rulke & Galaskiewicz, 2000). Furthermore, the M&A process poses intense time pressure on all involved parties (Haas & Hansen, 2005). As such, the efficient use of knowledge plays a key role in M&A advisor teams. Hierarchies have been linked to efficiency, as hierarchies give disproportionate control to one or a few members, helping groups to make decisions more efficiently and avoid conflict over control (Van Vugt, Hogan, & Kaiser, 2008).

Studying the particular issue of *congruence* between formal and expertise–based hierarchies seems equally relevant in the setting of M&A financial advisor teams. First, we expect congruence between formal and expertise–based hierarchies to be likely to occur in financial advisor teams, as professional services apply highly competitive application criteria and procedures (Hitt *et al.*, 2001). In this highly competitive environment, prestigious academic titles and institutions are often preferred to experience, as these titles signal competence to clients. Many financial advisory firms also actively seek to hire graduates with diverse backgrounds. Second, studying financial advisor teams allows us to carefully tie function and tasks of the teams being studied to acquisition premia, an outcome that is relevant not only to the teams in question but also to the entire organization (e.g. Mathieu *et al.*, 2008). In the setting of

team performance, it is often difficult to generalize performance, as team performance is context specific and, thus, often varies between studies by virtue of teams' being nested within organizations.

We integrate findings from research on team expertise and team hierarchy to test the theoretical argument that the interplay between formal and expertise–based hierarchies affect financial advisor teams' performance in the M&A process. More specifically, we posit that 1) financial advisor teams' expertise is linked to favorable acquisition premia for their clients. However, we argue that the positive link is contingent to the degree of concordance between formal hierarchy and expertise–based hierarchies. We expect that 2) team expertise distributed congruently to teams' formal hierarchy positively influences team performance, while 3) team expertise distributed contrarily to teams' formal hierarchy negatively influences team performance. Furthermore, we posit that 4) teams' hierarchy steepness and 5) the complexity of the task performed by the team moderate the link between expertise distribution and team performance.

We test our hypotheses based on 77 bidder financial advisors teams advising 85 M&A deals in 2015, we analyze the distribution of 242 financial advisor individuals' experience across formal team hierarchy levels. Accounting for prior research on financial advisors (Haunschild, 1993; Rau, 2000) and acquisition premium (Hayward & Hambrick, 1997; Laamanen, 2007; Malhotra, Zhu, & Reus, 2015), we control for a range of financial advisor and deal characteristics. As we examine experience on the team level of analysis, we also control for a number of individual and team–level characteristics. Our findings largely support our hypotheses.

## 5.2 Theory and hypotheses

Firms involved in M&A deals commonly rely on financial advisors in an attempt to simplify decision–making processes and reduce information asymmetries (Hayward, 2003; Kesner, Shapiro, & Sharma, 1994; Servaes & Zenner, 1996; Sleptsov, Anand, & Vasudeva, 2013). One key role of financial advisors consists of advising acquirers on the buying price (Haunschild, 1994; Kisgen, Qian, & Song, 2009), as deals are often subject to a high level of complexity, involve many unknown variables (Duhaime & Schwenk, 1985; Laamanen, 2007), and targets tend to share very little information that is not already held in common (Coff, 1999; Zhu, 2013).

### 5.2.1 Financial advisor teams' expertise in the M&A process

In advising acquirers on the buying price, financial advisors' expertise plays a key role (Bowers & Miller, 1990; Golubov, Petmezas, & Travlos, 2012; Hunter & Walker, 1990; Servaes & Zenner, 1996). Professional expertise is the experience that professionals attain through training, together with the proficiencies and judgment they develop over time, helping professionals to deliver their services in an effective and profitable manner (Morris & Empson, 1998). Once an acquirer has selected a target, the acquisition premia is the result of a complex negotiation process, where both bidders and targets attempt to influence the acquisition premium in their favor (Walsh, 1989). In this negotiation process, many variables remain uncertain and open to judgment (Trautwein, 1990). To support acquirers in the M&A price negotiation, financial advisors firms apply a highly specialized skill set (Bonner & Lewis, 1990; Schilling *et al.*, 2003), which relies on the experience of their workforce (Hitt, Harrison, & Ireland, 2001; Von Nordenflycht, 2010). Repeated prior exposure to M&A deals enables advisor individuals to accumulate the required expertise (Morris & Empson, 1998), for instance, to better identify synergistic opportunities associated with the potential target—an important factor of how much an acquirer should pay for a target (e.g. Haspeslagh & Jemison, 1991; Hitt, Harrison, & Ireland, 2001; Larsson & Finkelstein, 1999). Over time, financial advisor individuals also become familiar with common analytical frameworks (D'Aveni, 1996), such as, methods used for evaluation of targets in technology–intensive industries, which pose increased uncertainty regarding the evaluation of future cash flows from the accumulated R&D investments of technology (Laamanen, 2007). By incorporating their experience on analytical frameworks from prior deals, financial advisor individuals are better able to cope with such evaluation uncertainty. As such, we expect that the sum of financial team member individuals' expertise—based on the team members' experience on previous M&A deals—plays a focal role in how well financial advisor teams can help acquirers to achieve acquisition premia in their favor.

> **Hypothesis 1 (H1)** *Financial advisor teams' total experience affects acquisition premia in their clients' favor.*

### 5.2.2 The interplay between formal and informal hierarchies in financial advisor teams

While the cumulative expertise of individuals is an important determinant of teams' success, the link between team expertise and team outcome depends on how well the team can use its cumulative expertise. In expertise–intensive services, such as financial advisory in the M&A process, team expertise may often be less valuable by itself, but rather gains value when the team constellation permits the seamless flow of expertise (Kogut & Zander, 1992). A key determinant of teams' expertise–use processes are hierarchies, as hierarchies allow expertise to flow more efficiently between members (e.g. Ahuja & Carley, 1999; Rulke & Galaskiewicz, 2000).

Hierarchies can arise from formal authority (Bunderson, 2003). The signs of hierarchy formalization include job titles, reporting structures, and organization charts (Magee & Galinsky, 2008). However, hierarchies can also emerge informally in teams. Extant research has examined informal hierarchical differentiation in small groups (Anderson *et al.*, 2001; Bales *et al.*, 1951; Berger, Rosenholtz, & Zelditch, 1980; Eagly & Karau, 1991; Mast, 2006). The basis for informal hierarchical differentiation varies widely, however, as soon as one dimension—a characteristic or a resource—is considered important in a group or organization, individuals will naturally and spontaneously differentiate hierarchically along that dimension (Magee & Galinsky, 2008). Indeed, scholars have pointed out that hierarchies can arise based on perceived merit, such as team members' expertise (Bunderson *et al.*, 2016; Magee & Galinsky, 2008; Ravlin & Thomas, 2005).

The co–existence between formal and informal hierarchies, which we from now on refer to as *expertise–based hierarchies*, provides the backdrop for our further theory building. Hierarchies do not exist in isolation as groups and organizations have multiple valued dimensions on which people can be rank ordered (Magee & Galinsky, 2008). More specifically, team hierarchies are almost always a mixture of both formal and expertise–based hierarchies (Halevy, Chou, & Galinsky, 2011; Ravlin & Thomas, 2005). Research on 'status inconsistency', where individuals have high status in one domain but differing status on another domain, has shown that status inconsistencies lead to individual conflicts and pressures (Lenski, 1954; Stryker & Macke, 1978). In a theoretical paper, Bacharach, Bamberger, and Mundell (1993) posit that individuals'

status inconsistencies cause others to hold contradictory expectations for the individual's behavior, resulting in stress for the status–inconsistent individual. These insights suggest that inconsistencies between different dimensions of hierarchy raise the potential for contradictions or inconsistencies between individuals.

*5.2.2.1 Incongruence between formal and expertise–based hierarchies*

In M&A financial advisor teams, a high level of interdependence across team members exists. The M&A process poses intense time pressure on all involved parties (Haas & Hansen, 2005), which requires coordinated interaction (Srikanth & Puranam, 2011; Thompson, 1967). The requirement to communicate and coordinate leads to interdependencies between team members, as each team member is dependent on other team members to communicate and cooperate. When high interdependence between interdependent group members operates together with conflicting preferences, power conflict are likely to arise (Gresov & Stephens, 1993).

Preferences between the team leader and lower–ranking team members are likely to diverge quickly in teams where formal and expertise–based hierarchies are not congruent. Higher–ranking team members are expected and usually also contractually obliged to hold greater responsible and execute more important tasks (Hickson *et al.*, 1971). A lack of expertise among higher–ranking team members will have a direct impact on their lower–ranking counterparts. As teams perform better when members with the greatest expertise relevant to the task exert the most influence (Bunderson, 2003; Libby, Trotman, & Zimmer, 1987), a lack of expertise of the team leader will require lower–ranking team members to fulfill tasks of the team leader. Not taking over the tasks of the team mem member may shed a negative light on the advisory firm, to which the team members are accountable. Financial advisor individuals, such as in other formal organizations, are motivated to gain the approval and respect of those to whom they are accountable (Lerner & Tetlock, 1999). In executing tasks, that otherwise would be expected to be performed by the team leader, lower–ranking team members are likely to develop the preference to achieve formal and informal appreciation more similar to the team leader's appreciation. Lower–ranking members' resource asymmetry stemming from their relative higher expertise compared to the team leader will enable lower–ranking team members to use numerous tactics, including coercion, co–optation, and politics to attain more influence over practices in the team (Pfeffer & Salancik,

1974; Williamson, 1991). At the same time, the team leader will want to maintain its power position in order to comply with his formal role requirements and personal interests. The team leader may feel empowered by lower–ranking team members, which stick to the formal hierarchy in order to opt for simplified solutions that satisfy stereotypical standards (Gordon, Rozelle, & Baxter, 1988) or to engage in self–protective behavior (Adelberg & Batson, 1978). In combination with the earlier outlined interdependency between team members, these conflicting preferences between the team leader and lower–ranking team members will lead to power conflicts, distracting team members from organizational objectives and disrupt relationships, information sharing, and, ultimately, performance (Eisenhardt & Bourgeois, 1988).

