Run or Hide: Changes in Acquisition Behaviour During the Covid-19 Pandemic

Purpose: M&A are an important strategic tool for continuous adaptation, sustainable corporate development, and external growth. At the same time, M&A involve high levels of risk with mixed performance results even under normal circumstances. Even though the M&A market was continuously growing for the last decade, it was abruptly ended by the Covid-19 pandemic as executives were more concerned about liquidity than with long term growth strategies. This raises the question how M&A behaviour is affected by the economic fall-out of the Covid-19 pandemic.

Design/methodology/approach: Mixed method research design

Findings: We particularly investigate how target selection as well as synergy management are affected by the pandemic. Our analysis reveals four archetypical responses to the Covid-19 crisis. We describe those responses in detail and analyze antecedents that seem to influence firms' acquisition behaviour during the pandemic.

Originality: The paper draws on survey and interview data of M&A practitioners

Keywords: Covid-19, Mergers & Acquisitions, target screening, synergy

Introduction

The Covid-19 pandemic resulted in one of the most severe economic shocks since the Great Depression. While a small number of technology firms seem to have sailed through this crisis unscathed, most industries and companies are substantially affected as lockdowns caused a collapse in investments, travel, and consumer spending. This raises an important issue: How are companies responding to this socio-economic crisis? Such responses may, of course take different forms. On the one hand, firms will need to ensure short and medium-term survival (D'Aveni and MacMillan, 1990; McKinley, 1993; McKinley et al., 2014), yet they may also have their sight on the competitive situation once the pandemic is resolved (Katila and Ahuja, 2002). In this paper, we investigate a particular type of organizational activity: Mergers and Acquisitions (M&A). M&A are a central mechanism for firms to consolidate (Cummins, Tennyson & Weiss, 1999), diversify their portfolio (Graham et al., 2002), or acquire new technologies and organisational capabilities for growth (Puranam, Singh & Zollo, 2006). Interestingly, there is evidence that firms with regular M&A activities can add the needed variation to their business models and thus, show increased survival rates (Almor, et al. 2014). However, despite the opportunities they offer, M&A are risky due to the high level of investment required, but also due to the intricacies of post-merger integration (Bauer & Matzler, 2014).

Even though the M&A market was continuously growing for the last decade, it has always been a cyclical market, and boom periods were usually slowed down by regulatory changes or economic downturns (Park & Gould, 2017). The most recent wave started in 2014 and was abruptly ended by the Covid-19 pandemic as executives were more concerned about liquidity than with long term growth strategies, and many deals such as Xerox' acquisition of HP were cancelled (Harroch, 2020). Simply, the M&A market has changed. While in the past years, M&A could be characterized as a seller's market, Covid-19 has changed it into a buyer's market as cheap assets and distressed firms became available (Galpin and Mayer, 2020). The past M&A

waves differed regarding the underlying acquisition motives and strategies (Ranft and Lord, 2002). Due to the current changes in the market for corporate control, we argue that, like in previous economic crises, firms' strategies may have changed. This also implies changes in acquisition strategies, in particular target identification and the linkage to appropriate integration approaches (Brueller, Carmeli and Markman, 2016). This linkage is important as finding the right target only refers to opportunity recognition. The actual value creation occurs during integration (Haspeslagh and Jemison, 1991) which refers to opportunity capture (Angwin, 2007). Drawing on the theoretical tension highlighted above, we explore how and why firms' M&A strategies and the corresponding acquisition behaviour have changed during the Covid-19 pandemic.

This paper reports findings of an exploratory, mixed-method research design. On the one hand, we draw on survey data of 107 Germanic and UK companies. This survey has focused on managers' perception of Covid-19 related changes in firms' acquisition strategies, their target identification approaches, and synergy realisation goals. The survey evidence is supplemented with interview data from CEOs and VPs in charge of M&A as well as M&A consultants. These interviews provide further insights into the reasons for changes in M&A activity due to the Covid-19 pandemic. Our analysis has revealed four archetypes on how firms' goal systems have changed that impact acquisition behaviour differently.

The inconclusiveness of prior research with regard to crisis responses is mirrored in the four strategy archetypes that also impact M&A behaviour significantly. Based on these findings, our study offers new explanatory means to crisis responses, particularly focussed on M&A activities. Specifically, we reveal that a firm's governance mode substantially influences how firms respond to crises, independent of managerial experience in Mergers and Acquisitions. Moreover, our findings have substantial managerial and policy implications.

