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Beyond Numbers

A Qualitative Case Study Exploring Socio-Political Influences on M&A Evaluation Practices

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Abstract

This thesis examines how the two socio-political factors, uncertainty and controversy, influence the evaluation methods that acquiring firms adopt in M&A processes. Drawing on in-depth interviews with two Swedish investment companies and using the framework developed by Kang et al. (2018), it studies how the companies adopt more qualitative methods of evaluation as uncertainty and/or controversy increases. The study extends the framework by adding a time dimension and examines how the companies evaluate the M&A deals as more information arises in the process. The study finds support for the orienting proposition from Kang et al. (2018) that higher degrees of uncertainty or controversy imply the use of more qualitative methods. Additionally, the thesis finds that irrespective of the socio-political landscape, companies always utilise desktop valuation. Secondly, the thesis finds that the socio-political factors are dynamic over time, and firms not only mitigate socio-political factors through qualitative evaluation when they are present but actively avoid them where they are likely to emerge.

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1. Introduction

1.1 Problem Background

Scholars continuously keep conducting additional research to the M&A domain that is predominantly concerned with quantitatively examining the impact of M&As on company performance and value. The research on M&As has been less concerned with the decision-making processes and evaluation methods. The growing body of research in M&A has mainly considered the phenomenon from a finance and management perspective. In their article, Birkinshaw et al. (2000) offer a categorisation of the current research streams on M&A, which are all related to the impact of acquisitions on organisations and their post-acquisition performance. The streams are concerned with wealth creation for shareholders, the performance of the acquiring and acquired firm, individuals and organisational culture, and value creation after the acquisition.

Despite an extensive domain preoccupied with researching post-M&A activities and a call for more qualitative process-based research within the field, there is a lack of research conducted in this manner. In light of this call, the authors of this paper utilise a framework from organisational design together with related research in the accounting literature to study M&As in a process-based qualitative manner. Qualitative accounting literature on decision-making and the use of accounting information is tangent to the M&A literature and can offer a perspective in a process-based research design. The literature on accounting information and decision-making explores how socio-political factors influence managers' use of accounting information (Burchell et al., 1980; March, 1987; Hall, 2010). Given the complexities of M&As, qualitative research could aid the advancement within the field, given the ability of qualitative research to consider multiple, intricate, and contradictory explanations across different contexts and over time, Meglino and Rivkin (2010) argue.

1.2 Purpose

Given the problem background, the purpose of this paper is to study the interaction between decision-making and socio-political factors in M&A deals. Thus, it explores how socio-political factors influence how decision-makers evaluate target companies.

The paper seeks to answer the following research question:

“How do socio-political factors influence the degree to which decision-makers use qualitative evaluation methods to evaluate target companies and how does this change over time as new information arises?”

1.3 Contribution

This study entails contributions to the existing literature by offering qualitative insights into the decision-making processes in important decisions in the accounting literature, as well as evaluation methods used in the M&A domain. By employing and extending the framework of Kang et al. (2018), we study how two companies use quantitative and qualitative methods of evaluation to evaluate M&A deals under the influence of uncertainty and controversy. Our empirics reveal two main suggestions. Firstly, quantitative evaluation methods will be used regardless of the socio-political landscape. However, in line with earlier research, we confirm that companies will use qualitative evaluation methods in order to absorb the uncertainty in the decision-making process. Secondly, by taking into account different stages in an M&A process, our study shows that both uncertainty and controversy are rather dynamic over time, and it is not only the presence of socio-political factors that affect M&A processes but also the likelihood of emerging uncertainty and controversy. Firms not only mitigate uncertainty and controversy with qualitative evaluation methods but also actively evaluate M&A deals with qualitative methods in order to avoid uncertainty and controversy before they emerge.

2. Literature Review

In this thesis, we aim to contribute to the research domain of mergers and acquisitions (M&A). In this section, we offer a review of relevant literature on M&A, which has mainly been focused on in studies in the fields of finance and management. The first section provides an overview of M&A in academic literature, with a focus on the motives for and evaluation of M&A deals. The second section introduces classical research on the use of accounting

information in decision-making processes within organisations, which will aid us in our intent to align the M&A process with an accounting perspective and contribute to the field of qualitative accounting research. After introducing the current research on M&A and relating it to the qualitative accounting studies on decision-making, we will present our research gap and the theoretical framework that bridges the M&A domain with an accounting perspective.

2.1 Domain Theory

2.1.1 Mergers and Acquisitions

Mergers and acquisitions, M&As for short, are two procedures that entail the transfer of corporate control of a company (DePamphilis, 2010). A merger refers to the process where at least two companies fuse and create one unified company, and an acquisition denotes the process where one company, typically referred to as the “bidder company” or “acquirer”, purchases another, usually a smaller, company, that is in turn referred to as the “target company” or “acquiree”.

2.1.1.1 M&A in Academic Literature

Mergers and acquisitions have attracted scholars' attention and become an increasingly prominent topic in academic research across various disciplines. Separated streams of empirical research on mergers and acquisitions have emerged, each with a unique research agenda (Cartwright & Schoenberg, 2006). In their paper, Birkinshaw et al. (2000) offer a comprehensive categorisation of the streams of research on acquisitions, identifying four present research streams, all of which are, in various ways, concerned with the impact of the acquisitions on the organisation and its performance post-acquisition. The streams are all concerned with a distinct impact of the acquisition and labelled: “Financial economics”, concerned with the wealth creation for shareholders, “Strategic management”, concerned with the performance of the acquiring and acquired firms, “Organisational behaviour”, concerned for individuals and organisation culture, and lastly “Process perspective”, concerned with the creation of value after the acquisition (Birkinshaw et al., 2000).

The research produced within the domain has been predominantly concerned with examining the impact of mergers and acquisitions on company performance and stock value by quantitatively establishing whether or not they actually create value. Less attention has been

given to qualitative research methods within the domain, whereas the qualitative research that has emerged recently has mainly focused on the post-acquisition integration process and has sought to specify determining factors for successful integrations.

Given the inherent complexities of mergers and acquisitions, qualitative research could aid in research advancement within the field, given its superior ability to consider multiple, intricate, and contradictory explanations across different contexts and over time (Meglio & Risberg, 2010). Moreover, they state that one limitation of the quantitative assessment of mergers and acquisitions is its inadequacy in capturing the deep cultural, organisational, and social complexities present in M&A processes. Scholars call for more qualitative research to be conducted with a longitudinal design in order to move beyond well-researched cross-sectional, quantitative, and positivistic explanations of motives and implications of M&A and instead explore M&A processes and how they are perceived (Cartwright & Schoenberg, 2006; Meglio & Risberg, 2010).

2.1.1.2 M&A Motives

Several empirical studies have sought to determine the motives behind mergers and acquisitions. Comprehensive reviews of the available studies indicate that aggregately, the abnormal returns for a firm that has performed an acquisition is around zero in the years after, which naturally has prompted an academic debate concerning the reasons companies would engage in M&A (Jensen & Ruback, 1983; Agrawal & Jaffe, 2000). Extensive research is available on the topic, and some scholars pose that a company acquires another company for two reasons: it improves its current operations or it improves its growth prospects (Scweizer, 2005; Christensen et al., 2011).

Berkovitch and Narayanan (1993) categorise three motives for mergers and acquisitions that have been presented in earlier academic literature: the synergy motive, the agency motive, and hubris. The synergy motive poses that M&A materialises due to the economic benefit that comes from merging the resources available to the firms. The agency motive instead suggests they happen because of the benefits for the manager(s) of the acquirer at the expense of their shareholders, while the hubris explanation implies that managers inability to adequately evaluate target companies results in takeovers where there is no synergy present (Berkovitch & Narayanan, 1993). Value creation through the realisation of synergistic effects is

understood to be the predominant explanation as to why the majority of mergers and acquisitions occur (Bradley et al., 1983; Berkovitch & Narayanan, 1993; Seth et al., 2000).

Similarly, Trautwein (1990) offers a comprehensive review of merger motives and also classifies them into three categories: merger as rational choice, merger as process outcome, and mergers as a macroeconomic occurrence. He is, however, sceptical of the synergy motive, arguing that financial, operational, and managerial synergies are ideas that takeovers are attributed to but rarely realised in reality. A shift from research into the synergy motive and the connected efficiency theory to instead focus on “explanations that build on decision processes, conflicting goals, and ambiguous information” is called for (Trautwein, 1990).