Besides power conflicts, we expect incongruences between formal and expertise–based hierarchies to hinder team members' effective access to expertise. Hierarchies provide clear lines of direction and deference (Magee & Galinsky, 2008), offering team members a form of orientation on whom they should defer and who should defer to them (Simpson, Willer, & Ridgeway, 2012). However, in order for members to be able to use these directions, the team must first recognize team members' expertise as valuable to its task (Bunderson, 2003; Stasser, Stewart, & Wittenbaum, 1995). Expertise recognition is the correspondence between a team member's true capabilities and other members' perceptions of those capabilities (Libby, Trotman, & Zimmer, 1987). The more accurate the perception, the more a team can allocate influence in accordance with true expertise (Bunderson, 2003). We expect that incongruence between formal and expertise–based hierarchies leads to a mismatch between team members' expectation of where expertise is allocated—driven by teams' formal hierarchies—and the true expertise allocation. The directions given by the formal hierarchy will contradict with those given by the expertise–based hierarchy, which will complicate effective access to team members' expertise. This argument is in line with the finding that the number of relations among team members is linked to increasing complexity for individual sense–making, as team members will search for alternative relations within the team to find the required expertise (Knight *et al.*, 1999). Lower–ranking team members may arrange with the inconstancies between formal and expertise–based hierarchies over time. However, team members' understanding to whom they should defer and who should defer to them is a gradual process (Simpson, Willer, & Ridgeway, 2012), which requires time and mental resources. Time and mental

resource are usually scarce for financial advisor teams in the M&A process, accentuated by the fact that project teams commonly re–form with each project (e.g. Gardner, Gino, & Staats, 2012).

Taken together, we expect that incongruences between formal hierarchies and expertise–based hierarchies lead to power conflicts and hinders accurate recognition where expertise is located in the team, ultimately, negatively affecting teams' ability to fully exploit their team expertise and help their client to achieve favorable acquisition premia.

> **Hypothesis 2 (H2)** *Incongruence of formal and expertise–based hierarchies in financial advisor teams affects acquisition premia against their clients' favor.*

*5.2.2.2 The moderating role of teams' formal hierarchy steepness*

Formal hierarchies in financial advisor teams in the M&A process can vary substantially, ranging from steep to flat hierarchies, where the highest formal hierarchy rank is rather distant or rather close to the lowest rank, respectively. We expect that steep formal hierarchical in teams will weaken the earlier hypothesized issues caused by incongruences between formal and expertise–based hierarchies.

Prior findings suggest that the steepness of team hierarchies affects team performance (Anderson & Brown, 2010). Low steepness or centralized power has been theorized to be "a recipe for jealousy, rivalry, competition, coalition building, and conflict as those members with identical ranks jockey with one another in their attempts to secure resources, enhance status, and curry favor with more powerful members" (Bunderson *et al.*, 2016, p. 1269). Empirical findings suggest that low steepness within social structures breeds rivalry (Kilduff, Elfenbein, & Staw, 2010) and competition for status and resources (Ingram & Qingyuan Yue, 2008). In a setting where team members are under the impression that their leader is not sufficiently skilled, a flat hierarchical steepness will be a fertile soil for rivalries and status conflicts. Status conflicts are "disputes over people's relative status positions in their group's social hierarchy" (Bendersky & Hays, 2012, p. 323) and may result in time–consuming disruptions, as team members focus on power games rather than the teams' tasks (Bendersky & Hays, 2012; De Wit, Greer, & Jehn, 2012; Jehn, 1997). Disruptions based on political dynamics are not only time–consuming, but may also undermine members' willingness

to express doubts or accept others' opinions, which is required for efficient flow of expertise between individuals (Kozlowski *et al.*, 1999).

Equally, we expect that teams with a steeper formal hierarchy are more likely to offset the negative effects of an incongruence between formal and expertise–based hierarchies on team performance. Differences in teams' formal hierarchical steepness can also be seen as difference across members in power or status (Bunderson *et al.*, 2016). A larger difference in power or status across team members may keep members form engaging in confrontations with higher–ranking team members.

> **Hypothesis 3 (H3)** *The negative relationship between financial advisor teams' incongruence of expertise–based and formal hierarchies and acquisition premia is weaker in teams with steep hierarchies.*

*5.2.2.3 The moderating role of task complexity*

The complexity of M&A can vary substantially. Particularly, transactions in which firms aim to expand into previously untapped markets are exposed to increased levels of complexity (e.g. Beckman & Haunschild, 2002; Du & Huang, 2016). We expect increasing deal ambiguity to directly affect financial advisor teams, as complexity affects the clarity, routineness, and predictability of group tasks (Withey, Daft, & Cooper, 1983). This argumentation is in line with prior research, which found that task complexity, as an contextual factor of team work, enables and constrains members' interactions (Ahuja & Carley, 1999; Halevy, Chou, & Galinsky, 2011; Siegel & Hambrick, 2005).

An important process in coping with increasing ambiguity in teams are discussions between team members (Bigley & Roberts, 2001). These discussions will require, however, some kind of moderation to ensure that the financial advisor teams deliver complete information to their clients in time. In particular, as the M&A process poses intense time pressure on all involved parties (Haas & Hansen, 2005). This is also in line with the finding, that team functioning depends on members' ability to focus team attention efficiently (Argyris, 2003; Tjosvold & Yu, 2004). The formal team leader is likely to be responsible for the discussion moderation, as the team leader's voice commonly is given greater weight when disagreements arise (Fein, 2017). In teams with a congruence between formal and expertise–based hierarchies, the formal and expertise–based hierarchies match and provide a balance to the cognitive demands of

increasing task complexity. However, in teams with an incongruence between teams' formal and expertise–based hierarchies, the balancing role of hierarchies will invert to hierarchical ambiguity. As a result, we expect the negative link between financial advisor teams' with an incongruence between formal and expertise–based hierarchies to be stronger in more complex deals.

> **Hypothesis 4 (H4)** *The negative relationship between financial advisor teams' incongruence of expertise–based and formal hierarchies and acquisition premia is stronger in complex deals.*

## 5.3 Data and analysis

### 5.3.1 Sample and data sources

The empirical context of this study is the U.S. M&A advisory market in 2015. Limiting our sample to the U.S. market allows us to account at least partially for cultural differences. Prior work in this field has demonstrated that the role of hierarchies (Hraba, Hagendoorn, & Hagendoorn, 1989) and expertise (Simonin, 2002) is contingent to the culture bound to the geography observed. We obtained our data from the financial information service provider Mergermarket and crosschecked the employers and employment dates via Brokercheck, a U.S. state–regulated database, and LinkedIn. Mergermarket employs 300 dedicated M&A journalists and analysts in 67 locations globally, but does also rely on data provided by financial advisors (Mergermarket, 2018). The latter applies particularly for the advisor individuals involved in a deal, as firms are usually not legally obliged to publish advisors. In addition, official statements, such as press releases, frequently do not report advisor individuals. As such, the data provided by Mergermarket may be subject to structural data incompleteness. Potential sources for structural incompleteness may be financial advisors' nascence of Mergermarket, failure to report information in time, and confidentiality concerns. Advisors may also claim credit for deals, which they have not advised. Yet, a number of considerations suggest that structural incompleteness is not a serious concern: Firstly, the Mergermarket database is widely used among investment banks and other professional service firms (Chatain & Meyer-Doyle, 2017)—evident in approximately 175,000 subscribers globally (Mergermarket, 2018). Data from Mergermarket is commonly used to create league tables of financial advisors. League tables play a major

role for financial advisors, as clients rely on league tables to choose financial advisors (Derrien & Dessaint, 2018). The widespread use of Mergermarket among advisors and the importance of Mergermarket league tables make it seem unlikely that financial advisors do not report information to Mergermarket due to a lack of awareness. Secondly, Mergermarket claims to report deadlines for information submissions to advisors quarterly. Usually, the deadlines are between two and three weeks prior to the end of a quarter (Mergermarket, 2012). As Mergermarket accepts submission over the period of the quarter and communicates submission deadlines regularly, we consider it unlikely that advisors fail to submit information during this timeframe. Thirdly, non–disclosure agreements between advisors and clients usually only include the obligation to conceal participation in a deal prior to announcement, making it unlikely that advisor individuals prefer to avoid disclosing advisory mandates due to confidentiality concerns towards their clients. Lastly, although individual–level ranking lists, such as the *Top 100 Financial Advisors* list published annually by Dow Jones & Company's newspaper Barron's, may induce advisors to claim credit for deals they have not been involved in, Mergermarket actively attempts to prevent such behavior, by requiring advisors to provide press release or stock exchange announcements. For larger deals, where advisors are not indicated in a press release or stock exchange announcement, Mergermarket requires advisors to provide official documentation (Mergermarket, 2012).

We started by compiling all financial advisor individuals involved in public deals with U.S.–based targets and sellers announced in 2015, reported by Mergermarket. We extracted 668 unique financial advisor individuals. In a next step, we created deal experience profiles for each of these 668 individuals based on deal data provided by Mergermarket. The financial advisor individuals' experience profiles embrace 5,052 observations between 2005 and 2015, corresponding to 2,872 unique deals. The number of unique deals differs from the number of observations, as in many cases multiple advisors advise on the same deal. In the experience profiles, we also included non–completed deals, as we assume that bidder advisors gain experience about the focal deal's industry even if a deal is not closed, for instance, via interaction with the bidder or market research in support of the M&A negotiations. In a final step, we aggregated advisor individuals' experience to a team level for all deals covered in 2015. Focusing only on bidder advisors and after discarding deals with missing variables, we obtain a

final sample of 242 financial advisor individuals working in 77 teams to advise 85 M&A deals in 2015. The experience profiles of the 242 financial advisor individuals embrace 2,046 prior deals accumulated between 2005 and 2015.