Theoretical background: Target selection and synergy management in situations of economic threats

This paper explores how and why firms' acquisition behaviour in terms of target screening as well as synergy management has changed as a response to the Covid-19 pandemic. Indeed, the economic shock caused by the Covid-19 pandemic results in a rewiring of economic activities across the globe, now often referred to by the shorthand '*new normal*'. These changes refer to a reduced level of economic activity across many sectors, which might be here to stay for the near future; the Economist framed this issue as the challenge of a 90% economy (The Economist, 2020). Yet, these changes are also manifest in the very activities through which day-to-day management is carried out. The most visible implications were changes in work patterns as working from home became the new normal. These examples provide anecdotal evidence for the wide-ranging changes that require adaptation to ensure businesses' future viability. A particular form of strategic activity affected by the Covid-19 pandemic is M&A; acrucial means of corporate development. While the Financial Press suggests that even later stage deals were called off (e.g. Xerox and HP) due to the economic uncertainty created by Covid-19, some firms have still engaged in substantial M&A activity (e.g. Boohoo acquired Oasis and Warehouse; Uber acquired Autocab). Interestingly, it is worth noting that company valuations and corresponding deal multiples were an all-time high before the start of the pandemic in 2019. These valuations dropped with the beginning of the pandemic, offering various acquisition opportunities that were not feasible before (Grant Thornton, 2020). This made company valuations even more subjective.

Similar to firm goals, acquisition goals are dynamic and are affected by history and context (King *et al.*, 2018). In line with the anecdotal evidence from the media, we argue that the Covid-19 pandemic may have changed acquisition behaviour and in particular two major steps of the M&A process: first, how firms recognize opportunities and identify appropriate target firms and second, how firms try to capture opportunities through synergies and especially through changes in their synergy goals.

Target identification and integration relate to information about a potential target firm and the acquirer's confidence in the ability for joint value creation after deal closing (Agrawal *et al.*, 2017). Acquirers identify or recognize potential target firms in different ways. They might act opportunistically often externally triggered by investment banks or consultants or they might act strategically, driven by a firm's M&A department. These different approaches have distinct advantages and disadvantages. Opportunistically driven approaches are outside of a firm's control (Dawson, 2001). In M&A, this refers to cases when a target directly approaches a potential acquirer or an acquirer simply identifies an opportunity (e.g., lacking business succession or imminent liquidity problems of business partners). Opportunistically driven acquisitions are common among many firms, especially in times of turbulence (for the retail industry see e.g. Dawson, 2001) but tend to be more of an issue for smaller or mid-sized acquirers as they are usually cheaper compared to the other two screening options. Additionally, smaller firms are usually less rigid regarding their governance structure and especially with owner-led firms; the pressure to justify decisions is lower. However, the information asymmetry between acquirer and seller and the asymmetry of the limited search scope and the potential market for an appropriate target, raises the question if an opportunistically driven approach allows firms to identify the best target.

Contrary, externally driven approaches, where consultants or investment banks provide proposals for target firms, are seemingly more transparent and aim to reduce information asymmetry. Furthermore, consultants and investment banks usually have a broader search scope and base their analysis on comprehensive databases supplemented with information by industry and M&A experts. Two advantages emerge out of this approach: acquirers know that these targets are up for sale and, therefore, that this search process is usually faster than an internal search approach. However, externally driven M&A screenings face serious principal-agency problems, as consultants as well as investment banks usually receive a share of the purchase price as remuneration. As such, they (agent) might exploit their private knowledge to benefit from an acquisition while the acquirer (principal) suffers from limited control possibilities (Jensen and Meckling, 1976).

Lastly, firms can find appropriate targets through internal search processes where an M&A function or M&A department gathers information, conducts the analysis, and provides business cases to decision-makers (Trichterborn *et al.*, 2016). A clear advantage of internally driven approaches is that managers are more comprehensively informed about the acquisition strategy of the acquirer and operationalize the strategy in search criteria. Here, acquisition experience might help to improve target selection processes, but might also result in rigidity. Additionally, internal search approaches might be affected by the 'streetlight' effect, limiting the search scope for appropriate targets massively.

Combined, the three alternative approaches to target screening offer different advantages and disadvantages in opportunity recognition. Also, they might be appropriate at different times for different types of firms. For example, firms whose management is absorbed by managing the survival through the Covid-19 pandemic might not rely on complex and long term internal search approaches but find it more time-efficient and cost-effective to receive proposals from investment banks and consultants. Contrary, firms might prefer to dive into search processes themselves in order to receive first-hand insights about market movements for identifying competitive advantage and for avoiding auctions.