An important aspect to consider, central to our research, is that M&As differ across companies. Depending on structure, strategy, experience, and size, to name a few, there is a difference in how M&As are performed and which companies are targeted (Walls & Dyer, 1996; Kang et al., 2018). In their article, Walls and Dyer (1996) argue that the ability to undertake riskier and larger projects grows as firms grow and accumulate wealth. This, they argue, allows for the companies with more wealth and cash to finance investments with equity and their own cash, and to diversify their portfolio by investing in more projects. Conclusively, the authors find a positive relationship between firm size and risk tolerance.

2.1.1.3 M&A Valuation and Evaluation

An initial concern for companies in the takeover process is to arrive at a valuation of the target company. Accurately assigning a valuation to companies is considered one of the most critical aspects of M&A and is regarded as one of the most complex procedures within financial management in general (Nurhan, 2017). Both scholars and practitioners consider a company's fundamental value to be derived from its current assets and expected future cash flows, yet empirical research indicates that the price paid for a target company tends to drastically exceed its computed current fair value (Mazzariol & Thomas, 2016). This is referred to as the acquisition premium, and Mazzariol and Thomas (2016) suggest that having more than one bidder, forecasting errors, overestimating the expected synergies, management hubris, and an inadequate due diligence process are factors explaining the prevalence of premium pricing in M&A.

Evidently, evaluating a company poses a critical challenge for companies involved in mergers and acquisitions. Research in both finance and management indicates that companies will use different combinations and arrangements of both quantitative and qualitative methods when they evaluate target companies (Mellen & Evans, 2010). However, Christensen et al. (2011) highlight the lack of a thorough understanding of the methods used and what motivates their use. To address this gap, Kang et al. (2018) examine the range of quantitative and qualitative methods used for M&A evaluation that cover both financial and socio-political perspectives. Bower (1970) introduced the idea that there were problems with financial decision-making because of the presence of uncertainty and controversialism embedded in the socio-political landscape of the organisation. Building on this, Kang et al. (2018), however, focus on the evaluation of M&A and consider the socio-political factors, uncertainty, and controversy that are disregarded in basic financial valuation models and how they impact the use of evaluation methods, which we will expand on in section 2.2 *Theoretical Framework*.

From the review of the research on M&A, it can be concluded that it has been predominantly apparent in the quantitative finance field, whereas a smaller stream of qualitative research on the topic has emerged, mainly in the strategic management field. The following section explores qualitative research on the use of accounting information in organisational decision-making processes and will be used to relate the propositions brought forward by Kang et al. (2018) to the accounting field.

2.1.2 The Use of Accounting Information in Decision-Making

In their paper, Burchell et al. (1980) critically examine the way in which accounting is used in practice within an organisation, particularly in decision-making processes. Their findings contrast the cemented assumptions about the use of accounting in rational decision-making with their actual use in practice. Whereas the conventional understanding has been that accounting provides essential information to improve decision-making rationality, their research instead posits that the link between accounting information and decision-making has rarely been critically assessed; it has been presumed rather than demonstrated. By building on the decision-making framework introduced by Thompson and Tuden (1959), which went beyond the traditional presumptions by addressing various degrees of uncertainty and, subsequently, an array of possible approaches to decision-making (using their “machine” analogy), Burchell et al. accentuate the way in which accounting systems adapt to different

levels of uncertainty (or disagreement) about organisational objectives and causality effects. In conditions characterised by low uncertainty over both the objectives and consequences of actions, accounting systems might employ standardised algorithms in order to aid decision-making through computation. However, as uncertainty increases, the role of accounting shifts towards supporting more complex analytical or political processes, effectively absorbing the uncertainty.

March (1987) further explored the link between information and decision-making within the organisational setting and critically examined traditional theories of choices (used, for example, in microeconomics and statistical decision theory), claiming they fail to adequately capture the complexities of decision-making within organisations. He suggests that accounting and other information systems function as essential support systems to aid in decision-making, designed to mitigate the uncertainties inherent in foreseeing the implications of possible actions. Effectively captured in his assertion that: “The value of information lies in its ability to reduce uncertainties that affect choices”. Moreover, March highlights how earlier research has revealed the inadequacies of these theories, particularly in neglecting the complications in the use of information for decision-making: limited rationality and conflict of interest. Furthermore, he challenges the presumption that information inherently clarifies decision-making, illustrating instead how ambiguities regarding preferences, relevance, intelligence, and meaning can complicate the use of information.

Johnsson (1998) pointed out the necessity of relating management accounting to management and voiced the failure of researchers to explore the use of accounting information as an integral part of managers' work. Furthermore, the author makes a claim that the available management accounting research is limited to the use of accounting information as a foundation in managers' decision-making in “well-defined scenarios”. Hall (2010) addressed these concerns by examining the use of accounting information with a more nuanced perspective on how and why managers use accounting information, moving beyond the traditional decision-making paradigms. Hall’s findings suggest that managers mainly use accounting information to develop a comprehensive understanding of their work settings, whereas prior research has been primarily concerned with how managers use accounting information in well-defined situations. The approach initiated by Hall helps managers to prepare for unforeseen future decisions and activities rather than just informing specific decisions. Hall emphasises that much managerial work involves navigating an uncertain

environment, and within this context, accounting information serves, instead of direct input into decision-making, as an inventory of knowledge. The author suggests that accounting information, while indispensable, forms a part of the wider spectrum of information managers draw upon, including both formal and informal sources. Moreover, there is a call for research to consider the “processes that individuals engage in as they conduct particular activities”, which focus not on the output of the activities, but rather the “methods, processes and activities” that are performed.

M&A evaluation is a vital step in the investment decision-making process. In order to connect the position held by Kang et al. (2018) within the M&A research domain to the findings in the qualitative accounting research on decision-making, there is support for the position that in scenarios characterised by a high degree of either uncertainty or controversy, decision-makers are forced to direct attention away from the more standardised, quantitative decision-making processes, e.g., financial models, and instead deploy various qualitative methods that are adapted to absorb the uncertainty and controversy present in the environment. Our thesis uses the extensive research on the complexities of the use of accounting information in decision-making within organisations presented here to support the argument that Kang et al. (2018) put forward that qualitative evaluation methods will be used to adapt to the uncertainty and controversy in the complex M&A investment decision-making processes.

2.1.3 Research Gap

The existing research within the M&A domain has been dominated by attempts to quantitatively examine the value creation of M&A through its impacts on company performance and stock value. This paper adheres to the call for qualitative research to be conducted in the field in order to adequately explore the complexities of M&A, which we consider to be the gap in the existing literature.

The current streams within M&A research are all concerned with examining the impact of deals on organisations and their performance post-acquisition (Birkinshaw et al., 2000). Expanding on this, a limited number of qualitative studies have focused on the post-acquisition integration process. Scholars within the M&A domain and accounting literature call for more qualitative research with a longitudinal research design in order to move beyond well-researched cross-sectional, quantitative, and positivistic explanations of

motives and implications of M&A and instead explore M&A processes and how they are perceived.

Anchoring in seminal works within the qualitative accounting field, we offer an accounting perspective to the strategic management paper published by Kang et al. (2018), which sought to enhance the understanding of the M&A evaluation methods used in practice. With this, our thesis contributes to exploring how socio-political factors will impact the choice of evaluation methods of target companies by the acquirer in the M&A investment decision-making process and how it is impacted as new information arises in the process that may affect the degrees of uncertainty and controversy.

2.2 Theoretical Framework

Kang et al. (2018) developed the theoretical framework that we use in this thesis. They argue that the evaluation of mergers and acquisitions encompasses a variety of quantitative and qualitative methods that are used in combination and in different sequences. Acknowledging the significant gaps in our understanding of evaluation methods' characteristics and what factors influenced the decisions, Kang et al. (2018) examined the socio-political factors of uncertainty and controversy and sought to understand how the use of different M&A evaluation methods varies depending on the degree and combination of the socio-political factors. In line with this, we deem the framework developed by Kang et al. (2018) to be a suitable theoretical framework for our analysis of the impact of socio-political factors on how and why two companies use quantitative and qualitative evaluation methods in M&A.