In order to ensure the reliability of the experience profiles of the individual advisors, which constitute the main data source for all our independent variables, we validated each individual advisor profile with the Brokercheck database and, if not possible, with LinkedIn data. Brokercheck is an online database on financial advisors that is provided by the U.S. state–regulated Financial Industry Regulatory Authority (FIRA). While Brokercheck does not provide information on the specific deals advised by each individual, it provides detailed employment records, allowing us to check whether all advisory firms an individual advisor has worked for, are covered in our experience profiles. In 19 cases, we were not able to find the respective advisor on Brokercheck. These advisors may not be covered in the database, because they have never registered with a U.S.–based financial advisor or a U.S.–based subsidiary of a foreign financial advisor active in the United States. For these advisors, we crosschecked the employers and employment dates via LinkedIn. LinkedIn is an online professional networking service with over 560 million members in 200 countries (LinkedIn, 2018). As employers and headhunting firms use LinkedIn actively for recruiting job seekers, members have an incentive to provide accurate and up to date information via LinkedIn. Prior literature has used the service to verify information on individuals (Siming, 2014).

### 5.3.2 Dependent variable

As illustrated in Table 18, our dependent variable for M&A negotiation quality is *acquisition premium*. While the role of financial advisors in the M&A process may vary substantially, one key role consists of advising their clients on the buying or selling price (Haunschild, 1994; Kisgen, Qian, & Song, 2009). The premia paid by bidders play a focal role in bidders' M&A outcome, as greater acquisition premia offer incentives for the target to accept the bid (Bertrand, Betschinger, & Settles, 2016), while overpaying may lead to an underperformance of the acquisition (Haunschild, 1994). As such, we consider acquisition premia paid by advised bidders as a useful measure to assess financial advisor teams' performance. We measure acquisition premium as the acquirer's bid minus the target's market value one day prior to deal announcement,

divided by the target's market value one day prior to deal announcement (e.g. Laamanen, 2007). We observe solely financial advisors that advise the bidder of a focal target. As such, we consider a decrease of the acquisition premium, i.e. the price advised bidder pay, a positive outcome of M&A negotiation quality.

### 5.3.3 Independent variables

Team expertise stands at the center of our reasoning. Professional (team) expertise is the experience that professionals attain through training, together with the proficiencies and judgment they develop over time, helping professionals to deliver their services in an effective and profitable manner (Morris & Empson, 1998). Prior studies examining team expertise have largely relied on qualitative data (e.g. Edmondson, 1999; Fong Boh, Slaughter, & Espinosa, 2007). However, it is common that qualitative variables to measure prior experience are included as well. These are measured, for instance, in tenure time (Edmondson, 1999; Hitt *et al.*, 2001; Williams, Chen, & Agarwal, 2017). More specific to our research context, it has long been established that professional services firms, such as financial advisors, use prior experience to develop the specialized expertise required to successfully execute their job (Bonner & Lewis, 1990; Morris & Empson, 1998; Schilling *et al.*, 2003). Building on these insights, we measure expertise as the experience on M&A deals, which an advisor individual has advised prior to the focal deal and aggregate these to the team level. More specifically, *total team experience* represents the count of prior deals advised by all team members. We measure *team leader experience* as the count of prior deals by team members with highest hierarchy level, while *team staff experience* is the count of prior deals by team members with a hierarchy level lower than the highest in the team. *Team staff experience–team leader experience* measures the difference between team staff and team leader experience.

### 5.3.4 Moderators

Following earlier research on hierarchies (e.g. Anderson & Brown, 2010; Harrison & Klein, 2007), we measure *hierarchy steepness* as the difference between the highest and lowest–ranking team member in a given team. Based on the four individual advisor hierarchy levels provided by Mergermarket, we measure *hierarchy steepness* as the difference between the highest and lowest hierarchy level in the team, ranking from 0 to 3. To illustrate, a team in which the highest hierarchy level is Level 1 and the lowest

level is Level 4, the hierarchy steepness would result in a hierarchy steepness of 3. We operationalize *deal complexity* as whether a bidder and target company operates in the same industry or not. Literature on complexity posed on teams commonly rely on qualitative measures (e.g. Bunderson *et al.*, 2016; Withey, Daft, & Cooper, 1983). Given the context of this study, we follow research on M&A outcome and measure complexity as deals where firms expand into previously untapped markets via M&A (e.g. Beckman & Haunschild, 2002; Du & Huang, 2016).

**Table 18: Study 3 variable definitions**

| Variable | Definition |
|---|---|
| *Dependent variable* | |
| 1 Acquisition premium | Acquirer's bid minus the target's market value one day prior to deal announcement, divided by the target's market value one day prior to deal announcement |
| 2 Acquisition premium | Acquirer's bid minus the target's market value one day prior to deal announcement, divided by the target's market value 4 weeks prior to deal announcement |
| *Independent variables* | |
| 3 Bidder financial advisor teams' experience | Count of deals, which team members on focal deal have advised prior to deal announcement |
| 4 Bidder financial advisor teams' incongruence between expertise–based and formal hierarchies | Count of deals, which lower-ranking team members on focal deal have advised prior to deal announcement, minus count of deals, which team leaders on focal deal has advised prior to deal announcement |
| 7 Bidder financial advisor team leaders' experience | Count of deals, which team leaders on focal deal has advised prior to deal announcement |
| 8 Bidder financial advisor lower-ranking team members' experience | Count of deals, which lower-ranking team members on focal deal have advised prior to deal announcement |
| *Moderators* | |
| 9 Bidder financial advisor team's formal hierarchy steepness | Highest minus lowest hierarchy level in financial advisor team |
| 10 Deal complexity, yes=1 | Bidder and target companies do not operate in same industry |
| *Control variables* | |
| 11 Financial advisor on both sides, yes=1 | At least one financial advisor firm on each side |
| 12 Team size advantage | Count of advisors individuals on bidder side minus count of advisor individuals on target side |
| 13 Multiple advisor firms advantage | Count of advisors firms on bidder side minus count of advisor firms on target side |
| 14 Target earnings | Target last reported earnings in USD m |
| 15 Deal completion time | Days between announcement and closing date |
| 16 Merger, yes=1 | Deal is a merger |
| 17 Institutional buyout, yes=1 | Deal is an institutional buyout |
| 18 Mixed payment type, yes=1 | Deal is financed with at least two different methods, e.g. cash and stocks |
| 19 Cash payment, yes=1 | Deal is cash-financed |
| 20 Price-to-earnings ratio | Market price per share divided by earnings per share |
| 21Bidder financial advisor firm is bulge bracket bank, yes=1 | Advisor firm has been among the five largest advisor firms based on deal value in USD m in the year before before focal deal has been announced |
| 22 Bidder financial advisor firm is major bracket bank, yes=1 | Advisor firm is among the sixth and 20th largest advisor firms based on deal value in USD m in the year before before focal deal has been announced |
| 23 Bidder financial advisor firm is third-tier bank, yes=1 | Advisor firm is among the 21st and 30th largest advisor firms based on deal value in USD m in the year before focal deal has been announced |
| 24 Bidder experience | Count of deals, which bidder firms have advised prior to deal announcement |
| 25 Prior financial advisor-client collaboration | Count of deals prior to deal announcement, on which bidder firms and advisor firm worked together |
| 26 Inverse Mills ratio, H1 | Inverse Mills ratio based on Target earnings, Deal completion time, Mixed payment type, Bidder experience, Prior advisor-client collaboration |
| 27 Inverse Mills ratio, H2-4 | Inverse Mills ratio based on Target earnings, Merger, Mixed payment type, Bidder experience, Prior advisor-client collaboration |
| 28 Inverse Mills ratio, Bidder financial advisor team leaders' experience | Inverse Mills ratio based on Target earnings, Mixed payment type, Bidder experience, Prior advisor-client collaboration |
| 29 Inverse Mills ratio, Bidder financial advisor lower-ranking team members' experience | Inverse Mills ratio based on Merger, Institutional buyout, Cash payment, Bidder experience, Prior advisor-client collaboration |

### 5.3.5 Control variables

As we aggregate individual experience and examine it at a team level of analysis, we control for a number of team–level characteristics. We include a dummy variable accounting for whether *both bidder and target rely on a financial advisor*. Furthermore, we control for whether the bidder or target has a *team size advantage* or *multiple advisor firms advantage*, measured as the difference between the number of advisor individuals and firms on the bidder and target side. A larger relative count of individuals or firms may lead to greater resource availability, interpersonal connections or intimidation of the opposite side, which may affect the acquisition premium (Corwin & Schultz, 2005; Lee, 2013; Sleptsov, Anand, & Vasudeva, 2013).

Accounting for prior research on acquisition premium, we control for the target firm's earnings (Hayward & Hambrick, 1997), measured as reported figures before deal announcement in USD million. We also control for deal *completion time* (Hunter & Jagtiani, 2003), measured as the days between announcement and closing date. As the deal type (Malhotra, Zhu, & Reus, 2015) may also affect premia, we control for *mergers*, *institutional buyouts*, and *exits* with dummy variables. We also control for the method of payment (Ghosh & Ruland, 1998), via two dummy variables *mixed payment type* and *cash payments*. We also control for targets' *price–to–earnings ratio*, as bidders may be willing to pay higher acquisition premia for relatively 'cheap' targets with lower price–to–earnings ratio and, vice–versa, pay lower premia for 'expensive' targets with higher price–to–earnings ratio (Laamanen, 2007). We measure the price–to–earnings ratio by dividing the market price per share by the earnings per share.

Following previous research on financial advisors (Rau, 2000), we control for *financial advisor firms' reputation* by including three dummy variables that categorize advisory firms into bulge bracket, major bracket, third tier, and no–tier banks, based on their previous year's Mergermarket ranking by deal volume. Finally, we include 22 dummy variables to control for the *target firm's industry sector* (e.g. Laamanen, 2007), as provided by Mergermarket.