While target screening refers to opportunity recognition, opportunities are captured and only materialize during integration, when the acquirer and the target are combined (Graebner, Heimeriks, Huy and Vaara, 2017). In this respect, managers usually refer to the bottom line and top line synergies (Herd, Saksena and Steger, 2005). The former result from standardization that allow firms to cut costs, the latter ones refer to coordination and integration that should result in increased revenues (Graebner *et al.*, 2017). However, predicting and realising synergies involves uncertainty (Schijven and Hitt, 2012) due to limited data (Garzella and Fiorentino, 2014), vagueness (Copeland, Koller and Murrin, 2000), and the time distance of planning and realisation (Cording *et al.*, 2008). While top line synergies offer greater synergy potential, managers often pursue bottom line synergies as they show immediate performance effects. Previous research has highlighted the conflicts of interest in realising synergies, for example financial versus strategic synergies (Hitt, Hoskisson, Johnson and Moesel, 1996) or cost-cutting versus long term strategic synergies (Higgins and Rodriguez, 2006). As company goals are dynamic, acquisition goals and also synergy goals might change. For instance, the Covid-19 pandemic might force firms to focus on cost synergies to maintain or generate liquidity needed to survive, potentially at the expense of revenue synergies that might affect firm performance in the recovery period after the economic shock.

Methodology

This paper is based on a mixed-method, explorative research design, combining both a survey as well as interviews with M&A practitioners. While the survey allows us to unpack patterns of responses across a broader sample of firms, the interviews with M&A practitioners provide a more nuanced view of why firms pursue particular target screening and synergy management approaches.

Data collection

Data collection involved two main primary sources. On the one hand, we collected primary data with an online questionnaire. We pretested our questionnaire with three M&A managers in late June before we sent out the survey in the beginning of July 2020. Like previous research (Ahammad *et al.*, 2017), we used LinkedIn to distribute our survey in the Germanic countries and the UK, and we addressed managers responsible for M&A management and decisions. LinkedIn is suitable as it provides more current and accurate career information than other databases (Ge *et al.*, 2016). After one week, we posted a reminder. Ina two weeks period, we could gather 107 completed questionnaires. The following Table 1 shows our sample.

Insert Table 1 about here

As the Covid-19 situation and the political measures that could restrict or ease business activities change rapidly, we compared early and late respondents of our survey. As such, we compared the early and late respondents (Armstrong and Overton, 1977), and the results of an independent sample t-test reveal no significant differences. Additionally, our survey data might be affected by common method bias (Podsakoff *et al.*, 2003). We implemented various procedural steps and applied Harman's single factor test (Podsakoff *et al.*, 2003) to identify a potential bias. The result reveals no serious issues for our data.

Another data source included 21 interviews with M&A practitioners. This involved VPs of M&A of firms belonging to the German 'Mittelstand' and large, listed corporations, UK firms as well as consultants. The focus of the interviews was to get a better understanding of how firms were affected by Covid-19, how they saw the acquisition landscape going forward and how their approach to managing acquisitions has changed. Interviews were conducted via telephone or video-conferencing and lasted between 30 and 90 minutes.

Survey measures

For measurement development, we needed to develop new measures for our quadrant solution, target screening approaches, and bottom line and top line synergies. In doing so, we followed a four-step process. First, we defined the constructs of interest for our survey. Based on this work, we second screened the M&A and strategic alliance literature for prior operationalizations and indicators. Based on this review of the literature, we created a comprehensive item pool. In a third step, we discussed this item pool with managers. Initially, we asked them to focus on the clarity of formulations of the indicators and potential redundancies. Additionally, after reducing the number of indicators we randomly arranged them and asked managers to organize them into the predefined constructs. Lastly, after finalizing the survey instrument we tested all measures during a pretest with M&A managers.

Survival through a focus on efficiency goals was assessed with four items. We asked managers how the Covid-19 pandemic has changed company goals (operative margins, EBITDA, liquidity, and asset turnover) regarding their importance on a scale from 1=much less important, 3=similarly as before, to 5=much more important (Alpha = 0.719). Surviving through a focus on Risk and Growth was assessed on a similar scale but assessing changes in market share, revenue, and equity ratio goals (Alpha = 0.560).

Crisis coping was assessed with three indicators assessing whether the firm of the respondent can, despite the Covid crisis, react quickly to opportunities, engage in promising opportunities, and use potentials and convert them into a competitive advantage. We applied a five-point Likert scale ranging from 1=I strongly disagree to 5=I strongly agree (Alpha = 0.968).

M&A associated risks were assessed with four items (Firms that are now actively buying…: Increase their risk massively; Bet on the wrong horse; Should better wait and see; Take the risk of paying too high multiples) on a five-point Likert scale (Alpha = 0.870). M&A associated benefits were assessed on a similar scale with five indicators (Firms that are now actively buying…: Are one step ahead of their competitors; Can enter new markets; Are making use of the right time; Can acquire true bargains; Prepare themselves actively for the future) (Alpha = 0.940).

Investment and expenses activities were assessed with single items as outlined below on a five-point Likert scale. Target screening approaches were assessed with two indicators for opportunistically driven, and three indicators for externally (Alpha = 0.623) and internally driven (Alpha = 0.868) approaches. In detail, we asked how firms find suitable targets during the Covid-19 pandemic.