2.2.1 Socio-Political Factors

Kang et al. (2018) suggest that two socio-political factors are reflected in the chosen M&A evaluation method, namely uncertainty and controversy. We will first provide the definitions of the concepts of uncertainty and controversy provided by Kang et al. (2018), see Table 1. We will treat the concepts as binary variables, i.e., their degree can be said to be either high or low, while we recognise that the concepts are continuous in reality. While the two socio-political concepts may be present simultaneously, they have enough independence to be considered separately (Kang et al., 2018). Similar to Kang et al. (2018), we will consider them both as broad concepts but will shortly elaborate on each concept and explore how they are

considered within the qualitative accounting literature to impact decision-making and, consequently, the choice of evaluation methods of firms in M&A.

Socio-political factor	The definition provided by Kang et al. (2018)
Uncertainty	<i>“[...] when decision-makers cannot specify reliable statistical parameter distributions, such as mean and variance, which would help estimate the value of a decision”</i> (Kang et al., 2018, p. 2)
Controversy	<i>“[...] when there are at least two strong coalitions with competing goals”</i> (Kang et al., p. 2)

Table 1: The definition of the socio-political factors of uncertainty and controversy provided by Kang et al. (2018)

Uncertainty

Scholars will sometimes use uncertainty interchangeably with the terms “Knightian uncertainty” and “ambiguity”, which refers to qualitative, unmeasurable uncertainty, which in turn is different from “risk”, i.e., quantitative, measurable uncertainties (Knight, 1921; Kang et al., 2018). Within qualitative accounting research, uncertainty is considered a factor that significantly impacts decision-making and the role of accounting information in it (Thompson & Tuden, 1959; Bower, 1970; Burchell et al., 1980). Scholars further pose that the value of information is related to the degree to which it is able to reduce uncertainties (Burchell et al., 1980; March, 1986). The first general principle put forward by Cyert and March (1963) in organisational decision-making is: *Avoid uncertainty*. “Rather than looking for ways to deal with uncertainty through certainty equivalents, the firm looks for procedures that minimise the need for predicting uncertain future events” (Cyert & March, 1963, p. 102). Scholars highlight that uncertainty inhibits the ability to make accurate financial computations and that actors instead are required to make use of qualitative methods (Cyert & March, 1963; Bower, 1970; Kang et al., 2018).

Controversy

Similar to uncertainty, controversy, or substitutable concepts such as conflict of interest, disagreement, and controversialism, is suggested in behavioural theory to have complications for decision-making and the use of accounting information in it (Cyert & March, 1963; Bower, 1970; Burchell et al., 1980; March, 1986). With regard to controversy, Kang et al.

(2018) stress that it inhibits the use of primary analysis for decision-makers who must devote their attention to bargaining and forming alliances to achieve their desired goals.

2.2.2 Orienting Proposition(s)

The framework developed by Kang et al. (2018) presents an orienting proposition in their study that states: “[...] *that as uncertainty and/or controversy increases, firms will increasingly evaluate potential deals via qualitative methods*” (Kang et al., 2018, p. 4). This orienting proposition will be adopted in our study as well. Beyond the orienting proposition, Kang et al. (2018) formulate four propositions to extend it, which help to answer how variation in the two socio-political processes influences the qualitative methods of evaluation, see Table 2.

	Degree of uncertainty	Degree of controversy	Evaluation method
Proposition 1	Low	Low	Desktop valuation
Proposition 2	High	Low	Capability design
Proposition 3	Low	High	Issue list
Proposition 4	High	High	Storytelling

Table 2: Four orienting propositions formulated by Kang et al. (2018).

This study will focus on the orienting proposition from Kang et al. (2018) while also using their additional four propositions to guide the analysis and categorise the data. Thus, this paper examines whether a higher degree of uncertainty and/or controversy implies the use of more qualitative evaluation methods. In this section, we elaborate on the four evaluation methods and relate them to accepted accounting practices.

Desktop valuation

In the article by Kang et al. (2018), when the influence of controversy and uncertainty was low, the evaluators used desktop valuation as the primary method of evaluation. When using desktop valuation, the evaluators used a DCF model to calculate the value of the target company, an IRR model to calculate a return from the investment, and simulation methods. Given the amount of available information and consensus about a deal, evaluators deem it

sufficient to use standard valuation models, and the models are sophisticated enough to cover the complexities of the deal.

Capability design

Capability design was used as a method of evaluating an M&A deal when uncertainty was high and controversy was low. The method takes account of uncertainties, and since financial analysts struggle to identify reliable parameters, the methods help decision-makers to decide *“What capabilities we will need in order to achieve our goals and how the target helps us create those capabilities”* (Kang et al., 2018). According to Laamanen (2007), it is an important goal to enhance capabilities in many M&A deals. In cases with uncertainties, buyers focus on identifying the causes of uncertainty and assessing the implications of uncertainty on deal performance. The buyers also determine strategies to address the uncertainty. After the qualitative assessment of the uncertainties, the buyer commonly derives a purchase price that is consistent with bearing the uncertainties. In an accounting manner, this would relate to management control and performance measures, qualitatively measuring the impact of a decision and the implications for performance measures and management control.

Issue list

When uncertainty is low and controversy is high, the process of evaluating a target company is internalised, and the goal is to resolve controversial issues. When issue lists are utilised, actors create coalitions and negotiate on issues in order to resolve the controversies. In these processes, the financial analysis is a step *“to help support the deal preferences”* (Kang et al., 2018). Issue lists have three properties: identifying goals, building consensus, and dealing with long-term strategic interests. First, the value of an investment tends to build on beliefs in a social context rather than from arguments of rationality. In such cases, actors need to identify competing goals, provide cases as benchmarking, and emphasise norms of reduced differences in opinion between different stakeholders. Then, the firm assesses whether the deal *“corresponds to the strategic direction and other norms of important stakeholders”* (Kang et al., 2018), i.e., construct issue lists. The approach seeks to “draw stakeholders into supporting proposed deals and cooperating during the integration process. Such support is important for the execution and implementation of a deal”. Further, Kang et al. (2018) argue that: *“If powerful subgroups do not agree on the viability of an implementation plan, a deal needs to be reconsidered regardless of its estimated financials”*. As argued by Burchell, when

disagreement increases, the role of accounting turns towards more complex analytical or political processes. This is highly relatable to the Issue list method proposed by Kang et al. (2018), who argue that, as controversy increases, then firms adopt a much more political process of creating consensus and involve more stakeholders.

Storytelling

When both uncertainty and controversy are high in an M&A deal, the method applied in the article of Kang et al. (2018) was storytelling. Storytelling tools have to take into account that the deal is controversial, which would imply issue lists, and that parts of the deal are uncertain, which would imply adopting capability design. The tools in storytelling commonly involve developing extensive logic for why and why not the deal makes sense. In order to manage this, the acquirer may hire third-party actors such as investment bankers, consultants, or lawyers to provide advisory services and help undertake due diligence. By turning to outside experts in different fields, they can get diverse perspectives on the deal, which can assist the firm in carrying out issue lists and capability designs. Ultimately, storytelling is a method of integrating information to construct a coherent story of the deal. In accounting, the storytelling method relates to narrative accounting, which is an integral part of corporate financial reporting and is deemed to provide a view of the company “through the eyes of management”. Narrative accounting gives, as for storytelling, the managers or other actors the ability to construct a coherent story based on accounting information.

The literature, particularly the framework by Kang et al. (2018), studies how socio-political factors might impact the evaluation and valuation of M&A deals at a single point in time and studies multiple cases with different socio-political influences. The authors of this paper believe that since an M&A deal consists of multiple stages and information changes over time, the socio-political factors also impact the evaluation and valuation of a deal differently in different stages of a deal. Thus, this paper applies the framework of Kang et al. (2018) but extends it by studying the impact of socio-political factors over time and how the socio-political factors influence the use of qualitative evaluation methods at different times as new information in a deal arises.

3. Method

The method section contains a description of how this empirical study was conducted and designed. The first section presents which research approach was chosen and the reasoning behind the method, followed by a description of the data collection process including case selection and the data retrieval. The last section describes how the collected data was analysed.

3.1 Research Design

With this thesis, we contribute to the accounting field in academia with qualitative research, which, in the quantitative-dominated field of research, is something that is both highly important and sought after (Lee & Humphrey, 2006). We intended to create an in-depth, multiple-case study since it would enhance the depth of both our empirical data and subsequent analysis (Vaivio, 2008). The in-depth analysis will be enhanced through semi-structured interviews, a commonly used method for collecting qualitative data in accounting (Lee & Humphrey, 2006). We intended to complement the semi-structured interviews with secondary data such as internal documents, but the confidentiality nature of the industry made this rather difficult, and the semi-structured interviews turned out to be sufficient to examine socio-political factors' influences on evaluators.