### 5.3.6 Endogeneity

The link between advisor teams' experience and acquisition premia may be endogenous, as advisor teams' experience on a particular deal may be motivated by firm–specific and other factors important to the constrained maximization of firm performance. In this case, advisor experience is not exogenous and the ordinary least squares (OLS) estimates will be subject to selectivity bias. To control for this potential bias, we used a two–stage technique (e.g. Bascle, 2008). In the first stage, we conducted regression analyses to examine, whether deal characteristics or bidder experience, which are linked to acquisition premia, affect advisor teams' experience. Our analyses revealed that deal completion time and mixed payment deals affect the selection of advisors based on their advisor teams' experience. Target earnings and mixed payment deals affect the selection of advisors based on their advisor team leaders' experience. Deal completion time, mergers, institutional buyouts and cash deals affect the selection of advisors based on their advisor team staffs' experience. Interestingly, deal completion time affected only the total team and lower–ranking team members experience on a focal deal, but not the experience of the team leader. A potential explanation could be that client firms hire more (experienced) team members with increasing deal completion time over time. Following earlier research (Servaes & Zenner, 1996), an alternative explanation would be that deal completion time is an expression of more complex deals, which in return drives the hiring of more experience advisors. However, we could neither find a link between other proxies of deal complexity, such as target–bidder industry non–relatedness or deal size, nor could we find a link between these proxies of deal complexity to be linked with deal completion time. Lastly, target earnings, mergers, and mixed payment deals affect the selection of advisors based on the difference between team staff and team leaders' experience. Ideally, correcting for endogeneity also includes the identification of an instrumental variable, which affects the first–stage dependent variable without directly affecting the second–stage dependent variable. We used the instrumental variable *prior collaboration between advisor individual and client*. Repeated interaction between actors foster mutual understanding of each other (e.g. Uzzi & Lancaster, 2003). We expect prior collaboration between an advisor and a client firm to enable clients to gain a more fine–grained understanding, whether an advisor individuals' experience has contributed toward their bargaining outcome. In consequence, client firms may be more

sensitive to choosing advisors based on their experience. We also include *bidder experience*, as firms may learn from past acquisitions (e.g. Ellis *et al.*, 2011; Haleblian & Finkelstein, 1999). Bidders may learn from past deals which advisor team experience and constellation is more favorable for their M&A activities. We could find no significant link between our instrumental variables *prior collaboration between advisor individual and client* and *bidder experience* and *acquisition premia*—our dependent variable in our second–stage model (see Table 19. Based on this instrumental variable and the above listed further explanatory factors, we calculated three inverse Mills ratios to capture the endogeneity advisor selection based on advisor teams' experience. In a second step, we included the inverse Mills ratios as control variables in our models to predict the effect of advisor experience on their clients' acquisition premia.

## 5.4 Results

Descriptive statistics and pairwise correlations are reported in Table 19- As reported in Table 19, the average acquisition premium in the sample is 23%, which is consistent with prior studies (e.g. Laamanen, 2007; Malhotra, Zhu, & Reus, 2015). The average team leader individuals' experience is 9.98 deals, while the average team members' experience is 1.44, indicating a substantial discrepancy between number of prior deals advised by team leaders' and members of staff. The mean of the hierarchical level of team leaders in our sample is 1.03, which indicates that in almost every case, the team leader held the highest hierarchical position (*1*), defined as 'Managing Director' or 'Executive Director' by Mergermarket (Mergermarket, 2012). The reported average hierarchy steepness of 1.65 with a standard deviation of 1.30 indicates that the sample includes a high heterogeneity of team hierarchies, ranging from steep (3) to shallow (0).

In Hypothesis 1, we argued that bidder financial advisor teams' experience—measured as the sum of team members individuals prior deal experience—is linked positively to team performance. As reported in Table 20, our findings support our proposition.

# Table 19: Study 3 pairwise correlations, bidder sample (n=77)

| Variables | Mean | S.D. | Min | Max | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Dependent variable* | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1 Acquisition premium | 0.23 | 0.21 | -0 | 1.05 | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2 4 weeks acquisition premium | 0.27 | 0.23 | -0.1 | 0.95 | 0.58** | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| *Independent variables* | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3 H1: Bidder financial advisor teams' experience | 42.5 | 38.5 | 0 | 127 | -0.34** | -0.42** | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 4 H2: Bidder financial advisor teams' incongruence between expertise–based and formal hierarchies | -34 | 34.1 | -105 | 10 | 0.38** | 0.41** | -0.91** | | | | | | | | | | | | | | | | | | | | | | | | | |
| 5 H3: Bidder advisor teams' incongruence X Team's formal hierarchy steepness | -65.2 | 99 | -315 | 30 | 0.33** | 0.49** | -0.84** | 0.83** | | | | | | | | | | | | | | | | | | | | | | | | |
| 6 H4: Bidder advisor teams' incongruence X Deal complexity | -6.74 | 20.1 | -101 | 0 | 0.02 | -0.04 | -0.24* | 0.32** | 0.11 | | | | | | | | | | | | | | | | | | | | | | | |
| 7 Bidder financial advisor team leaders' experience | 38.23 | 35.5 | 0 | 116 | -0.37** | -0.43** | 0.98** | -0.97** | -0.86** | -0.28** | | | | | | | | | | | | | | | | | | | | | | |
| 8 Bidder financial advisor lower-ranking team members' experience | 4.27 | 8.06 | 0 | 53 | 0 | -0.15 | 0.47** | -0.05 | -0.25** | 0.11 | 0.28** | | | | | | | | | | | | | | | | | | | | | |
| *Moderators* | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 9 Bidder financial advisor team's formal hierarchy steepness | 1.65 | 1.3 | 0 | 3 | 0.04 | -0.18† | 0.4** | -0.21* | -0.57** | 0.01 | 0.32** | 0.51** | | | | | | | | | | | | | | | | | | | | |
| 10 Deal complexity, yes=1 | 0.2 | 0.4 | 0 | 1 | 0.13 | 0.04 | -0.08 | -0.01 | 0.05 | -0.68** | -0.04 | -0.19* | -0.11 | | | | | | | | | | | | | | | | | | | |
| *Control variables* | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 11 Financial advisors on both sides, yes=1 | 0.79 | 0.41 | 0 | 1 | -0.31** | -0.2* | 0.09 | -0.17† | -0.14 | 0.03 | 0.13 | -0.15 | -0.06 | -0.05 | | | | | | | | | | | | | | | | | | |
| 12 Bidder financial advisor team size advantage | 3.31 | 5.48 | -8 | 16 | -0.12 | -0.37** | 0.81** | -0.78** | -0.84** | -0.25** | 0.81** | 0.28** | 0.46** | 0.06 | -0.05 | | | | | | | | | | | | | | | | | |
| 13 Bidder multiple financial advisor firms advantage | 1 | 3 | -2 | 9 | -0.27** | -0.39** | 0.6** | -0.59** | -0.72** | 0.01 | 0.61** | 0.17† | 0.29** | -0.07 | 0.17† | 0.62** | | | | | | | | | | | | | | | | |
| 14 Target earnings | 386 | 896 | -745 | 3557 | -0.23* | -0.09 | 0.3** | -0.24* | 0.02 | 0.13 | 0.29** | 0.14 | -0.05 | -0.15 | 0.23* | -0.21* | 0.2† | | | | | | | | | | | | | | | |
| 15 Deal completion time | 165 | 116 | 37 | 629 | -0.28** | -0.11 | 0.17 | 0.02 | 0.11 | 0.21† | 0.08 | 0.32** | 0.03 | -0.17 | 0.23* | -0.26* | 0.12 | 0.74** | | | | | | | | | | | | | | |
| 16 Merger, yes=1 | 0.04 | 0.2 | 0 | 1 | -0.11 | -0.12 | 0.03 | 0.06 | 0.07 | 0.07 | -0.01 | 0.21* | -0.02 | -0.1 | 0.1 | -0.22* | -0.16 | 0.41** | 0.42** | | | | | | | | | | | | | |
| 17 Institutional buyout, yes=1 | 0 | 0 | 0 | 1 | 0.16† | 0.02 | -0.07 | 0.04 | -0.04 | -0.24** | -0.06 | -0.09 | 0.13 | 0.46** | -0.33** | 0.05 | 0 | -0.12 | -0.17 | -0.05 | | | | | | | | | | | | |
| 18 Mixed payment type, yes=1 | 0 | 0 | 0 | 1 | -0.18† | -0.27** | 0.26** | -0.31** | -0.3** | 0.18† | 0.29** | -0.03 | 0.04 | -0.21* | 0.13 | 0.2* | 0.46** | 0.14 | 0.23* | -0.07 | -0.19† | | | | | | | | | | | |
| 19 Cash payment, yes=1 | 1 | 0 | 0 | 1 | 0.04 | 0.05 | -0.02 | -0.11 | -0.17† | 0.24** | 0.05 | -0.27** | -0.04 | 0.03 | 0.07 | 0.12 | 0.23* | -0.02 | -0.2† | -0.25** | 0.12 | 0.45** | | | | | | | | | | |
| 20 Price-to-earnings ratio | 0.21 | 0.44 | -1.7 | 2.35 | -0.12 | -0.12 | 0.06 | -0.09 | -0.08 | -0.1 | 0.08 | -0.02 | -0.05 | 0.16 | 0.21† | 0.03 | 0.06 | 0.08 | 0.14 | 0.03 | 0.05 | 0.02 | 0.09 | | | | | | | | | |
| 21 Bidder financial advisor firm is bulge bracket bank, yes=1 | 0.25 | 0.43 | 0 | 1 | -0.18† | -0.12 | 0.08 | -0.1 | -0.13 | 0.14 | 0.09 | -0.02 | 0.01 | -0.05 | 0.23* | 0.05 | 0.32** | 0.28** | 0.21† | 0 | -0.13 | 0.26** | 0.25** | 0.18† | | | | | | | | |
| 22 Bidder financial advisor firm is major bracket bank, yes=1 | 0.34 | 0.48 | 0 | 1 | -0.17† | -0.16 | 0.07 | -0.1 | -0.12 | 0.02 | 0.09 | -0.04 | -0.04 | -0.04 | 0.06 | -0.02 | -0.03 | 0.13 | 0.04 | 0.17† | 0.03 | -0.02 | 0.04 | -0.1 | -0.41** | | | | | | | |
| 23 Bidder financial advisor firm is third-tier bank, yes=1 | 0.02 | 0.14 | 0 | 1 | -0.03 | -0.05 | -0.11 | 0.09 | 0.09 | -0.02 | -0.1 | -0.07 | -0.07 | 0.11 | 0.07 | -0.1 | -0.04 | -0.1 | -0.05 | -0.03 | -0.03 | -0.12 | -0.09 | 0.29** | -0.08 | -0.1 | | | | | | |
| 24 Bidder experience | 4.13 | 4.73 | 0 | 25 | -0.12 | -0.23* | 0.38** | -0.39** | -0.24** | -0.2* | 0.39** | 0.08 | 0 | 0.03 | 0.01 | 0.32** | 0.18† | -0.01 | -0.11 | -0.14 | 0.03 | 0.02 | -0.05 | 0.17 | -0.1 | 0.09 | 0.15 | | | | | |
| 25 Prior financial advisor-client collaboration | 0.18 | 0.52 | 0 | 3 | -0.06 | -0.04 | 0.15 | -0.13 | 0.1 | 0.12 | 0.14 | 0.09 | -0.16 | -0.17† | 0.03 | -0.07 | -0.1 | 0.23* | 0.13 | -0.07 | -0.08 | 0.14 | 0 | 0.01 | -0.06 | -0.05 | -0.05 | 0.44** | | | | |
| 26 Inverse Mills ratio, H1 | 0 | 0 | 0 | 0.01 | 0.12 | 0.08 | -0.44** | 0.39** | 0.13 | -0.09 | -0.44** | -0.16 | 0.02 | 0.11 | -0.14 | 0.01 | -0.11 | -0.61** | -0.19† | -0.22* | -0.01 | 0.15 | 0.07 | -0.18 | -0.16 | -0.15 | -0.04 | -0.54** | -0.49** | | | |
| 27 Inverse Mills ratio, H2-4 | 0 | 0 | 0 | 0 | -0.17 | -0.15 | 0.33** | -0.38** | 0.1 | 0.12 | 0.38** | -0.02 | -0.22* | -0.16 | 0.12 | -0.06 | 0.02 | 0.46** | 0.26* | -0.03 | -0.08 | 0.26* | 0.11 | 0.06 | 0.04 | -0.01 | -0.04 | 0.59** | 0.89** | -0.56** | | |
| 28 Inverse Mills ratio, Bidder financial advisor team leaders' experience | 0 | 0 | 0 | 0 | 0.17 | 0.15 | -0.44** | 0.33** | 0.12 | -0.17 | -0.41** | -0.22* | -0.01 | 0.18† | -0.12 | 0.02 | -0.15 | -0.62** | -0.42** | -0.2† | 0.05 | -0.13 | 0.06 | -0.22* | -0.12 | -0.19† | -0.07 | -0.68** | -0.55** | 0.88** | -0.63** | |
| 29 Inverse Mills ratio, Bidder financial advisor lower-ranking team members' experi | 0.36 | 0.23 | 0 | 1 | 0.25* | 0.14 | -0.07 | -0.12 | -0.25* | -0.29** | 0.02 | -0.29** | 0.04 | 0.37** | -0.2† | 0.33** | 0.07 | -0.34** | -0.59** | -0.21† | 0.51** | -0.06 | 0.71** | 0.04 | 0 | 0.09 | -0.02 | 0.21* | -0.21† | 0.05 | -0.17 | 0.13 |