Changes in bottom line synergies were assessed with four indicators asking respondents how priorities (cost reduction through redundancies, supply chain synergies, cost reduction in IT infrastructure, and cost reduction in purchasing) have changed during the Covid-19 pandemic on a five-point scale (Alpha = 0.877).

Changes in top line synergies were assessed with six indicators (Synergies in operating models, synergies in sales channels, price increase potential, new market potential, development of new capabilities, scaling the business) on the same scale as bottom line synergies (Alpha = 0.868). All other measures were single item measures as described below.

To develop the different archetypes, we calculated the dominant direction of the goal shift, either towards "surviving through efficiency goals" or towards "surviving through risk and growth" by calculating the difference of both scales. We coded those firms, who's dominant direction was only marginal (difference values ranging from -0.5 to 0.5). Based on the mean value of both goal dimensions and the dominant direction of the goal shift, we categorized firms into four quadrants, showing the different goal shift options for firms.

Data analysis

In our data analysis followed three main steps that can be characterized as descriptive and exploratory. For the analysis, we mainly rely on mean value comparisons of different groups. In the first step of data analysis, we drew on the survey data in order to explore different patterns of M&A behaviour, based on two criteria: the extent to which firms followed cost saving and efficiency goals and / or the extent of risk taking. This resulted in four archetypes of acquisition behaviour (See Figure 1 below). In the second step of data analysis we then analysed how these archetypes differed in terms of target screening as well as synergy management approaches. In a third step, we further explored antecedents of these archetypical responses by investigating differences in firm characteristics. This step revealed that firms' governance modes (listed vs. medium sized firms) seemed to play an important role. Finally, we used the four archetypes as categories in order to analyse our interview data. We sorted interviewees based on these archetypes. We then focused on statements that would provide reasons and justifications for target screening and synergy management approaches as well as gave insights into antecedents of acquisition behaviour.

Four M&A coping strategies during Covid-19

Based on the two dimensions, "surviving through efficiency goals" and "surviving through risk and growth", our data shows four different archetypes of coping behaviour with the crisis. We call them hide, run, cost, and marathon strategies. These four strategy approaches differ significantly regarding the overall crisis coping but also if acquisitions are seen as a "pure risk" or as an opportunity. Below we describe the main characteristics of these strategies and also provide further evidence based on interviews with M&A practitioners (see Figure 1).

Insert Figure 1 about here

Hide strategy: Nearly 30% of the responding firms pursue a "hide strategy" during the crisis. They are slow in responding to opportunities or do not engage with them. Additionally, these firms are not able to use potentials and convert them into competitive advantages. With regards to M&A, they see acquisitions dominantly as a major risk during the current crisis that offer only very limited opportunities. This situation can be illustrated by a quote from Thomas, Head of M&A of a hide-strategy firm says: *"We are not only on furlough, the whole M&A department is on compulsory leave. Acquisitions were stopped – even those ones shortly before signing. […] Of course, we do have a slump of incoming orders by 11% and a drop in sales by 8%. However, this is nothing compared to other players in our industry (such as machine manufacturers)! We won't get involved into any M&A activities before autumn, all teams are working too isolated from each other."*

Cost strategy: Contrary, firms with a more conservative "cost strategy" that account for 31.5% of the responding firms focus on stability, which allows them to generate sufficient cash to react. Fritz, M&A practitioner, talks about how a cost focus influences M&A activity in his firm: *"We have stopped current screening activities, actually all M&A activities apart from integration. Due to employees being on furlough we wouldn't be able to manage these activities from remote and so our strategists support other departments in operations. Concerning our general M&A strategy the only thing we are constantly doing is having meetings with investment banks and M&A consultancies for observing developments in our industry, and also to see whether good bargains pop up which allow us some bottom line synergies".*

Run strategy: With regards to crisis coping and acquisitions, these approaches are rather similar to the "run strategy" firms, that count for only 11.1% of the responding firms. Both see rather little risk in acquisitions. The mean for the risk items ranges from 2.3 (cost strategy) to 2.0 (run strategy) on a 5-point scale. Additionally, "run strategy" firms see the greatest opportunities in acquisitions. This optimistic outlook is evident in the interview with Maria, whose firm has adopted a run strategy in order to cope with the crisis: *"I think that the M&A market will quickly return being a seller market. Working from home does not change anything at all for our workflows. Our acquisition strategy has not changed severely, quite the contrary, the identification process of new growth opportunities is on full blast in light of the crisis."*

Marathon strategy: Finally, firms that changed their goals systems in a more balanced way into a "marathon strategy" constitute 26.9% of our sample. Similar to their more balanced changes in goal systems, they see risks and opportunities through acquisitions more balanced than the other firms. Martin, executive in an engineering firm, explains: *"Overall, our screening strategy did not change at all, meaning we are still hanging on to our deal book. However, what is more is that we see new opportunities on a daily basis due to the Corona crisis and immediately get in touch with potential targets."*

The different strategies also impact investment activities as well as expenses management. While on average, all firms of our sample reduced their expenses during the crisis, there are significant differences among the four different archetypes. While firms applying the 'hide strategy' strongly reduce technology expenses, investments in general, and marketing and employee expenses, only firms with the 'marathon strategy' and the 'run strategy' increase their technology expenses. However, the latter three reduce their expenses and investments only by a small degree. The following Figure 2 visualises how firms changed their investment activities and their expenses during the Covid-10 crisis.