After considering previous qualitative theses in the accounting field, it would be most appropriate for us to use an abductive approach to the research topic. This was motivated by the fact that there exists a very limited amount of qualitative research papers on our chosen topic.

We adopted a longitudinal retrospective research design where we studied phenomena over time in order to extend current research that is focused on one point in time and examine whether the M&A evaluation methods change over time. We believe that time is an important variable for changes in complexity. It is advantageous to conduct a longitudinal study when establishing sequences of events and following changes over time (Caruana et al., 2015). However, conducting a retrospective study contains the risk of a prevalence of recall bias in participants, which we had in mind when conducting the interviews. As a prospective longitudinal research design is highly demanding, this would be out of the scope of this paper

due to the required length of such a study (Caruana et al., 2015). Moreover, longitudinal prospective studies are uncommon in M&A research due to the difficulty in maintaining representative sample sizes over time; thus, this study was conducted from a retrospective perspective.

3.2 Data Collection

3.2.1 Case Selection

In the early stages of this research, we intended to conduct a qualitative study within M&A and, more precisely, a study on distressed investing. We deemed a qualitative study on this subject as preferred since we wanted to seek an understanding of how actors are motivated to perform such investments. We thus wanted to interview people involved in the acquisition of a distressed company. To find a relevant case, we listed investment companies that have M&A activities as their main operations. We looked at various sources to find Swedish investment companies who, perchance, have performed such acquisitions. Subsequent to the construction of the list with target companies, we reached out to them through email and explained our objective and intention to determine if any of them would be interested in participating. We explained that we wanted to get access to an acquisition of a distressed company. The responses were varying, and some of the recipients declined our inquiry either because they were not available to provide us with access or not having performed a distressed investment. Others agreed on an initial meeting, indulging us to explain more in detail our intention and to give them a moment to remind themselves whether they have performed any transactions of this kind. After the meetings, most of the companies explained that they had not performed any. However, one company wanted to participate, though not with a strictly distressed acquisition but with a special situation. We agreed that this would be fine as there was a lack of companies that had pursued a distressed investment, and we found it a great match. We booked a first interview with this company.

In a lateral process, we got in contact with a company through acquaintances and had an initial meeting with them. During this meeting, we were no longer restricted to distressed investing but were interested in an investment that was special to some degree. During the meeting, we had discussions of what they thought would be interesting to conduct research on, and we found some highly interesting topics. This study was conducted to study how

qualitative assessment impacts the decision-making and evaluation of target companies. We found this suitable for the first transaction as well, resulting in the decision to proceed with this approach as a research design, though still with companies in a special situation, i.e., a target company that is in some way unusual for the acquirer to purchase. Thus, since we got access to two interesting transactions, we decided to study them, resulting in a dual case study instead of a single one.

3.2.2 Primary Data

3.2.2.1 Semi-Structured Interviews

The primary data in this study was retrieved from semi-structured interviews with employees who were involved in the acquisition of the company subject to this study or in another way relevant to understanding how different socio-political factors influence the way an acquirer evaluates or values a target company. The interviewees were mainly employed as M&A or investment directors/associates, but employees were as well operations managers and legal roles. In the interviewee selection, we were actively seeking investment professionals, but as we let the interviewees recommend and refer us to their colleagues, they suggested individuals who were not necessarily related to typical M&A or investment roles since they thought that they would give us relevant perspectives and intel. In hindsight, this was advantageous since our study wants to investigate how qualitative methods are used in the evaluation of target companies in a longitudinal manner.

Further, the interviews were structured as in-depth semi-structured interviews, which enabled the interviewees to reflect freely and steer the interview toward what they thought was interesting. This also ensured that the interviewees did not repeat what other interviewees had already told us but instead gave a new perspective and more empirical data to explain the phenomena. However, we were preserving the interviewees on relevant topics that were related to the studied topic and ensuring that the answers were related to what we were studying. The latter was ensured with an interview guide, which we utilised in every interview to provide a framework for the interviews while letting the interviewees themselves reflect on the broad topics that we instituted.

3.2.2.2 Interview Context

The prerequisites of the interviews and the case study were that confidentiality should be treated with the utmost respect, which was important in order to get access, given the nature of the industry, where much of the information is sensitive. However, the interviewees allowed us to record and transcribe the interviews held on Microsoft Teams, which was all interviews except one. During the first on-site interview, we actively took notes, and the remaining interviews were conducted online. It was advantageous to conduct online interviews in the aspect that we could record and transcribe them, enabling us to focus on a constructive dialogue with the interviewees instead of one of us having to take notes. Also, by rewatching the interviews and correcting the transcript, we could be at peace and quiet to catch interesting thoughts and concepts. Moreover, the interviews were conducted in Swedish, the native language of all the interviewees, making sure that the quality of the interviews was not compromised.

3.3 Data Analysis

We continuously analysed the data throughout the research process in order to find topics to explore further and to review where we have to focus more in order to get a better picture of the process. We also continuously reviewed the recordings and the transcripts, which we analysed and structured through tables and bullet points. In order to understand and analyse the collected data, we went back and forth between our data and the literature in order to interpret it and, in the end, answer our research question. Dubois and Gadde (2002) argue that this is a useful way to improve the understanding of the theory and what is being studied.

The theoretical framework used in this thesis assisted us with relevant modes of evaluation that we could use in order to classify actions taken. We continuously tried to find how qualitative measures are used as methods of evaluation. The theoretical framework gave us tools to do this in a structured way. By using the theoretical framework as a broad assistance in the data analysis, we could classify the actions to evaluate whether they were qualitative or quantitative. We took our data and classified it under the methods from the framework to then evaluate the degree of the qualitative method. Thus, we continuously related the empirics to the framework and categories of the methods the respondents used.

4. Empirical Findings

This section presents the empirical data and connects it to the theoretical framework. It is divided into two parts, one for each of the two companies and their respective M&A transactions. First, a brief overview of the acquiring company's operations and investment strategy is followed by empirics from the transaction in focus, guided through the three stages in the M&A process.

4.1 Case 1: Company A and Transaction 1

4.1.1 About Company A

Company A is a Swedish stock-listed investment company with two main legs of their operations: firstly, they purchase majority stakes in stock-listed companies, and secondly, they acquire 100% equity in private companies (referred to as portfolio companies). It is important to distinguish the two operations. The M&A activity is rooted in acquiring private companies in the industrial sector with good profitability and building a network of companies with two main types of acquisitions: i) Platform acquisitions and ii) Add-on acquisitions. The platform acquisitions are performed on a Company A level, and add-on acquisitions are performed under the initiative and lead of the portfolio companies with the assistance of Company A: *“We have a central investment team [...] that helps our portfolio companies when they are performing add-on acquisitions, and simultaneously looks at new platform-investments”* (Employee A1).

In the portfolio companies, Company A has a governance role but does not work directly with their M&A operations, *“They have their own M&A teams that work with the portfolio companies, however, we do work closely in teams with the portfolio companies, which often make add-on acquisitions”* (Employee A1). Platform acquisitions, that is of larger character, occur more seldom, *“We might make a platform acquisition in a completely new industry every other or every third year”* (Employee A3). *“A very large part of the growth comes from the portfolio companies”* (Employee A1). The rationale behind add-on acquisitions is to grow either your product portfolio or grow geographically. The central investment team is more active and devotes a lot of time to the acquisition of new platforms, while for add-on acquisitions, it is expected that the relevant portfolio company will take responsibility,

“[...] then it is our (portfolio) companies that know their markets very well” (Employee A1). Therefore, searching for new companies to acquire is the portfolio companies' own responsibility: *“(The portfolio companies) work quite extensively to scout companies that they find interesting based on a number of criteria that we have for potential acquisition candidates”* (Employee A2) and moreover it is stated: *“(The portfolio companies) have their own long lists in Excel with companies that they find interesting. We have regular meetings when you sort of go through and look at that list and discuss”* (Employee A1) and after Company A decides to establish contact with a company: *“[...] it is often (the portfolio company) that establishes the first contact and builds a relationship with companies in their industry that can then become potential acquisition targets”* (Employee A1).

