

# Synergy Evaluation in Mergers and Acquisitions – An Attention-Based-View

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## Abstract

A core objective of corporate development relates to scope decisions, which regularly involve Mergers and Acquisitions (M&A). The dominant idea behind M&A is often captured by the umbrella term “synergy”. Yet, while performance is the key variable of most M&A studies, how firms arrive at a particular synergetic value for a target firm is not well understood. In this paper, we contribute to this body of research. We argue that understanding the determination of synergies in M&A, requires a look at the mechanisms that guide managerial attention towards specific valuation practices and synergy types. Specifically, by drawing on the attention-based view of the firm, we show that the evaluation of synergies cannot be divorced from the underlying attention structure in the M&A context and the various valuation practices that constitute different synergy types. Our analysis suggests that synergies often do not reflect the true potential of acquisitions. We reveal that this is due to an attentional crowding-out effect: The congruence of M&A attention structures with valuation practices for functional synergies crowd out the attention allocation to business models and strategic synergies. We describe the characteristics of this crowding-out effect as well as its implications.

Keywords: M&A, Attention Based View, Synergy, Valuation Practices, Attention Allocation

## **INTRODUCTION**

The goal orientation of the firm is a central topic in management and organization theory (Cyert and March, 1963; Cohen et al., 1972). Indeed, organizational goals and the attention they receive are endogenous drivers of firm behaviour (Ocasio, 1997; Stevens et al., 2015; Levenson et al., 2006; March and Sutton, 1997). On the corporate level this often relates to managing scope decisions, which regularly involve Mergers and Acquisitions (M&A). Acquisitions may involve multiple strategic considerations (Bower, 2001) that range from efficiency, market expansion to knowledge transfer (Lee and Lieberman, 2010; Cording et al., 2010; Walter and Barney, 1990). Yet, this variety of intentions behind conducting and justifying M&A is captured by the umbrella term “synergy” (Gates and Very, 2003; Meglio and Schriber, 2020), a form of value creation that can only be realised by the combination and interaction of two previously independent entities (Chondrakis, 2016; Fiorentino and Garzella, 2015).

The prevalence of seeking synergy (Goold and Campbell, 1998) in M&A practice glosses over a substantial tension. Despite a long-standing history of acquisition activity and, hence, experience with evaluating and realizing synergies, the performance rate of acquisitions remains low and is constantly reported to range between 40-60% (Homburg and Bucerius, 2005; 2006). These disappointing performance rates are usually explained by little synergy potential and thus, a poor strategic fit (Larsson and Finkelstein, 1999), or by poor integration and thus, deprived synergy realisation (Haspeslagh and Jemison, 1991). These arguments are underpinned by the implicit assumption that predicted synergies are objectively assessed and thus, represent the true value potential of an acquisition that just needs to be realized during integration to deliver the desired outcome. This assumption is problematic (Goold and Campbell, 1998). While the measurement of outcomes allows for comparisons and explanations in its variance (March and Sutton, 1997), “we are making a quantum leap of faith in assuming that our measures relate to what the firm is seeking to achieve” (Richard et al., 2009, p. 725) or

what might be achieved. This implies a necessary shift in perspective – from a perspective of synergies as a value driver of performance (‘explanans’), to how synergetic value is estimated and predicted in the first place (‘explanandum’). Interestingly, how synergetic value is estimated has received scant scholarly attention (Feldman and Hernandez, fc). This, in combination with the persistently high failure rates, suggests that a better understanding of synergy evaluation could be a missing link in M&A research (Cloudt et al., 2006; Makri et al., 2010).

This paper aims to shed new light on the evaluation of synergies in M&A by drawing on the attention-based view of the firm (ABV) (Ocasio, 1997; 2011) and recent advances in research on valuation practices (Kornberger, 2017). These perspectives imply that the development of synergy goals is a product of managerial attention and the practices managers deploy during the process of valuation. This is a crucial argument. Attention towards certain goals is not purely based on ‘choice’, rather it is substantially shaped by the attention structures inherent in M&A transactions (Ocasio, 1997; Stevens et al., 2015) and the practices underpinning synergy valuations. Thus, to understand the evaluation of synergies and the focus on different types of synergies in M&A, requires an understanding of the delicate interplay of synergy potential, attention structures and valuation practices. Hence, this paper asks: *How does the interplay of organizational attention structures as well as synergy valuation practices shape the attention allocation towards specific synergy types?*