Insert Figure 2 about here

The different strategies can again be illustrated by evidence from interviews from M&A practitioners: *"Everything here is focused on saving costs"*, highlighted Thomas, executive in firm pursuing a 'hide strategy', *"even in the strategy department headcounts were reduced"*. In contrast, Maria Senior VP in a pharmaceutical firm which adopted a 'run strategy' reveals that rather than spending cuts the firm increased investment: *"We are currently spending more in technological fields where we see a huge growth potential – both independently from the Covid-19 pandemic, but also into fields that are directly affected by the crisis such as life sciences."* This, again, is different to firms pursuing a cost strategy' as explained by an executive: *"we need to run on sight, permanently adapting our operating activities and we need to be careful with our expenses."* Finally, the balanced approach of the 'marathon strategy' is evident in an interview with Martin, Head of M&A. While the firm needs to be cost-conscious, they are mindful that the firm needs to preserve its competitive edge: *"Of course, we are tightening our belt – top level management salaries, travel expenses, etc.; everything that allows us to navigate through the crisis without harming our innovation and technology capabilities."*

Firm acquisition behaviour per strategy

Our findings suggest that acquisition behaviour also relates to opportunity recognition and opportunity capture. Opportunity recognition in acquisitions refers to how firms identify potential target firms for an acquisition and opportunity capture, how firms intend to realise synergies. Interestingly, the strategy archetypes affect not only target screening but also their focus on synergies.

How do firms approach potential target firms during Covid-19?

Target screening refers to the pre-merger stage, in which firms aim to identify potential companies to acquire. While the European market for M&A was a clear seller market in the past decade, Covid-19 has dramatically changed the situation, and reduced multiples firms are willing to pay as well as the number of available firms. Especially firms in financial distress are now on the market for corporate control. Independent from external adversities, there are three common approaches to target screening. While the approaches have not changed during the crisis, the importance of these approaches has changed. Generally, targets can be identified with an opportunistically driven approach, or when potential targets directly approach potential acquirers, externally driven approaches through investment banks or consultants, and internally driven approaches by a dedicated M&A department or top managers. A summary is provided in Figure 3.

Insert Figure 3 about here

Interestingly, we find no major changes as well as no significant differences between the four strategy archetypes regarding an opportunistically driven screening approach. Even though firms with a ‘hide strategy’ tend to rely much more on this approach, the absolute differences among the archetypes are not significant. Externalised target screening approaches through investment banks and consultants seems less important for all strategy archetypes but ‘run strategy’ firms. This indicates that ‘run strategy’ firms try to recognise and capture all possible opportunities, followed by ‘cost strategy’ firms. This can be illustrated by the following quote from a ‘run strategy’ firm: *“We have increased our search scope and intensified our screening activities because we do not only consider M&A as an important pillar in our growth endeavours”*.

For ‘hide strategy’ and ‘marathon strategy’ firms, externalised target screening seems not appropriate. On the one hand, these firms might want to gather insights about their core and adjacent markets for creating insights as well as sensing and seizing opportunities as early as possible. On the other hand, this might be due to the higher costs of this screening approach that derive from fees that are coupled to the deal value or simply that these firms do not trust externals with strategic decisions. This is illustrated in the following quote by Martin, an executive in a ‘marathon strategy’ firm: *“we still hold on to our internal screening approach – we receive business opportunities from external agencies, but the major part is done by ourselves.”* We also find that ‘cost strategy’, ‘run strategy’, and ‘marathon strategy’ firms strongly rely on their internal approaches to target screening. They have the impression that their M&A department is ahead of the game or that their screening approach is robust during the crisis; *“we are well prepared”* an M&A executive from a ‘marathon strategy’ firm put it. The following figure visualises the different search approaches.

Which synergies have gained importance?

After an acquisition, firms aim to capture opportunities by realising synergies. Synergies constitute the major value creation mechanism in acquisitions (Larsson and Finkelstein, 1999). Managers usually refer to two types of synergies, bottom line and top line synergies (e.g. Herd, Saksena and Steger, 2005). The different strategy archetypes also significantly changed their synergy goals for acquisitions. An overview is provided in Figure 4.