Several employees at Company A highlight their implemented investment criteria:

“It is often the case that (Company A) has a number of acquisition criteria that must be met for us to be interested in supporting an acquisition project” (Employee A2)

“We have quite distinct investment criteria, from the perspective of (Company A)” (Employee A1)

“(The investment criteria) are criteria that have been carved out over time, but I would like to say that we are quite strict about them having to fully meet them, or at least be green on most of them” (Employee A3)

Financial criteria that potential acquirees need to meet were explicitly mentioned in one interview: *“They need to live up to our financial criteria to reach XX% profitability and XX% average growth, which is related to our long-term investment strategy with a more or less eternal investment horizon, and we want to invest in companies where there is future growth potential”* (Employee A3). However, there are also vital non-financial criteria that are highlighted:

“They should have a good culture, cultural fit, and good management” (Employee A1)

“There are a number of criteria that simply must be met, one of them is that there must be a functioning management team in place that can drive the company forward” (Employee A2)

4.1.2 Transaction 1

Transaction 1 was an add-on acquisition of a company in a known geographical and product market. Overall, there was a clear strategic rationale to acquire the company: *“This is a*

company in a sector we know, we are skilled in and want to grow within, there is a strong brand and good quality of the product and suits well within our current portfolio” (Employee A1). The target company was, as argued by the interviewees, a good match, but the circumstances around the previous owner were complex and challenging. The deal was sourced by being approached by the seller, who needed to clean their balance sheet and thus offered Company A the opportunity to acquire the company. *“We are quite experienced in the transaction market. This acquisition was not really a company we had looked at that much. Usually we have the ambition to be prospective and approach on our own initiative”* (Employee A2). All in all, the initial outlook was that uncertainty and controversy were rather low in the deal as the geographical and product market was known.

Further, the interviewees argue that there has never been a problem for Company A with financing an acquisition: *“Money has not been the factor hindering an acquisition, but more (rather) of the capacity to find the right company we want to invest in”* (Employee A2). Moreover, Employee A2 elaborates: *“We never raise external capital, we invest from our own balance sheet and that is both cash flow from dividends and generated by our private companies”* and *“We have had very good returns at Company A, thus we have had stable growing cash flow over time and capital has never been a problem”*. Employee A1 states: *“We recognise a good business opportunity when we see one and there has almost always been an interest in financing it”*. These statements indicate that the company is not putting as much effort into reducing uncertainty as they are not affected as much by a poor acquisition in the short term as others: *“The important thing is to build profitability over time [...] The important thing is to invest for the future, which has been positive for the company. One does not have to optimise cash flow all the time, we can afford to be unprofitable for some time”* (Employee A3). Because of the financial strength of the company, they can suffer from a poor acquisition for some time and are able to focus more on the potential for long-term growth and future cash flows. Since their financing is healthy, they can focus more on the potential they recognise in the target companies’ capabilities and how they are aligned with the strategy of the company instead of focusing on what risks are related to the deal.

Pre-acquisition

The acquisition was sourced through a portfolio company for which the target company would be an add-on acquisition. The owners of the target company approached the subsidiary and asked if they wanted to acquire the company. Given the circumstances of this transaction,

the pipeline was owned by the subsidiary of Company A. Employee A1 elaborates: *“The subsidiaries are responsible for their strategy and strategic rationale of which markets and which products they want to grow in and then the portfolio companies that are affected by an add-on acquisition are responsible for the pipeline, [...], they have much better knowledge in which companies are market leaders in different markets”*. By letting the subsidiary own the pipeline, the pre-acquisition stage is decentralised, and the subsidiary is responsible for evaluating if and how the acquisition is strategically justifiable and if the capabilities of the add-on acquisition enhance the long-term strategy and growth of the subsidiary. *“When we look at add-on acquisitions, we steer towards assessing the strategy of the target company and how it aligns with the strategy of the acquiring company”* (Employee A2). They are using the capability design method to evaluate how the strategy of the target company is aligned with the acquiring company to assess whether this investment would enhance the long-term strategy.

As elaborated on earlier, there was a very clear rationale behind acquiring this company. As the subsidiary has extensive expertise in the geographical and product market, the uncertainty in the early stage of the transaction was low, as well as controversy as the strategic rationale was very much aligned with the long-term strategy of Company A. It is emphasised that: *“One has to believe in the market and the company [...] it is an evaluation of the entirety”* (Employee A3). Further, Employee A3 elaborates: *“[...] and when one has done the assessment of the entirety, it is also about a valuation in order to not move into the due diligence without an agreement on the value. A valuation is thus performed in the pre-acquisition before the due diligence phase starts, and Company A is responsible for the valuation. “The valuation has no right or wrong answer; there is no mathematically correct amount, but it is rather a negotiation where one has to think about how much we think the company is worth, what we think we can do with it, how much risks we are ready to take on and what the seller is prepared to sell for”* (Employee A2). In essence, the company utilises a DCF analysis and industry multiples but also assesses the value added from the acquisition. Employee A1 elaborates: *“[...] as it is an add-on acquisition, there can be strong synergies which motivate a higher price in order to close the deal”*.

Another aspect elaborated on is the negotiation landscape: *“When they come to us in this way, it is a different bargaining position. When we approach someone, we have to be ready to pay for it but when they come to us ready to sell, we have a better bargaining position”*

(Employee A2). Company A was given enough data to conduct a standard valuation according to their regular procedures, and Employee A2 elaborates: *“There is an answer to what the company should be worth when applying accepted fair market methods about valuation”*. Then, they built a business case to see what they were ready to pay for the company, which was the starting point for the negotiation and continued discussions.

In the pre-acquisition phase, they adopted desktop valuation, which consists of standard valuation models using the available data and qualitative evaluation methods, where they let the subsidiary own the pipeline and assess the market and the company in question.

Mid-acquisition

The mid-acquisition stage is entered when the company signs a letter of intent to pursue the acquisition and initiates the due diligence (DD) process. When entering this critical stage, Company A takes full responsibility for the process: *“We often really come in and ‘take over the baton’ [Ta över stafettpinnen] when you have actually signed a letter of intent with an intention for an acquisition and enter a due diligence process where you are actually going to do critical evaluation”* (Employee A1).

The transaction was continuously characterised by a low degree of controversy, as there was strong internal support for it, as expressed by Employee A2: *“It was an extremely, extremely good business opportunity that we could not say no to”*. However, in this stage, a special circumstance with the transaction would escalate the degree of uncertainty in the due diligence process, the fact that the acquiree was a competitor to Company A, as: *“It complicates things considering all the rules related to competition regarding what information that can be shared”* (Employee A2).

Typically, the employees of Company A have expressed that the mid-acquisition stage is characterised by obtaining a deeper understanding of the acquiree, as the acquiring company now has the opportunity to receive more information about the company, meet the management, and get a closer look at the operations:

“Often, one looks at the company from the outside in first, but then [...] the two things that are very important, I would say, are both meeting the management and getting a feel for and building a relationship with them, but also to see the products and the site itself” (Employee A3)

“We want to meet three of the most central people, the CEO, CFO, and the Operations Manager, and then you get to interview them” (Employee A2)

“It becomes an important component in the DD process that you actually get to meet the management and build a relationship” (Employee A3)

In this transaction, the competition aspect complicated the process and inhibited standard practices to be performed: *“I cannot call a competitor and ask about their pricing, strategy, or how you handled price increases this year. If I do that, we risk being affected and possibly facing sanctions or fines. This is a challenge when talking about acquisitions if you cannot discuss any sensitive business data”* (Employee A2). The limited access to critical data made the degree of uncertainty high in the mid-acquisition stage and was managed in the DD process through permitted arrangements, such as: *“[...] ‘client setup’, which means that a very small limited group can look at certain documents that are not available to anyone else involved in the process”* (Employee A2), and the group which was permitted to be involved in the evaluation was already small. Moreover, Employee A2 states that: *“There is further information that is even more sensitive which is then managed within something called a ‘black box arrangement’, for example, when such a transaction must be tested by the Swedish Competition Authority [Konkurrensverket]”*, which this transaction was.

As uncertainty is high, given the limited access to useful information, Company A had to rely on the qualitative scenario assessment, a type of capability design that motivated Company A to pursue the acquisition in the first place, introduced already in the pre-acquisition stage, that the acquiree would create more than enough value to justify having to take on the high degree of uncertainty: *“There is a complexity regarding what information one can obtain about such a company and some things you just have to live with risk of not knowing”* (Employee A2).