Significant at †10%; *5%; **1%. All tests are two tailed.

Variable 13 rounded to the nearest integer. Target industry dummy variables excluded.

# Table 20: Study 3 OLS regression with acquisition premium as dependent variable, bidders

| VARIABLES | Expected direction | Control variables Models 1-2 | 1 | 2 | Control variables Model 3 | 3 | Control variables Model 4 | 4 |
|---|---|---|---|---|---|---|---|---|
| *Hypotheses* | | | | | | | | |
| H1: Bidder financial advisor teams' experience | – | | -0.0032 (0.035) [0.001] | | | | | |
| H2: Bidder financial advisor teams' incongruence between expertise-based and formal hierarchies | – | | | 0.0046 (0.007) [0.002] | 0.0047 (0.006) [0.002] | 0.0066 (0.009) [0.002] | 0.0046 (0.009) [0.002] | 0.0039 (0.023) [0.002] |
| H3: Bidder advisor teams' incongruence X Team's formal hierarchy steepness | – | | | | | -0.0010 (0.263) [0.001] | | |
| H4: Bidder advisor teams' incongruence X Deal complexity | + | | | | | | | 0.0062 (0.021) [0.003] |
| *Control variables* | | | | | | | | |
| Bidder financial advisor team's formal hierarchy steepness | | | | | -0.0101 (0.546) [0.017] | -0.0330 (0.313) [0.032] | | |
| Deal complexity, yes=1 | | | | | | | 0.0333 (0.676) [0.079] | 0.1927 (0.087) [0.110] |
| Financial advisors on both sides, yes=1 | | 0.0608 (0.450) [0.080] | 0.0739 (0.352) [0.079] | 0.1073 (0.147) [0.073] | 0.1135 (0.132) [0.074] | 0.1125 (0.135) [0.074] | 0.1045 (0.172) [0.075] | 0.1004 (0.194) [0.076] |
| Bidder financial advisor team size advantage | | 0.0199 (0.052) [0.010] | 0.0340 (0.008) [0.012] | 0.0367 (0.004) [0.012] | 0.0396 (0.003) [0.012] | 0.0410 (0.002) [0.012] | 0.0363 (0.005) [0.012] | 0.0360 (0.006) [0.012] |
| Bidder multiple financial advisor firms advantage | | 0.0128 (0.443) [0.017] | 0.0087 (0.578) [0.016] | 0.0102 (0.509) [0.015] | 0.0111 (0.473) [0.015] | 0.0081 (0.618) [0.016] | 0.0102 (0.514) [0.016] | 0.0077 (0.620) [0.015] |
| Target earnings | | -0.0000 (0.863) [0.000] | 0.0000 (0.881) [0.000] | 0.0001 (0.272) [0.000] | 0.0001 (0.269) [0.000] | 0.0001 (0.182) [0.000] | 0.0001 (0.280) [0.000] | 0.0001 (0.272) [0.000] |
| Price-to-earnings ratio | | -0.0391 (0.479) [0.055] | -0.0312 (0.578) [0.056] | -0.0122 (0.820) [0.053] | -0.0120 (0.828) [0.055] | -0.0269 (0.620) [0.054] | -0.0170 (0.759) [0.055] | -0.0181 (0.712) [0.049] |
| Deal completion time | | -0.0003 (0.618) [0.001] | -0.0005 (0.481) [0.001] | -0.0010 (0.082) [0.001] | -0.0010 (0.083) [0.001] | -0.0011 (0.062) [0.001] | -0.0010 (0.087) [0.001] | -0.0011 (0.063) [0.001] |
| Merger, yes=1 | | 0.1803 (0.075) [0.099] | 0.2654 (0.019) [0.109] | 0.2331 (0.011) [0.088] | 0.2284 (0.014) [0.090] | 0.2494 (0.005) [0.084] | 0.2314 (0.015) [0.091] | 0.1942 (0.042) [0.093] |
| Institutional buyout, yes=1 | | -0.0268 (0.744) [0.082] | -0.0054 (0.945) [0.078] | 0.0389 (0.638) [0.082] | 0.0416 (0.620) [0.083] | 0.0456 (0.578) [0.081] | 0.0155 (0.875) [0.098] | 0.0363 (0.655) [0.081] |
| Mixed payment type, yes=1 | | -0.0496 (0.476) [0.069] | -0.0138 (0.813) [0.058] | 0.0098 (0.892) [0.072] | 0.0156 (0.824) [0.070] | 0.0164 (0.813) [0.069] | 0.0123 (0.866) [0.072] | 0.0382 (0.599) [0.072] |
| Cash payment, yes=1 | | 0.0768 (0.374) [0.086] | 0.0271 (0.705) [0.071] | 0.0001 (0.999) [0.076] | -0.0068 (0.926) [0.073] | -0.0147 (0.836) [0.071] | -0.0081 (0.913) [0.074] | -0.0318 (0.648) [0.069] |
| Inverse Mills ratio, H1 | | -32.9458 (0.545) [54.028] | -47.0528 (0.384) [53.555] | | | | | |
| Inverse Mills ratio, H2-4 | | -310.7635 (0.730) [895.895] | | 525.0056 (0.516) [801.921] | 363.2440 (0.680) [876.195] | 580.8527 (0.538) [935.830] | 521.0209 (0.518) [799.703] | 426.5752 (0.602) [811.596] |
| Advisor firm reputation | | Included | Included | Included | Included | Included | Included | Included |
| Target industry | | Included | Included | Included | Included | Included | Included | Included |
| Observations | | 77 | 77 | 77 | 77 | 77 | 77 | 77 |
| R-squared | | 0.4795 | 0.5494 | 0.5858 | 0.5884 | 0.5976 | 0.5875 | 0.6062 |
| Constant | | 0.3935 (0.002) [0.119] | 0.5113 (0.000) [0.121] | 0.4183 (0.002) [0.125] | 0.4309 (0.002) [0.129] | 0.5054 (0.002) [0.150] | 0.4243 (0.001) [0.124] | 0.4495 (0.001) [0.129] |

P-value in parenthesis. Standard errors between square brackets. All tests are two tailed.

In Model 1, we find a statistically significant negative relationship between the variable *bidder financial advisor teams' experience* and acquisition premium (p−value=0.035). As bidders are interested in minimizing the price paid for a target (e.g. Bertrand, Betschinger, & Settles, 2016; Haunschild, 1994), we interpret the negative relationship as a favorable outcome for bidders. The coefficient of the variable *bidder financial advisor teams' experience* indicates that one additional prior deal advised by any team member is linked to a 0.35% decrease of the acquisition premium paid by the advised bidder.