Insert Figure 4 about here

While 'hide strategy' firms now focus dominantly on bottom line synergies that are e.g. redundancies, purchasing synergies, synergies in the supply chain, or cost reductions in the infrastructure, top line synergies have lost in importance. Thomas, Head of M&A, explains: *"We currently only focus on cost-cutting in our operations [...] I expect cost synergies to be the prioritized argument, once we restart our M&A activities."* For firms following a 'cost strategy', bottom line synergies experience greater importance than top line synergies. Fritz, Head of Corporate Development, reveals why this is the case for his firm: *"Of course, right now it's easier to generate a business case based on operational synergies. Everything else would be too risky. We need to wait and see how the markets will be affected by the Corona crisis to have a better sense of both multiples and synergy potential for our own business."*

Contrary, firms pursuing a "run strategy" focus now, especially on top line synergies. Maria, SVP Corporate Development of a Run Strategy, highlights this opportunity driven approach: *"Good bargains will become evident quite quickly, and we are very efficient in identifying these opportunities and calculating these business cases. Our team is already in the starting gate for hunting down first crisis-ridden firms that reach out for help."* Finally, firms with a "marathon strategy" show an increase in importance but also a better balance in both, bottom line and top line synergies. We again draw on Martin's interview in order to provide further detail for this point: *"We have a clear picture of strategic and operational synergies that we want to achieve with our acquisitions. Every growth field has criteria in terms of strategic fit, financial attractiveness and feasibility – and expected synergies accordingly."*

What explains firms' M&A approaches during the crisis?

We also explored two factors that are likely determinants for M&A behaviour. Our analysis reveals two key drivers: experience and governance.

What do experienced acquirers do differently?

Interestingly, we find no significant differences concerning acquisition experience and strategic behaviour. The four strategy archetypes do not significantly differ from each other regarding previous acquisitions. One reason might be that the current crisis differs from previous economic crises in terms of predictability. As firms had in the best-case one or two months to get prepared for this crisis, the consequences have not been clear at any point in time. The newness of the situation might also explain why firms cannot benefit from prior experiences and capabilities. While most experiences were made in a period of economic growth, firms are now confronted with an abrupt downturn. As such, their experiences might simply not fit to the current situation. A statement of one of our interviewees illustrates this point: *"I am responsible for M&A since more than 18 years now and have experienced the effects of the financial crisis 2007/08. What we are currently confronted in the aftermath of the Corona crisis seems to be entirely different from our previous experiences…"* (Martin, Head of M&A of Marathon strategy).

Governance matters: Owner-run vs. listed firms

Our sample consists of mid-cap as well as corporate acquirers. Mid-cap firms in our sample are owner-run businesses with an entrepreneurial character, corporates are listed on the stock market and usually have tight control mechanisms in place like a supervisory board. We find that there is a significant difference between mid-cap and corporate acquirers regarding the strategic choices. Mid-cap acquirers strongly focus on either 'hide' or 'run strategies'. Both of these strategic options are less prevalent for corporates in our sample. Indeed, mid-caps account for 90% of the firms pursuing a 'hide strategy' and 70% pursuing a 'run strategy', respectively. 'Cost' and 'Marathon' strategies were mostly deployed by listed corporates in our sample. Nearly 50% of all corporates follow a 'cost strategy' and they represent nearly 84% of the firms pursuing this strategy. The 'marathon strategy' is pursued by 40% of all corporates in our sample but only by 17% of the mid-cap firms. Put differently, from all firms pursuing a 'marathon strategy', nearly 70% are corporates while only 30% are mid-cap firms. The results are visualised in Figure 5.

Insert Figure 5 about here

Discussion and Conclusion

The Covid-19 pandemic has deeply affected economies around the globe. In the short term, firms have to deal with the threat of survival. Yet, how firms respond to this threat is also crucial for firm's long term development. So, what do we learn about M&A activities during crises?

First, research on responses to crisis and external threats is inconclusive. While firms may react to threat situations with rigidity, the opposite might also be the case (McKinley, 2014). Our findings contribute to this debate by looking at a specific aspect of managerial activity, M&A. The different responses highlighted in extant theory are mirrored in our four archetypes. Importantly, our paper provides tentative evidence of potential antecedents, such as firms' governance type, that help explaining why firms may react differently to the same type of threat. This evidence is indeed tentative as we only have acquirers from two countries in our sample, and we also do not control for different acquisition types. Still, our data suggests that a firm's governance mode seems to be highly influential regarding the level of risk a firm is willing (and/or able) to take and, consequently, how they see the role of acquisitions going forward. While we do not have specific information on the detailed governance regime of the firms in our sample (for instance, with regard to board structures or incentives), prior research shows that governance substantially influences the role and responsibilities of different stakeholders (Lubatkin, Jane, Collin and Very, 2007). In this respect, our findings particularly highlight the differences between mid-caps and listed corporations in their M&A approach during the pandemic. Indeed, the mid-caps in our sample are mostly owner-run or family businesses, while the corporate acquirers are largely listed with institutional shareholders. In line with previous research, our findings show that ownership impacts strategic conduct (Amihud & Lev, 1999) and also performance (Thomson & Pedersen, 2000). Thus, differences in ownership and the different strategic preferences manifest in different governance types, might explain the relative polarization of the run / hide as well as the cost / marathon strategies.