Post-acquisition

The post-acquisition process consists primarily of an integration process of the acquired company. The integration process adopted was a standard integration process in accordance with the usual process the company adopts. However, in this transaction, it was a little more concerned with communication. *“It was more focused on communication, in this case, otherwise we have a usual integration process. We perform a lot of acquisitions and we know how to do this so we are following the same procedures as we always do in these contexts”*

(Employee A2). Since they are used to completing integration plans, the procedure was rather straightforward.

In connection to the acquisition and integration stage, the communication, as stated, is highlighted. They have an event in connection to the access where they meet the employees. Employee A2 elaborates: *“It is always a small group who had insight in the acquisition, leading to a small shock for everyone, where often the owner has to first tell everyone that they sold the company”*. Employee A2 further explains: *“We often acquire entrepreneurially led companies where it can be an entrepreneur who operated the company for 20 years and is heading to retirement and there is no one in the family who wants to take on and then they hand over the company, which is a shock for the employees”*. The shock that the shift in ownership leads to is managed through qualitative methods. In order to avoid a negative impact from the change, the company should try to create a positive feeling to reduce any uncertainties this creates among the employees. Employee A2 explains: *“After a week or so, we are visiting the company to meet the employees and create a feeling of and describe what kind of owners we are to create a positive feeling that they are not going to begin firing people. It is about investing in companies you believe in and where one can actually invest even more and become part of a bigger context, which can be exciting for the employees, so the communication there is very important”*. This qualitative method is similar to issue lists proposed by Kang et al. (2018), where the authors argue that: *“The (issue list) approach seeks to draw stakeholders into supporting proposed deals and cooperating during the integration process [...]”*.

The other important part of the post-acquisition phase is to realise synergy effects. During the pre-acquisition and mid-acquisition stages, expectations are built regarding the outcome of the acquisition. When the integration process starts, they can truly get to know the management and employees as there is limited time to do this in a due diligence process, and this can give rise to a lot of new information about the company. *“There is always a risk, because somewhere you only have 1 to 6 weeks to look at a company and do an analysis. But it is impossible to do it in 6 weeks when you don't get the chance to meet the entire company”* (Employee A3). Thus, during the integration process, new information arises, and there is uncertainty that they don't know the company as they thought. When evaluating the company in the integration plan, they work closely with the company to develop a long-term plan to realise the expected synergies.

4.2 Case 2: Company B and Transaction 2

4.2.1 About Company B

Company B is a Swedish privately held investment company mainly investing in private companies through M&A activity, acquiring majority stakes in industrial companies. The company's main operations are to acquire companies in the industrial sector with healthy operations and sound profitability. The acquisitions are divided into three categories: i) Platform acquisitions, ii) Add-on acquisitions, and iii) Niche companies.

For type i) acquisitions, the focus is on acquiring companies with a higher turnover, a good niche in a market, and sufficient organisational structure and management in place. For these acquisitions, it is important to evaluate what type of people executives and management are and what future objectives they have. These acquisitions will serve as a platform in a market from which they can establish a starting point and then grow organically or through acquisitions. For type ii) acquisitions, the focus is on finding companies to complement the type i) acquisitions, i.e., add on the established position in the market. For these acquisitions, both commercial and cost synergies are evaluated as they are the primary motive for the acquisition. For type iii) acquisitions, the focus is on finding smaller companies that offer 'microservices'.

From interviews with employees at Company B, it becomes evident that qualitatively assessing 'soft values' is vital. It is very important to assess the people in the organisation through interviews, background checks, meeting with the company, and having: *"Informal dinner with the management of the company to really get under the skin of them and understand how they function as individuals."* (Employee B1) in order to avoid any surprises related to managerial capabilities.

Company B finds target companies to acquire through desktop research, buy-side advisors, M&A brokers, and the CEOs of their subsidiaries. They state that the latter is most preferred.

4.2.2 Transaction 2

Transaction 2 was an add-on acquisition of a company in a new geographical market. Overall, there was high uncertainty present in this transaction, due to the limited knowledge of the foreign market in which the target company operated.

“It is worse to perform a poor acquisition than it is favourable to perform a good acquisition” (Employee B1). This statement from one interview summarizes the efforts of the company to reduce uncertainty throughout the entire transaction. *“Potential is secondary to risk. It is more important with risk than potential, it has to do with our business model. We have many companies, it is better if they are super stable than grow as much as possible”* (Employee B2). Further, since the company is privately held, it has limited access to equity capital markets and thus needs to issue equity in private markets or get loans from debt markets. One interviewee elaborates: *“We have a bond financing of XX MSEK with an interest of XX%, it is expensive money”* (Employee B1). Given the financing with expensive loans, the company is limited in its capacity, and it is indicated in their informal requirements: *“We look at three parameters: not paying too much, acquiring companies with growth potential and potential of other value creating activities”* (Employee B3).

Pre-acquisition

The pre-acquisition phase was characterised by a high amount of uncertainty and a low amount of controversy. The uncertainty stemmed from the fact that the target company was in a new geographical market in which the acquirer had limited experience, in addition to a new product market where the experience was limited as well: *“One should not underestimate the differences that exist, even though we are neighbouring countries”* (Employee B4). This meant that the company had to deal with factors other than what they usually have to do when they perform acquisitions. This was one of the first acquisitions outside of Sweden, and thus, their regular procedures could not be straightforwardly applied. These uncertainty factors led to concerns about how the market works, how to do business in this market, what regulations might impact the acquirer and the acquired business, how to construct contracts, etc. In order to evaluate the target company and the acquisition, they first have to research the market in which the company operates and get a sense of how to do business in it and how the market is regulated. The concerns are mostly related to the market rather than to the particular company they were interested in acquiring.

The response to the given concerns was mitigated mostly with desktop research and partly by speaking to experienced people who had done business in this market to get a sense of the business climate: *“In the acquisition we had contacts in their native language and who understood the business norms”* (Employee B4). Further, the acquirer proceeded with a simple desktop valuation of the company.

There was no controversy within the team, which is usually mitigated before proceeding with a prospect. The controversy in the pre-acquisition was low; everyone involved in the deal agreed that the acquisition was in line with their strategy. From an interview: *“When we get a potential deal on our knees, everyone takes a look at it from different angles and everyone is free to say what they want in the deal. If someone has any objections they are free to elaborate on it, but if everyone agrees, we move forward”* (Employee B1). Further, another employee states: *“Yes, but I wouldn't say that everyone exactly has a veto, but if someone is highly doubtful, I would say that it is taken seriously”* (Employee B4) and: *“A broad spectrum of opinions is valued early on”* (Employee B4) in order to make sure everyone is on the same page.

In this case, even if uncertainty was high, the company found it sufficient to conduct desktop research and a simple desktop valuation: *“A company is worth what it is worth, we pay market price for the companies we purchase”* (Employee B5). In the pre-acquisition stage, the company studied the market to address the uncertainty related to the market in which the target operated, made a valuation of the company, and made sure that the whole team was supporting the acquisition. It is of great importance, according to interviewees, to assess strategic fit early on: *“. [...] a broad dialogue early. From the beginning, does this acquisition fulfil a function in the group and for us? Do they add any competence and make us better in any way and is this company suitable as a platform for more acquisitions?”* (Employee B4).

Mid-acquisition

When the M&A process proceeds and the companies enter the due diligence, the interviewees state that the valuation of the acquiree has been performed and the price they are ready to pay for the company will be more or less the same unless something significant materialises. This stage involves understanding the target company and seeing whether the acquirer finds it strategically beneficial to pursue the acquisition. It is now important to evaluate the business

to get a sense of the strategic fit in the group and to evaluate whether or not they can motivate the purchase price that arose in the pre-acquisition phase. As one interviewee states: *“The art of investing, to get a company, even though you know nothing about it, you must be able to understand the entirety”* (Employee B5). As they are in it for the long run, they need not only to perform a financial analysis to reach a valuation but to understand a spectrum of aspects. Another interviewee elaborates: *“The main point is, we focus on leadership, we focus on the long-term and planning. There should be advantages to being part of our group network”* (Employee B4). I.e., evaluating the strategic fit in the group by assessing capabilities.

For example, the operations team was vital in understanding the fundamentals of the company, what explained the valuation, and how to leverage capabilities and realise a value greater than the purchase price. When interviewing the Operations Manager (Employee B4), it was revealed that the operations perspective is a vital perspective in the M&A process. When the operations team is involved in the process, they can get a sense of the impact of the operation. The M&A team is responsible for the financial analysis, and the operations team can complement the analysis with qualitative and operational aspects, such as assessing factors such as management capacity, generational shifts, synergy assessment, and long-term growth. *“The M&A team keeps track of the numbers, but we look at it organisationally. We are very long term, for example, how are we going to manage a succession?”* (Employee B4).