In order to answer this research question, we draw on an exploratory qualitative study of actors involved in the valuation of synergies as part of M&A transactions. Overall, 50 interviews were conducted face to face or by video conferencing with M&A decision-makers of large corporates and M&A consultants. We also collected archival data, for example, slides, templates, business cases, baseline models, and guidelines. Our analysis reveals how the attention structure inherent in M&A transactions influences the availability and salience of specific valuation practices through which synergy types are evaluated. Moreover, we reveal that this

is due to the degree of congruence of the M&A attention structure and the spatial, temporal, and procedural characteristics of synergy valuation practices. Based on this analysis, we can show that this may result in a crowding-out effect of specific synergy types leading to a trumping of strategic synergies by functional ones. This complements existing ABV research showing that specific circumstances might limit available options (Piezunka & Dahlander, 2015). Our findings have important theoretical implications as they open the black box of the formation of acquisition goals which might also have implications for the setting of organizational goals in general.

First, we show that synergies and the underlying valuation practices, constituting different types of synergies, are competing for managerial attention. In fact, our findings suggest that the availability and salience of valuation practices constituting functional synergies tend to crowd out business model or strategic synergies, which in turn might result in a misleading estimation of the true value potential of an acquisition. We show that this crowding-out effect is influenced by the coherence of the attention structures inherent in M&A transactions and the spatial, temporal, and procedural characteristics of valuation practices (Stinchcombe, 1968). We thus complement recent research highlighting the role of co- and dis-synergies that mature after deal closing (Feldman and Hernandez, *fc*), by showing that tensions between different synergy evaluation practices already exist in the goal-setting phase.

Second, our paper combines a typology of synergies involving three generic synergy types (functional, business model, and strategic synergies) with corresponding valuation practices. This approach contributes to M&A research by unpacking the different requirements involved in the valuation of synergies relevant for defining synergetic goals. These findings demonstrate that the commonly used, simplified distinction into bottom-line and top-line synergies (e.g., Herd et al., 2005) needs to be revised. While synergies, in general, are said to “be too nebulous a concept to be a core element” (p. 188) to understand M&A performance (King et al., 2004),

our approach of mapping out different practices of synergy evaluation clarifies the mechanisms underpinning synergy goal formulation and the boundaries of purely financially driven evaluation (Haspeslagh and Jemison, 1991).

## **SYNERGY EVALUATION IN M&A: THEORETICAL BACKGROUND**

### **State of research on synergy evaluation**

Synergies constitute the most important source of value creation in M&A (Gates and Very, 2003; Feldman and Hernandez, *fc*), are a key driver of M&A activity (Signori and Vismara, 2018), and their realization ultimately constitutes a key strategic goal of acquisitions. They arise from an active combination of acquiring and target firm (Capron and Pistre, 2002; Hitt et al., 2001) and materialise in an “increase in performance of the combined firm over what the two firms are already expected or required to accomplish as independent firms” (Sirower, 1997, p. 20). To benefit from an acquisition, the value of the realised synergies must exceed the sum of the targets’ price, including the premium paid, the financing costs, and the expenses — also called coordination costs (Zhou, 2011).

While prior research agrees that value creation takes place during post-merger integration (Haspeslagh and Jamison, 1991), understanding the development of synergetic goals and the corresponding evaluation of synergies is also key to understanding intended outcomes (Richard et al., 2009). Beyond the agreement of the general idea that  $2+2=5$ , various synergy typologies and definitions exist (for a detailed review see Feldman and Hernandez, *fc*). Overall, there is mutual agreement that the concept of synergy is complex and lacks a common understanding (Garzella and Fiorentino, 2014; Larsson and Finkelstein, 1999; King et al., 2004). Despite the conceptual variety, there is broad consensus that pre-merger synergy evaluations and the corresponding synergy goals are essential, as they justify a premium paid (Damodaran, 2005; Sirower, 1997). While especially the finance literature suggests discounted cash flow or real options methods (Adner and Levinthal, 2004; McGrath et al., 2004; Gupta and Gerchak, 2002),

in practice, managers often use sophisticated benchmarking, Profit and Loss (P&L) simulation tools, or industry multiples to identify potential synergies (Angwin, 2001). Interestingly, when communicating synergy targets, cost or operating synergies receive the most attention, likely because of their immediate cash-flow or P&L statement effects (Damodaran, 2005; Rappaport, 1986).