Second, prior research suggests that acquisition experience and hence the level of acquisition capability should substantially influence how firms respond to threat situations (Haspeslagh & Jemison, 1991; Zollo and Singh, 2004). Experiecned acquirers often have capabilities in terms of M&A departments (Trichterborn et al., 2016) as well as professionalized routines for M&A (Zollo and Singh, 2004; Heimeriks et al., 2012), that, in combination, should make them more resilient in times of crisis. Indeed, based on such capabilities firms with substantial M&A experience might foreground the opportunities related to potential deals rather than the financial downsides, giving rise to more risk-taking and thus more proactive and less opportunistic acquisition behaviour. Interestingly, our data does not support this argument. The four archetypes do not significantly differ with regard to the acquisition experience of the underlying firms. While this could potentially be an artefact of our sample, there might also be theoretical reasons for why this is the case. Indeed, the last decade has seen an unprecedented wave of M&A activity. This implies that many firms have gained M&A experience during a buoyant market that could be described as a seller's market. Such a market might require different management approaches compared to the crisis mode triggered by Covid-19. Thus, the macro-economic context whithin which acquisition experience was made, might influence to what extent managers consider such experience relevant to gauge the risk and strategic potential of particular opportunities.

Third, an important influencing factor of firms' response to economic shocks is indeed whether managers go into crisis mode (Gilbert, 2006). While this might depend on acquisition experience, as argued above, it might also depend on other 'initial conditions' such as the financial resources available or potentially obtainable at the onset of the crisis. Unfortunately, we do not have any data on firms' financial strength prior, nor during the Covid-19 pandemic.

So, we can only speculate and raise this point for future research. Anecdotal evidence from the financial press suggests that large tech but also retail and oil companies have continued with ambitious acquisition programmes (Aliaj *et al.*, 2020). This constitutes a clear limitation of our study and future research should address this as well as the long term effects of the different strategy archetypes.

Finally, our paper also has managerial as well as policy implications. First, managers have a wide variety of options on how to respond to a crisis. In line with prior research, our findings highlight the tension of foregoing future opportunities by suspending strategic thinking during times of crisis and hiding and surviving. Here, our results show that those firms who have a direction, independent of efficiency or growth targets, cope better with the current crisis. This implies that surviving without a purpose is not a solid base for long term strategic development. Our findings also have policy implications. While mid-cap firms tend to go for 'hide' and 'run' strategies, corporates rather pursue 'cost' or 'marathon' strategies. Thus, to increase the impact of financial support mechanisms that go beyond immediate survival measures, governments need to tailor support programs to different firm types. For instance, while state guarantees or loans might increase risk-taking for mid-cap firms (helping them to pursue growth strategies), this might be the wrong approach for corporates, whose strategic conduct needs to satisfy a more complex set of stakeholders.

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Tables and Figures

Table 1. Characteristics of sample firms

Company Type	Firm size in employees	in %	Acquisition Experience	in %	Region	in %
Mid-Cap	0-250	19.2	None	3.8	Germanic Countries	56
Corporate	251-500	7.7	1-2	7.5	UK	44
	501-1.000	11.5	3-4	30.2		
	1.001-5.000	36.5	5-6	14.2		
	5000-10.000	4	7-8	14.2		
	>10.000	21.1	9-10	8.5		
			>10	21.6		