One component that becomes evident from the interview with the Operations Manager (Employee B4) is uncertainty that arises and is related to generational shifts. One interviewee puts it: *“How are we going to manage a succession, for example, if the company has a solid organisation or is there a superstar who makes it happen?”* (Employee B4). The Operations Manager of the company emphasises that during the mid-acquisition phase (during the due diligence), it is critical to evaluate the motivation and incentives of key personnel to stay within the organisation, but also whether or not there is only one ‘superstar’ within the company that makes stuff happen. If this one superstar were to leave or lose interest and motivation in developing the company, they would have a major problem. *“Is there an organisation where we can recruit to or are there more unique superstars who know something special or is there any organisation that is able to receive help with this. If there are no receivers of help then it doesn't matter how much competence we have if they are not able to take it, then we will only be able to own the company in its present form”* (Employee B5). Thus organisational structures play a pivotal role since the strategic rationale might be

super strong, but if they can't sustain it over time due to organisational flaws, it can be detrimental. Further: *"If the CEO works together with their daughter, son and wife. Who makes a greater part of the company, even if the company looks financially superb, maybe we should evaluate risks related to succession?"* (Employee B5).

Elaborating further on successions, if the CEO of the company is also the founder and owner of the company, they might experience a significant increase in personal wealth following the transaction: *"The monthly salary becomes a negligible event the 25th"* (Employee B4). If the CEO is also a 'superstar' who carries the organisation, they might lose incentives and motivation in the long run. The company does not want to buy from a seller who is only motivated by monetary incentives since they perceive this as increasing the risk that the organisation will decay. In these cases, the interviewee further elaborates that if the CEO is an entrepreneur who loves the company and the acquirer demands certain financial reporting, then the 'superstar CEO' might lose interest because it arises from 'boring' assignments that are required in the new owner constellation, creating a lack of motivation.

Post-acquisition

"Surprises are the worst thing there is" (Employee B2). Uncertainty remains in the post-acquisition and integration phases of the acquisition. Even following a pre-acquisition phase and a solid due diligence process where one tries to bypass uncertainty in quantitative as well as qualitative manners, uncertainty arises after the acquisition—it is impossible to avoid all uncertainty.

In this phase, it all comes down to whether the earlier stages were executed properly. As quoted above, surprises are not a nice thing, and in this stage, surprises are particularly unwelcome. In the due diligence process, the firm tries to mitigate uncertainty by adopting a capability design and arranging both formal and informal meetings with the target company to get to know the management of the target company. In the aftermath of the acquisition, there is uncertainty about whether or not this assessment was sufficient to evaluate the capabilities of the company. As the interviews state, there is high uncertainty about whether they actually don't know the people in the business they are buying: *"There is a risk that we actually don't know the people, and we need to get to know them in depth. Only met them maybe twice, and this is an uncertainty we manage immediately"* (Employee B2). They have only met a couple of times, and the relationship is shallow. This is an uncertainty they are focusing on directly

after the acquisition. In order to deepen the connection and get to know each other, Company B initiates formal strategy days, dinners, lunches, etc.

During the due diligence and the early stage, the acquirer builds up expectations and makes assessments of how the acquiree will perform when the acquirer's knowledge and expertise are applied and when the target company becomes integrated into the group of other subsidiaries: *"We have learnt a lot during the due diligence, and you hope that it turns out according to the expectations, and there are uncertainties about this the first half year"* (Employee B3). In the aftermath of the acquisition, the expectations meet reality, and there is uncertainty about whether this will turn according to the expectations that are formed during the process.

These uncertainties are dealt with by, through meetings confirming what they expected of the company, a lot of planning - onboarding planning varying from 6-12 months where they are relatively active, the subsidiary is reporting to the owner company, they are assessing a long term strategy. They are appointing a board and people being involved in the company, and they emphasise long-term focus. *"I am on the board in some of the companies we acquire, we need to be that, in the board, one must have long term commitment. If someone important were to leave the board, then they would wonder why? If we are not committed anymore. It is important with long term trust"* (Employee B3). It is crucial to show long-term focus and engagement to build trust. In this phase, elements of controversy arise. As they are committing to the acquired company with a long-term commitment and appointing a board, there is a risk that controversy will arise if they reduce the commitment to the company. They are actively working to avoid controversy between parent company and portfolio company, which can arise if they reduce commitment. It is super important for the company to avoid controversy regarding long-term commitment and strategy with the acquired company. Employee B2 elaborates: *"This is avoided by appointing a thought-through board, not just appointing anyone. We are putting forward a suggestion, which we work through and assess whether it is a long-term and good board in order to avoid any controversy and perhaps unaligned interests of the parent company and portfolio company"*.

5. Discussion

The article by Kang et al. (2018) is used as a theoretical framework, which we develop to an extent to include a time dimension, examining socio-political factors in M&A evaluation and how the degree to which they are present determine what methods of evaluation are adopted and the degree to which qualitative respectively quantitative methods are used. The discussion and analysis of our findings are presented in this section, divided into two parts, and seek to connect the empirical data with the relevant literature within M&A and accounting information. First, we discuss and analyse how quantitative and qualitative modes of evaluation are used and how they complement each other.

Secondly, we discuss how the time dimension impacts the emergence of socio-political factors and what evaluation methods are used to cope with these, extending the framework into two important ways in which firms use qualitative assessments to mitigate the presence of socio-political factors and avoid uncertainty and controversy where they are likely to emerge.

In this section, we return to our research question as the basis for the discussion: *“How do socio-political factors influence the degree to which decision-makers use qualitative evaluation methods to evaluate target companies, and how does this change over time as new information arises?”*

5.1 Addressing Uncertainty in M&A Evaluation

Consistent with earlier research, we find that companies will use a combination of quantitative and qualitative evaluation methods when deciding whether or not to invest in a company (Mellan & Evans, 2010). In line with the proposition suggested by Kang et al. (2018) that *“[...] that as uncertainty and/or controversy increases, firms will increasingly evaluate potential deals via qualitative methods”* (Kang et al., 2018, p. 4), our findings illustrate that the presence of the studied socio-political factors in an M&A process implies that qualitative evaluation methods will be used by the company. Moreover, as we consider the entire M&A process, separated into different stages characterised by different levels of available information, we are able to identify when the different evaluation methods occur and how they interplay with one another throughout the process. Thus, this contributes to enhancing the findings of Kang et al. (2018).

In order to determine the fundamental value of the company to acquire, which will serve as the foundation when determining the purchase price, both of the studied companies used standardised, quantitative financial valuation models, this is in line with the proposition on financial valuation in M&A processes, suggested by Mazzariol and Thomas (2016). In situations characterised by low uncertainty and low controversy, standardised financial valuation models are suggested to be sufficient to aid the decision-making process (Thompson & Tuden, 1959; Kang et al., 2018). However, from the studied transactions, it would rather appear that determining the fair value of the target company is a standard and necessary part of an M&A evaluation that will be conducted regardless of socio-political factors. It is evident that the valuation estimates that the company derived through computation are used as a basis for evaluation and maintained throughout the process but not sufficient to solely aid in the decision-making, which aligns with Bower's (1970) claim that financial decision-making is impeded by the presence of uncertainty and controversy in the environment.

Instead, in line with previous research, qualitative evaluation methods need to be utilised in order to absorb the prevalent uncertainties and aid the investment decision-making process (Thompson & Tuden, 1959; Burchell et al., 1980; March, 1987).

The presence of uncertainty is made particularly evident in the pre-acquisition phase for Company B when they are looking to invest in a company in a new geographical market and for Company A in the mid-acquisition phase, where they are subject to heavy regulation concerning competition. In both cases, the degree of uncertainty is related to the level of available information to the acquirer about the target companies. This can be connected to the assertion made by March (1987) that information value is derived from its ability to reduce uncertainty. With the lack of information and the presence of uncertainty, it is apparent that both companies considered qualitative evaluation methods in order to make a comprehensive assessment of the M&A deal and to find motivate making the investment decision. Essentially, the qualitative evaluation methods are used to absorb the present uncertainty and support decision-making, in line with the arguments made by Burchell et al. (1980) about the role of accounting information as uncertainty increases. Qualitative evaluation methods, in comparison to desktop valuation, support more complex analytical and political processes and are thus used to absorb uncertainty effectively.