In Hypothesis 2, we posit that incongruences between teams' formal and expertise–based hierarchies, which we measure as the difference between teams' lower–ranking members and team leaders' experience, affect acquisition premia against their clients' favor. Consistent with our reasoning, we find a significant positive relationship between the *bidder financial advisor teams' incongruence between expertise–based and formal hierarchies* variable and acquisition premia (p−value=0.007), as reported in Model 2. The results indicate that with each additional prior deal that team staff possess relative to the team leader, the acquisition premia increases by 0.44%. Following our reasoning, we interpret the positive relationship as an unfavorable outcome for bidders.

In Hypotheses 3, we posit that a steep team hierarchy, measured as the difference between the highest and lowest–ranking member in a given team, weakens the negative relationship between financial advisor teams' incongruence of expertise–based and formal hierarchies and acquisition premia. As reported in Table 20 (Model 3), the coefficient of the interaction term *bidder advisor teams' incongruence X team's formal hierarchy steepness* is negative, as posited. However, the findings lack significance (p−value=0.263). A potential reason for the lack of significance may be that, while the location of expertise plays a role, the actual steepness of hierarchies is not as relevant. Indeed, accumulated research evidence suggests, that formal hierarchy steepness is situationally contingent (Damanpour, 1991).

In our last proposition (Hypothesis 4), we propose that the negative relationship between financial advisor teams' incongruence of expertise–based and formal hierarchies and acquisition premia is stronger in complex deals, measured as target–bidder industry non–relatedness. As reported in Table 20 (Model 4), the significantly

positive coefficient (p−value=0.021) of the *bidder advisor teams' incongruence X deal complexity* variable reveals that the negative effect of incongruences between formal and expertise–based hierarchies is strengthened by 0.62% in complex deals.

It should be noted that the reported coefficients, for instance a 0.62% decrease for Model 4, might seem rather small. However, the average deal value in our sample corresponds to USD 13.64 billion. Thus, in absolute terms a 0.5% decrease corresponds to a saving of USD 68.2 million for bidding firms. Furthermore, the average acquisition premium in our sample is 24% (see Table 19), meaning that a 0.5% decrease corresponds to a 2% decrease of the paid acquisition premium in relative terms.

## 5.5 Supplementary analysis

Our reasoning is based around the notion that the link between experience and team performance is contingent to the hierarchical position of experience within a team. We ran two additional OLS regression models to test the link between team leaders' experience and performance and lower–hierarchy members' experience and performance. As reported in Table 21, we found that increasingly experienced team leaders affect acquisition premia in their clients' favor, while holding constant for financial advisor teams' lower–ranking experience (Model 5). Holding constant for financial advisor team leaders' experience, we found that increasingly experienced lower–ranking team members do not affect their clients' acquisition premia (Model 6). These findings further strengthen our argumentation that the link between team members' experience and team performance is contingent to the hierarchical position of experience within a team.

Prior work on acquisitions has shown that the discrepancy between targets' offer price in M&A and market value systematically decreases with the announcement date approaching, due to information leakage (e.g. Aktas *et al.*, 2007; Balasubramnian, Fuller, & Steigner, 2016). The information leakage may even be fostered by the presence of advisors in the M&A process (Chang *et al.*, 2016). To test for information leakage, we follow previous research (e.g. Laamanen, 2007) and also test acquisition premia 4 weeks prior to announcement As reported in Table 22 (Models 7–10), our findings do not support this proposition.

## Table 21: Study 3 OLS regression with acquisition premium as dependent variable, bidders (team leaders' and lower–ranking team members' experience)

| VARIABLES | Expected direction | Control variables only | 5 | 6 |
|---|---|---|---|---|
| *Hypotheses* | | | | |
| Bidder financial advisor team leaders' experience | – | | -0.0044<br>(0.007) [0.002] | |
| Bidder financial advisor lower-ranking team members' experience | + | | | 0.0016<br>(0.651) [0.003] |
| *Control variables* | | | | |
| Financial advisors on both sides, yes=1 | | 0.0698<br>(0.371) [0.077] | 0.0974<br>(0.190) [0.073] | 0.0735<br>(0.334) [0.075] |
| Bidder financial advisor team size advantage | | 0.0204<br>(0.043) [0.010] | 0.0380<br>(0.004) [0.013] | 0.0198<br>(0.048) [0.010] |
| Bidder multiple financial advisor firms advantage | | 0.0147<br>(0.382) [0.017] | 0.0090<br>(0.559) [0.015] | 0.0148<br>(0.385) [0.017] |
| Target earnings | | 0.0000<br>(0.920) [0.000] | 0.0001<br>(0.390) [0.000] | 0.0000<br>(0.733) [0.000] |
| Price-to-earnings ratio | | -0.0318<br>(0.567) [0.055] | -0.0216<br>(0.702) [0.056] | -0.0273<br>(0.597) [0.051] |
| Deal completion time | | -0.0003<br>(0.504) [0.000] | -0.0009<br>(0.130) [0.001] | -0.0003<br>(0.499) [0.000] |
| Merger, yes=1 | | 0.1678<br>(0.201) [0.129] | 0.2622<br>(0.011) [0.099] | 0.1413<br>(0.196) [0.108] |
| Institutional buyout, yes=1 | | -0.0554<br>(0.560) [0.094] | 0.0238<br>(0.764) [0.079] | -0.0539<br>(0.534) [0.086] |
| Mixed payment type, yes=1 | | -0.0537<br>(0.527) [0.084] | -0.0064<br>(0.929) [0.071] | -0.0448<br>(0.547) [0.074] |
| Cash payment, yes=1 | | 0.0043<br>(0.980) [0.169] | -0.0024<br>(0.975) [0.077] | -0.0095<br>(0.945) [0.136] |
| Inverse Mills ratio, Bidder financial advisor team leaders' experience | | -7.0600<br>(0.847) [36.467] | -14.9503<br>(0.618) [29.803] | |
| Inverse Mills ratio, Bidder financial advisor lower-ranking team members' experience | | 0.1568<br>(0.639) [0.332] | | 0.1922<br>(0.479) [0.270] |
| Advisor firm reputation | | Included | Included | Included |
| Target industry | | Included | Included | Included |
| Observations | | 77 | 77 | 77 |
| R-squared | | 0.4781 | 0.5762 | 0.4799 |
| Constant | | 0.3316<br>(0.050) [0.165] | 0.5054<br>(0.000) [0.129] | 0.2922<br>[0.129] (0.022) |

P-value in parenthesis. Standard errors between square brackets. All tests are two tailed.

# Table 22: Study 3 OLS regression with acquisition premium as dependent variable, bidders (4 weeks premia)

| VARIABLES | Expected direction | Control variables Models 7-8 | 7 | 8 | Control variables Model 8 | 9 | Control variables Model 10 | 10 |
|---|---|---|---|---|---|---|---|---|
| *Hypotheses* | | | | | | | | |
| H1: Bidder financial advisor teams' experience | – | | -0.0016 (0.246) [0.001] | | | | | |
| H2: Bidder financial advisor teams' incongruence between expertise-based and formal hierarchies | – | | | 0.0019 (0.254) [0.002] | 0.0022 (0.173) [0.002] | 0.0058 (0.003) [0.002] | 0.0020 (0.223) [0.002] | 0.0014 (0.447) [0.002] |
| H3: Bidder advisor teams' incongruence X Team's formal hierarchy steepness | – | | | | | -0.0020 (0.042) [0.001] | | |
| H4: Bidder advisor teams' incongruence X Deal complexity | + | | | | | | | 0.0056 (0.149) [0.004] |
| *Control variables* | | | | | | | | |
| Bidder financial advisor team's formal hierarchy steepness | | | | | -0.0236 (0.147) [0.016] | -0.0682 (0.022) [0.029] | | |
| Deal complexity, yes=1 | | | | | | | -0.0920 (0.243) [0.078] | 0.0535 (0.712) [0.144] |
| Financial advisors on both sides, yes=1 | | 0.0860 (0.231) [0.071] | 0.0966 (0.231) [0.080] | 0.1048 (0.133) [0.068] | 0.1193 (0.082) [0.067] | 0.1174 (0.078) [0.065] | 0.1125 (0.116) [0.070] | 0.1088 (0.138) [0.072] |
| Bidder financial advisor team size advantage | | 0.0156 (0.165) [0.011] | 0.0223 (0.098) [0.013] | 0.0226 (0.092) [0.013] | 0.0292 (0.031) [0.013] | 0.0320 (0.013) [0.012] | 0.0236 (0.092) [0.014] | 0.0233 (0.094) [0.014] |
| Bidder multiple financial advisor firms advantage | | 0.0108 (0.467) [0.015] | 0.0187 (0.168) [0.013] | 0.0096 (0.529) [0.015] | 0.0115 (0.441) [0.015] | 0.0057 (0.710) [0.015] | 0.0096 (0.533) [0.015] | 0.0073 (0.622) [0.015] |
| Target earnings | | 0.0001 (0.199) [0.000] | 0.0001 (0.477) [0.000] | 0.0001 (0.028) [0.000] | 0.0001 (0.031) [0.000] | 0.0002 (0.007) [0.000] | 0.0001 (0.026) [0.000] | 0.0001 (0.026) [0.000] |
| Price-to-earnings ratio | | -0.1244 (0.023) [0.053] | -0.1117 (0.050) [0.056] | -0.1138 (0.034) [0.052] | -0.1133 (0.028) [0.050] | -0.1423 (0.009) [0.052] | -0.1007 (0.060) [0.052] | -0.1017 (0.073) [0.055] |
| Deal completion time | | -0.0003 (0.601) [0.001] | -0.0004 (0.491) [0.001] | -0.0005 (0.203) [0.000] | -0.0005 (0.213) [0.000] | -0.0007 (0.077) [0.000] | -0.0005 (0.195) [0.000] | -0.0007 (0.133) [0.000] |
| Merger, yes=1 | | -0.0358 (0.774) [0.124] | 0.1662 (0.124) [0.106] | -0.0147 (0.909) [0.128] | -0.0257 (0.845) [0.131] | 0.0154 (0.910) [0.135] | -0.0101 (0.937) [0.127] | -0.0441 (0.721) [0.123] |
| Institutional buyout, yes=1 | | 0.0498 (0.731) [0.144] | -0.0033 (0.981) [0.140] | 0.0775 (0.618) [0.155] | 0.0838 (0.560) [0.143] | 0.0916 (0.508) [0.137] | 0.1420 (0.337) [0.146] | 0.1610 (0.195) [0.123] |
| Mixed payment type, yes=1 | | -0.0586 (0.448) [0.077] | -0.0831 (0.323) [0.083] | -0.0336 (0.682) [0.082] | -0.0199 (0.805) [0.080] | -0.0184 (0.810) [0.076] | -0.0405 (0.620) [0.081] | -0.0168 (0.842) [0.084] |
| Cash payment, yes=1 | | 0.0906 (0.396) [0.106] | 0.0718 (0.486) [0.102] | 0.0599 (0.548) [0.099] | 0.0437 (0.659) [0.098] | 0.0284 (0.765) [0.094] | 0.0825 (0.416) [0.101] | 0.0609 (0.544) [0.100] |
| Inverse Mills ratio, H1 | | -12.0151 (0.808) [49.220] | 14.4850 (0.803) [57.820] | | | | | |
| Inverse Mills ratio, H2-4 | | -4,054.2458 (0.027) [1,780.451] | | -3,725.4972 (0.031) [1,679.799] | -4,103.7196 (0.033) [1,866.784] | -3,679.4209 (0.032) [1,660.351] | -3,714.4971 (0.032) [1,685.165] | -3,800.7016 (0.038) [1,781.325] |
| Advisor firm reputation | | Included | Included | Included | Included | Included | Included | Included |
| Target industry | | Included | Included | Included | Included | Included | Included | Included |
| Observations | | 77 | 77 | 77 | 77 | 77 | 77 | 77 |
| R-squared | | 0.5209 | 0.4825 | 0.5403 | 0.5553 | 0.5922 | 0.5538 | 0.5703 |
| Constant | | 0.3908 (0.002) [0.117] | 0.2967 (0.026) [0.130] | 0.4031 (0.001) [0.117] | 0.4323 (0.001) [0.121] | 0.5776 (0.000) [0.129] | 0.3866 (0.002) [0.120] | 0.4096 (0.002) [0.123] |