Figure 1. Overview of strategy archetypes

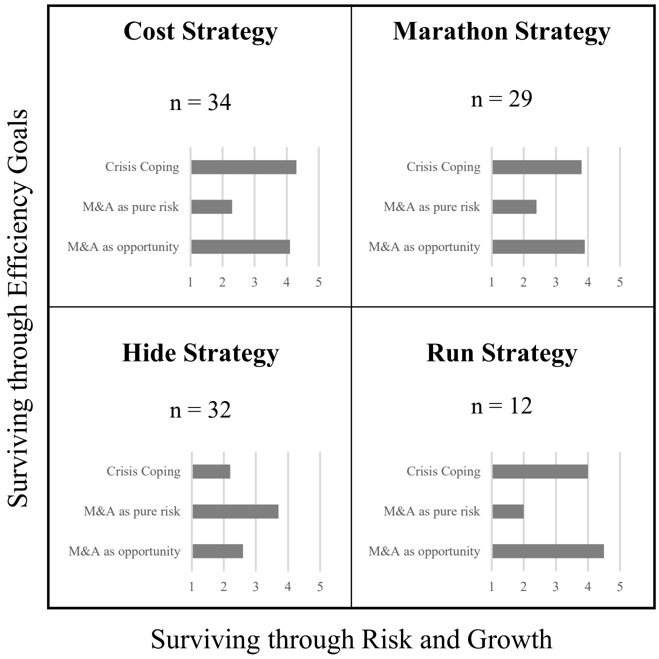

Figure 2. Change in investment activities

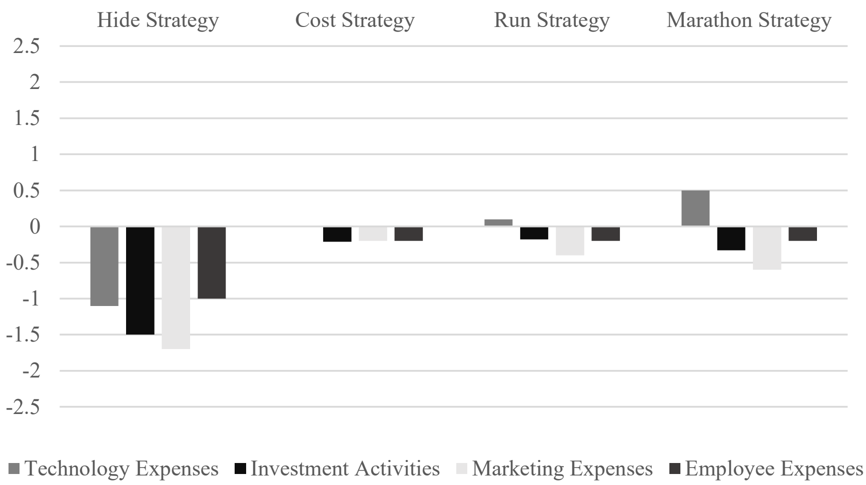

Figure 3. M&A search approaches during Covid-19

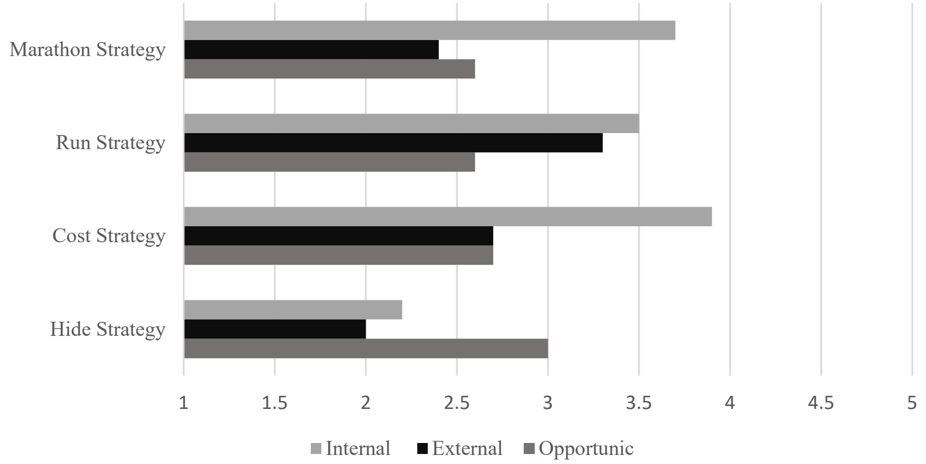

Figure 4. Acquisition synergy goals

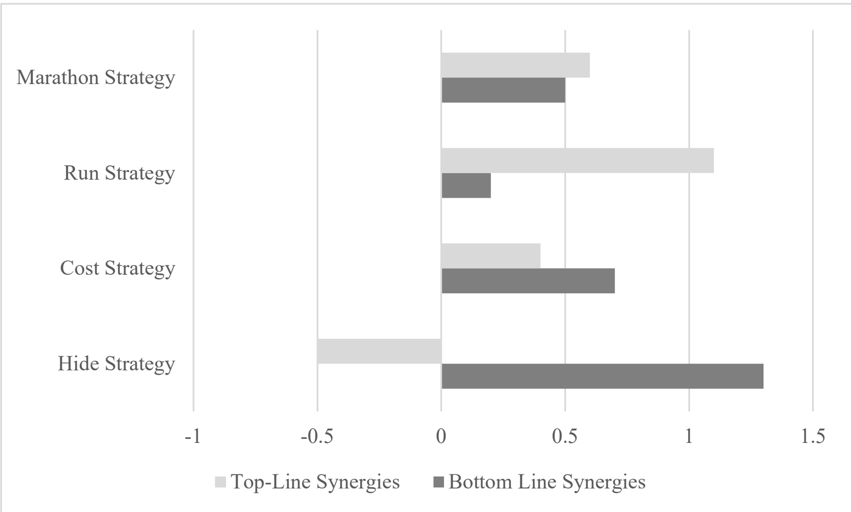

Figure 5. Strategy archetypes and governance mode