Furthermore, in line with the research of Walls & Dyer (1996), the degree of risk propensity and, in this case, tolerance to uncertainty increases as the firm grows and accumulates capital. We believe that the structure of the firm and the capacity to perform acquisitions are determinants of decision-making. Company A is listed on the stock exchange and has great access to capital markets; they invest from their own equity, and they have a large cash pool. For them, money has never been a problem. When making decisions, the firm is confident in motivating an acquisition, even if the risk is high, by the potential upside if it is a strategic fit. On the contrary, Company B is privately held, has worse access to capital markets, and finances acquisitions partly by expensive debt, indicating a lower risk tolerance. The company cannot afford to make poor acquisitions and does not have the same capacity to endure poor cash flows over some time before it turns. Thus, for them, it is more important to control risk than to acquire a company motivated by the potential.

The analysis in this section has been concerned with the impact of uncertainty on the M&A evaluation process. As previously stated, earlier research on the implications of socio-political factors on decision-making highlights that both uncertainty and controversy impact the approach to the decision-making process (Cyert & March, 1963; Bower, 1970; Burchell et al., 1980; March, 1986). However, we were unable to find any indicators that a high degree of controversy had been present in any of the transactions, yet we will see in the next section that controversy still plays an important role in the studied M&A evaluation processes. The inability to identify the presence of controversy will also be considered in *6.3 Limitations*.

5.2 Socio-Political Mitigation and Avoidance Strategies

While we acknowledge and support the framework developed in the article of Kang et al. (2018) and the proposition that a higher degree of uncertainty and or controversy increases the likelihood of decision-makers adopting qualitative evaluation methods, we extend the framework by adding a longitudinal dimension. Through this extended framework, we observe that there appears to be a direct link between high degrees of influencing socio-political factors and the corresponding use of qualitative evaluation methods in the different stages of the M&A process. Regardless of the identified level of uncertainty and controversy, both companies use qualitative methods in different stages.

A possible explanation for this finding could be the inherent complexities of mergers and acquisitions (Meglio & Risberg, 2010) and the fact that quantitative evaluation methods are not sufficient to answer questions in more complex decision-making processes. This is in line with previous research on decision-making (Bower, 1970; Burchell et al., 1980). Another explanation that arises when adding the time dimension to the framework is that decision-makers identify a risk that uncertainty or controversy will emerge and, therefore, use qualitative evaluation methods proactively in order to avoid the likely impact of the socio-political factors on the process at a later stage. Throughout the process, the companies, in different qualitative ways, actively attempt to control the degree of the socio-political factors present. We identify several situations where qualitative methods are used by the companies we study to avoid controversy and uncertainty from emerging, see Table 3.

Company	Qualitative methods used to avoid emerging uncertainty or controversy
A	Avoiding uncertainty by letting the portfolio company be responsible for the pipeline in the pre-acquisition stage in order to increase proximity between evaluators and the target company.
A	Avoiding controversy by letting the portfolio company have power over the agenda in the post-acquisition, decentralising decision-making, short list of requirements in the integration.
B	Avoiding uncertainty by sourcing add-on acquisitions through the CEOs of the portfolio companies.
B	Avoiding controversy by making sure to align opinions and listen seriously to different perspectives early on in the pre-acquisition.
B	Avoiding controversy between acquirer and acquiree by putting effort into creating relations with the target company in the post-acquisition period.

Table 3: Methods that Company A and Company B use to avoid uncertainty and controversy from emerging.

Kang et al. (2018) focus on mitigating socio-political factors as they are present. However, the empirics from this study show that companies are constantly preventing socio-political factors from arising. As M&As naturally are characterised by different levels of information at different stages in the process, and as the level of information impacts decision-making (March, 1987), it is reasonable to account for time when studying socio-political factors and their impact on the use of M&A evaluation methods. Moreover, companies motivate their use of qualitative evaluation methods in order to avoid rather than mitigate socio-political factor's

negative influences. Since the evaluation processes in M&A extend far beyond the transaction itself, companies are required to put effort into and pay attention to socio-political factors that might impact the deal. Thus, not necessarily the presence of socio-political factors impact how companies evaluate target companies in M&A deals, but the risk of emerging socio-political factors over time influences how acquirers evaluate target companies.

6. Conclusion

6.1 Summary

The M&A domain is an emerging research topic; however, the focus has been mainly limited to finance and management literature. Earlier research is primarily concerned with the activities and performance post-acquisition, despite scholars calling for more qualitative, process-based research within the field to understand its full scope. Through 8 in-depth interviews with the employees at two investment companies engaged in M&A activities and an extended version of the framework developed by Kang et al. (2018), this study explores how socio-political factors impact the use of qualitative evaluation methods by decision-makers and how this changes over time as new information arises. First, our study concludes that quantitative evaluation methods will be used regardless of the socio-political environment as an evaluation base for further evaluation. However, in line with previous literature, we confirm that companies will use qualitative evaluation methods in order to absorb the uncertainty in the decision-making process. Additionally, we see that the characteristics of the firm may impact the tolerance to higher levels of uncertainty. Secondly, by considering the use of evaluation methods over time in the M&A process, our study shows that both uncertainty and controversy are rather dynamic over time, and it is not only the presence of the factors that affect M&A evaluation but also the likelihood of emerging uncertainty and controversy. We find that the firms subject to this study actively evaluate M&A deals with qualitative methods in order to avoid uncertainty and controversy before they emerge. Conclusively, our study contributes to the M&A domain with qualitative process-based research from an accounting perspective and provides further insights into how socio-political factors impact the use of quantitative and qualitative evaluation methods in the M&A process.

6.2 Limitations

The presented findings are subject to limitations. Given the difficulty of finding a representative sample size over time in M&A deals, a longitudinal retrospective study has been conducted. This choice of method is subject to ‘hindsight bias’. This cognitive bias can imply that individuals will, in retrospect, believe that they had accurately predicted the outcome of an event, whereas they had no objective basis for predicting it beforehand. This bias may also come into play regarding perceived controversy. Moreover, since a significantly high degree of controversy would most likely entail that a deal is not completed, a retrospective study is limited in examining the controversy factor as a transaction that has taken place most likely will be regarded as having low controversy.

6.3 Future Research

We want to emphasise further exploration of process-based qualitative accounting research within the field of M&A. As stated in the limitations, we propose that future research study M&As with a prospective approach to longitudinal studies. With this, the study might be able to capture the controversy factor more efficiently. Furthermore, we suggest examining a company with an investment strategy different from those of the subject firms in this study. In this study, both firms were long-term owners focused on growth and an eternal investment horizon. We encourage examination of how a company with a shorter investment horizon, a Private Equity company, for example, that intends to sell the company within a few years, evaluates a company in response to socio-political factors in post-merger with an intent to sell it at a tangible point in time.

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Appendix

Appendix 1: Interview Details

#	Date	Person	Transaction	Setting
1	3/4/24	Employee A1	1	Online
2	5/4/24	Employee B1	2	Physical
3	10/4/24	Employee A2	1	Online
4	12/4/24	Employee B2	2	Online
5	16/4/24	Employee A3	1	Online
6	25/4/24	Employee B3	2	Online
7	29/4/24	Employee B4	2	Online
8	6/5/24	Employee B5	2	Phone

Appendix 2: Interview Guide

Formalities:

- Introduce the aim of the study and our research question.
- Introduce guidelines regarding confidentiality.

Company questions:

- Could you please provide us with an overview of the company and its M&A operations, as well as your role within the company?
- How do you usually identify target companies? What processes do you adopt within the company?
- What types of acquisitions do you perform?
- How do you finance new acquisitions?
- What investment criteria do you have when acquiring new companies?

Acquisition questions:

- Please provide a detailed background to the acquisition we will focus on and why you regard it as special.
- *Elaborate on the pre-acquisition process.* What motivated you to perform this acquisition, and what were your expectations of it? How did you evaluate and value the company before the acquisition? What components were important in an early stage?
- *Elaborate on the process during the acquisition.* Did any new information arise that changed your perception of the company or your expectations of it? How was the company evaluated and valued during the acquisition? What components were important at this stage?"
- *Elaborate on the process post-acquisition.* How did your expectations of the acquisition evolve? What were your initial actions after the acquisition? How did you evaluate the acquisition? What components were important in this stage?

Concluding remarks:

- Do you have anything you would like to add or emphasise to our discussion?