P-value in parenthesis. Standard errors between square brackets. All tests are two tailed.

We also tested in our dataset, whether targets equally profit from the team experience and constellation of their advisor teams. In order to observe target advisor individuals' experience, we used a sub–sample, which includes the target advisors' experience. As reported in Table 23 (Models 11–14), we could not confirm that target advisor teams' experience and team constellation affect their clients' premia. While advisors may play an important role in targets' M&A outcome, the role of advisor teams' experience may be less important for targets. Targets are likely to possess sufficient information required for the M&A deal, as they are the object of valuation. It may not be advisor experience that affects targets' success. Rather, it may depend on factors, which affect the exploitation of existing information on the value of the target. This may, for instance, be affected by targets' willingness to actually sell to a given bidder.

## 5.6 Discussion

Our study entails a number of relevant contributions for both research and practice. First, we enrich the view on team hierarchies by offering an analysis that links team expertise with team hierarchy. In this effort, we account for previous calls for proposing more differentiated views on team expertise, as opposed to previously used equal weight construct (Wilson, Goodman, & Cronin, 2007).

Second, we expand our understanding of the role of financial advisor teams on M&A outcome. Financial advisor (teams) occupy an important position in capital markets (Hunter & Walker, 1990), thus, a profound understanding of their team performance is vital to better understand the role of advisors in M&A and, more generally, determinants of M&A outcome. We show that a match between formal hierarchies and experience distribution within financial advisor teams affects how well advisor teams can contribute towards organizations M&A success. This adds another piece to the puzzle of whether and under which contingencies external advisors' affect organizations M&A success. We also add to literature of team performance. Research has highlighted that determinants of team performance may differ along different team types, e.g. management vs. project teams (Cohen & Bailey, 1997).

# Table 23: Study 3 OLS regression with acquisition premium as dependent variable, target sample

| VARIABLES | Expected direction | Control variables Models 11-12 | 11 | 12 | Control variables Model 13 | 13 | Control variables Model 14 | 14 |
|---|---|---|---|---|---|---|---|---|
| *Hypotheses* | | | | | | | | |
| Bidder financial advisor teams' experience | – | | -0.0063 (0.031) [0.003] | | | | | |
| Bidder financial advisor teams' incongruence between expertise-based and formal hierarchies | – | | | 0.0020 (0.241) [0.002] | 0.0047 (0.063) [0.002] | 0.0052 (0.042) [0.002] | 0.0024 (0.199) [0.002] | 0.0019 (0.291) [0.002] |
| Bidder advisor teams' incongruence X Team's formal hierarchy steepness | – | | | | | -0.0015 (0.435) [0.002] | | |
| Bidder advisor teams' incongruence X Deal complexity | + | | | | | | | 0.0063 (0.422) [0.008] |
| *Control variables* | | | | | | | | |
| Bidder financial advisor team's formal hierarchy steepness | | | | | -0.0744 (0.075) [0.040] | -0.1064 (0.090) [0.061] | | |
| Deal complexity, yes=1 | | | | | | | 0.0981 (0.498) [0.143] | 0.2326 (0.376) [0.259] |
| Bidder financial advisor team size advantage | | -0.0153 (0.345) [0.016] | 0.0165 (0.346) [0.017] | 0.0090 (0.564) [0.015] | 0.0178 (0.359) [0.019] | 0.0176 (0.393) [0.020] | 0.0013 (0.937) [0.017] | 0.0045 (0.798) [0.018] |
| Bidder multiple financial advisor firms advantage | | -0.0128 (0.634) [0.027] | -0.0091 (0.672) [0.021] | -0.0357 (0.033) [0.016] | -0.0389 (0.129) [0.025] | -0.0220 (0.516) [0.033] | -0.0209 (0.386) [0.024] | -0.0187 (0.448) [0.024] |
| Target earnings | | 0.0001 (0.652) [0.000] | -0.0001 (0.277) [0.000] | 0.0004 (0.031) [0.000] | 0.0001 (0.539) [0.000] | 0.0001 (0.764) [0.000] | 0.0001 (0.684) [0.000] | 0.0001 (0.604) [0.000] |
| Price-to-earnings ratio | | 0.1109 (0.284) [0.102] | 0.2144 (0.064) [0.112] | 0.1546 (0.073) [0.083] | 0.2117 (0.165) [0.149] | 0.1937 (0.212) [0.152] | 0.1893 (0.150) [0.128] | 0.1824 (0.172) [0.130] |
| Deal completion time | | -0.0008 (0.567) [0.001] | 0.0024 (0.228) [0.002] | -0.0013 (0.187) [0.001] | -0.0013 (0.244) [0.001] | -0.0007 (0.617) [0.001] | -0.0017 (0.164) [0.001] | -0.0017 (0.122) [0.001] |
| Merger, yes=1 | | 0.1188 (0.689) [0.294] | 0.0742 (0.686) [0.182] | -0.2300 (0.276) [0.207] | 0.0179 (0.947) [0.267] | 0.0288 (0.919) [0.280] | -0.0984 (0.720) [0.272] | -0.0658 (0.822) [0.290] |
| Institutional buyout, yes=1 | | 0.3013 (0.138) [0.198] | 0.4720 (0.006) [0.161] | 0.5742 (0.001) [0.149] | 0.3420 (0.115) [0.211] | 0.3239 (0.137) [0.211] | 0.4089 (0.065) [0.213] | 0.5807 (0.054) [0.288] |
| Mixed payment type, yes=1 | | 0.0189 (0.933) [0.224] | 0.2824 (0.169) [0.200] | -0.0364 (0.716) [0.099] | -0.0564 (0.612) [0.110] | -0.0680 (0.577) [0.121] | -0.0548 (0.643) [0.117] | -0.1039 (0.483) [0.146] |
| Cash payment, yes=1 | | 0.1203 (0.506) [0.179] | 0.1334 (0.325) [0.133] | 0.1895 (0.099) [0.111] | 0.1453 (0.207) [0.113] | 0.1699 (0.174) [0.122] | 0.1409 (0.309) [0.136] | 0.1689 (0.262) [0.147] |
| Inverse Mills ratio, H1 | | 74.1611 (0.483) [104.436] | 198.3452 (0.084) [111.108] | | | | | |
| Inverse Mills ratio, H2-4 | | -883.3373 (0.761) [2,883.312] | | -5,545.7243 (0.006) [1,866.912] | -1,378.5282 (0.562) [2,348.332] | -1,066.7171 (0.677) [2,530.438] | -256.0492 (0.913) [2,312.533] | -460.0492 (0.840) [2,256.480] |
| Advisor firm reputation | | Included | Included | Included | Included | Included | Included | Included |
| Target industry | | Included | Included | Included | Included | Included | Included | Included |
| Observations | | 57 | 57 | 57 | 57 | 57 | 57 | 57 |
| R-squared | | 0.5118 | 0.6299 | 0.7180 | 0.5852 | 0.5973 | 0.5373 | 0.5460 |
| Constant | | 0.3310 (0.386) [0.376] | -0.3440 (0.499) [0.503] | 0.6032 (0.017) [0.239] | 0.6708 (0.031) [0.296] | 0.5947 (0.057) [0.299] | 0.5899 (0.053) [0.292] | 0.6152 (0.032) [0.273] |

P-value in parenthesis. Standard errors between square brackets. All tests are two tailed.

In focusing on M&A advisor teams, we offer insights into team performance of a different team type. Furthermore, we contribute to the literature on professional service firms (Greenwood *et al.*, 2005; Hitt *et al.*, 2001), empirically demonstrating how the composition of advisor teams' experience translates into favorable outcomes for their clients.

Furthermore, in the setting of team performance, it is often difficult to generalize performance, as team performance is context specific and, thus, often varies between studies by virtue of teams' being nested within organizations. For instance, the much cited and often used team performance measure proposed by Kirkman and Rosen (1999) captures components of meeting or exceeding goals and completing tasks on time. However, exceeding goals may be a relevant performance metric for some teams, while it is not for other teams. As such, more recent calls ask for observing team performance criteria, which are carefully tied to the function and tasks of the teams being studied, and the outcomes measured should be relevant not only to the teams in question but also to the entire organization (e.g. Mathieu *et al.*, 2008). We use acquisition premia paid by advised bidders to measure financial advisor teams' performance. Acquisition premia is closely tied to the task of financial advisor teams in the M&A process, as one key role of financial advisors consists of advising their clients on the buying or selling price (Haunschild, 1994; Kisgen, Qian, & Song, 2009). Acquisition premia plays a central role in firms' M&A outcome, as greater acquisition premia offer incentives for the target to accept the bid (Bertrand, Betschinger, & Settles, 2016), while overpaying may lead to an underperformance of the acquisition (Haunschild, 1994). As such, we examined team performance in an empirical context where the observed team functions and tasks are tied tightly and the team outcome is relevant to the entire organization.

From a practitioner point of view, we contribute towards an understanding of how to staff teams in a more favorable way for client outcome—in particular for financial advisor project teams. Professional services, such as financial advisors in the M&A process, have often been considered highly 'opaque' environments (Von Nordenflycht, 2010), in which output quality is hard for clients to evaluate, even after the output is delivered (Løwendahl, Revang, & Fosstenløkken, 2001). Acquisition premia represent a tangible measure for clients to evaluate, whether it was worthwhile to hire the chosen financial advisors. Our findings provide evidence on how to structure

teams and highlights the importance of considering team members' expertise when constructing hierarchical team structures.

### 5.6.1 Avenues for future research

In this study, we focus on the link between expertise–based processes and hierarchy. We fully expect, however, that the interplay between formal and expertise–based hierarchies will also affect other expressions of M&A outcome that can be considered in future research. For instance, while we touch the notion of team efficiencies only implicitly in our paper, further research could investigate, whether advisor teams' incongruences between formal and expertise–based hierarchies are also linked to deal completion time. As a temporal perspective, completion time naturally has been proposed to be an important indicator of efficiency–related outcomes (Vashdi, Bamberger, & Erez, 2013). Furthermore, both bidders and targets usually aim at minimizing deal completion time to accelerate synergy realization, reduce distractions from normal operations and cost involved during the M&A process, and minimize organizational uncertainty (Ertugrul & Krishnan, 2014; Hunter & Jagtiani, 2003).

It may also be interesting to have a more fine–grained look at levels of incongruence between formal and expertise–based hierarchies. For instance, lower–ranking team members may be reluctant to power conflicts in teams, as they prefer to stick to the formal hierarchy in order to opt for simplified solutions that satisfy stereotypical standards (Gordon, Rozelle, & Baxter, 1988) or to engage in self–protective behavior (Adelberg & Batson, 1978). Potentially, the degree to which power conflicts can arise from incongruences between formal and expertise–based hierarchies also depends on, whether all or only a few lower–ranking team members possess relatively more expertise than the team leaders.

Previous work has shown that the link between M&A outcome and (external) experience is subject to a number of contingencies. For instance, Kim and colleagues (2011) show that advisor firm experience helps their client particularly when clients are desperate to grow due to a lack of organic growth. Equally, the link between formal and expertise–based hierarchies and M&A outcome may be contingent to factors beyond task complexity and hierarchy steepness. Further work on these factors would have high managerial relevance and add to team expertise and hierarchy literatures.

In this study, the role of teams in the M&A process takes a central position. Top management teams (TMTs) are considered to also play an important role in M&A decision–making (e.g. Deutsch, Keil, & Laamanen, 2007). It would be interesting to see how the interplay between formal and expertise–based hierarchies in TMTs affect acquisition premia and, more generally, M&A decision–making. In this vein, it may also be interesting to investigate, the interaction between TMTs and advisor. For instance, whether and how do TMTs react to issues, such incongruences between formal and expertise–based hierarchies, among their advisor teams in the M&A process?

Lastly, our sample is restricted to advisors that where involved in public deals in 2015 where both the bidder and the target where headquartered in the United States. The sample for the experience profiles of the examined financial advisors cover public and private deals in virtually all industries and of highly varying sizes. Prior work in this field has demonstrated that the role of hierarchies (Hraba, Hagendoorn, & Hagendoorn, 1989) and expertise (Simonin, 2002) is contingent to the culture bound to the geography observed. Limiting our sample to the U.S. market allows us to account at least partially for cultural differences. The U.S. M&A market also remains the largest market global and standards set by the FINRA commonly serve as blueprints for the remaining world's capital markets. Furthermore, today's capital markets offer such a level of interconnection. However, the focus on U.S. deals in our sample may limit the generalizability of our findings to some extent. Future research could use a sample with multiple countries.

To sum up, based on the team expertise and hierarchy literatures we argue that incongruences between formal and expertise–based hierarchies in financial advisor teams in the M&A process negatively affect their clients' acquisition premia. We test the hypothesized links and our findings indicate that the interplay between financial advisors teams' experience and hierarchy, indeed, is linked to acquisition premia.

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# 6 Final remarks and discussion

This dissertation aims to shed more light on the role external advisors play in the pre–closing phase in firms' acquisition success. In this endeavor, we have examined independent variables along an individual, team, and firm level of analysis to offer a comprehensive understanding of the role of financial advisors in the determining M&A success. The dissertation entails a number of relevant contributions for both research and practice. Each study uses different focus literatures and, as such, intends to add to these individual literatures. We detail these contributions in the introduction section of each of the three studies. However, this dissertation also offers a number of overarching contributions.

All three studies add to the literature on M&A capabilities—focusing on the role of experience. We reveal that a range of variables commonly used to estimate M&A outcome also affect advisor experience on a focal deal. This is an important finding, as it will help future studies on the role of external advisors on M&A outcome and the role of advisor experience on M&A outcome to isolate the observed links more accurately and control for endogeneity issues. Furthermore, we empirically show that advisor individuals' experience can create a bargaining power for bidders, ultimately, leading to more favorable acquisition premia. By theorizing how advisors impact M&A outcomes during the negotiation stage, we highlight negotiation success as a determinant of M&A capabilities. Lastly, we highlight that the hierarchical constellation in financial advisor teams affect the link between advisor teams' experience and M&A outcome. Our theoretical reasoning and our findings shed light on a neglected actor in the M&A process and add another relevant piece to the puzzle of M&A performance (Haleblian *et al.*, 2009; King *et al.*, 2004).

Second, contrasting prior studies on M&A capabilities, which rather tended to study the acquiring firm as a single, unified learning repository (Barkema & Schijven, 2008), we adopt a more fine–grained view by examining financial advisors at the individual level of analysis. In this vein, our study advances a micro–foundational understanding of organizational capabilities, highlighting the role of individuals as key levers of organizational performance (Coff & Kryscynski, 2011; Felin & Foss, 2005). Concerning the level of analysis, we also find across all studies that our findings do not—or only to a very limited extend—hold true from a target side perspective. As such,

the three studies also add different perspectives to the few studies that have examined both acquirer and targets in M&A deals (e.g. Cuypers, Cuypers, & Martin, 2017; Seth, Song, & Pettit, 2000, 2002). Studies that consider both bidders and targets are critical, as focusing solely on bidders or sellers leads to an incomplete picture of our understanding under what conditions acquirers and targets benefit from M&A.

From a managerial perspective, our study offers valuable insights both for firms selecting advisors and for advisory firms. With regards to advisor selection, organizations have been reported to rely on advisor reputation (Bao & Edmans, 2011; Sibilkov & McConnell, 2014). However, advisors' reputation has been found to be a poor predictor for success (Bowers & Miller, 1990; Golubov, Petmezas, & Travlos, 2012; Hunter & Jagtiani, 2003; Kale, Kini, & Ryan, 2003; Walter, Yawson, & Yeung, 2008). In fact, scholars have also reported that more prestigious advisors charge higher fees, while these fees are not related to performance delivered to clients (Chahine & Ismail, 2009; McLaughlin, 1992; Rau, 2000). Which may imply that firms pay 'more for less'. Our findings provide alternative criteria for the selection of advisors, such as advisor individuals' experience as a determinant of M&A negotiation success. For advisor firms, our study offers empirical support for advisor individuals' staffing and development. For instance, the second study illustrates the usefulness of actively influencing advisor professionals' experience. The results of our robustness check indicate that the sheer duration of employment does not affect advisors ability to negotiate more favorable acquisition premia for their clients, but instead hinges upon on–deal experience accumulation. Furthermore, the findings in our third paper underline that advisor firms but potentially also client firms should also account for advisor teams' characteristic to ensure that the advisor teams achieve the desired favorable outcome.

To sum up, this dissertation extends our understanding of the role of external advisors in the M&A process from a number of perspectives. In three distinct studies, this dissertation examines independent variables along an individual, team, and firm level of analysis to offer a comprehensive understanding of the role of financial advisors in determining M&A success.

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# Curriculum vitae

## Alexander Paul Wallot

Nationality: German
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## Academic experience and education

| | |
|---|---|
| University of St. Gallen | St. Gallen, Switzerland |
| Doctorate in Strategic Management (Dr. oec.) | Sep 2017—Feb 2020 |
| University of Cambridge | Cambridge, UK |
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| MSc in Management (Specialization in Strategic Management) | Oct 2013—Sep 2014 |
| Singapore Management University | Singapore, Singapore |
| Academic Exchange | May 2014 |
| Hamburg School of Business Administration | Hamburg, Germany |
| BA in Business Administration (Media Management) | Oct 2010—Aug 2013 |
| Chamber of Commerce and Industry | Hamburg, Germany |
| Management Assistant for Marketing Communications CCI | Oct 2010—Jan 2013 |
| Goethe Gymnasium | Düsseldorf, Germany |
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## Work experience

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| KPMG Global Strategy Group (formerly: Stratley AG) | Hamburg, Germany |
| Oct 2016—today | Assistant Manager |
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