This approach of evaluating synergies and understanding synergetic value has never really been challenged, as failure is commonly attributed to poor integration management or cultural issues (Graebner et al., 2017) but not to whether the synergy estimates that influence the setting of acquisition goals, were appropriate in the first place (Zollo and Meier, 2008). This is in line with a classic observation by Haspeslagh and Jemison (1991, p. 83-84):

*'when acquisition objectives are established with clear financial criteria in mind but less attention to strategic issues, a formal search and screening system can contribute to one of two errors. It can screen out opportunities that do not seem to meet the financial criteria but make sense strategically, or it may let through the screen projects that meet the financial hurdles but are fuzzy on a strategic basis.'*

The implications of this statement are substantial, as selecting the wrong target and misjudging the synergetic value of acquisitions cannot be mitigated even by the best integration management. Combined, this implies that in order to fully understand the synergy-performance-relationship requires not just a focus on synergy realization during post-merger integration, but also a focus on the evaluation of synergies, which is a core strategic task. This constitutes the focus of this paper.

### **An attention-based perspective on synergy evaluation**

We draw on the ABV as well as research on valuation practices to develop an analytical framework that theorizes attention allocation towards different synergy types. The ABV has been applied to investigate, for example, firm growth (Joseph and Wilson, 2017), M&A (Yu et al., 2005) the emergence of global strategies (Bouquet and Birkinshaw, 2011), adaptation strategies in the context of family firms (Kammerlander and Ganter, 2014), or learning from rare events such as a crises (Rerup, 2009). The ABV draws on the premise that decision making is

subject to bounded rationality (Simon, 1997). Therefore it is allocation of scarce managerial attention that helps to explain strategic development. In this respect, a central argument of the ABV is that decision-makers' attentional focus is governed by a firm's attention structures (Ocasio, 1997; Ren and Guo, 2011; Stevens et al., 2015). Based on this perspective our framework builds on two components: First, it focuses on different available synergy types ('issues') based on the practices constituting these synergies ('answers'). Second, it theorizes the channelling of managerial attention towards specific valuation practices, influenced by a specific M&A attention structure.

*Synergy types and valuation practices:* Drawing on the ABV, the evaluation of synergies in M&A can be described as a particular managerial 'issue'. Issues are the "available repertoire of categories for making sense of the environment: problems, opportunities, and threats" (Ocasio, 1997; p. 198). For instance, actors may deploy simple but commonly used categories of bottom-line and top-line synergies or operational or revenue synergies (Hitt et al., 2001) in order to make sense of the synergetic value of a target company. Yet, the nature of the repertoire of synergy types is context dependent, and actors in different organizations may invoke a diverse set of categories. Answers, in turn, are "the available repertoire of action alternatives: proposals, routines, projects, programs and procedures." (Ocasio, 1997; p. 198) In other words, they refer to the actual practices deployed to assess the value of particular synergy types. Like issues, there are multiple answers for multiple issues, and valuation practices could range from simple benchmark analyses to sophisticated P&L simulations (Angwin, 2001), or from stand-alone discounted cash-flow calculations (Gupta and Gerchak, 2002), to complex real options models (Adner and Levinthal, 2004; McGrath et al., 2004).

The focus on valuation practices is of particular importance as the spatial, temporal, and procedural characteristics (Stinchcombe, 1968) of these practices "regulate the pattern and duration of attention foci to specific issues and answers available" (Ocasio, 1997, p. 195). Indeed,

Kornberger (2017, p. 1753) makes the case that despite “the centrality of value [...] in much of the strategy literature to date value is assumed rather than analysed”. Drawing on a pragmatist understanding (Dewey, 1998), this perspective suggests replacing the notion of value with the socio-material practices through which such value is constituted. A subtle yet crucial difference. If “strategy is concerned with the creation of value; and if value is the correlate of valuation practices; then it follows that strategy has to be understood in relation to valuation practices.” (Kornberger, 2017, p. 1754) While this criticism is directed at strategy research in particular, replacing value with the practices that constitute value has gained substantial traction across different areas of the management and organization disciplines (Araujo and Pels, 2015; Dussauge et al. 2015; Mason et al., 2017; Pollock and Campagnolo, 2015). For instance, a recent study by Mason and colleagues (2019) draws on this perspective to reveal how scientific discoveries in the bio-science context are being made valuable.

*The channelling of managerial attention towards specific valuation practices:* While acquisitions may offer multiple synergetic potentials, how actors’ limited attention is allocated towards specific synergy types is influenced by the M&A attention structure. This structure is responsible for attention allocation, shaping the availability and salience of particular synergy types (‘issues’) and underlying valuation practices (‘answers’). The attention structures of an organization “are the social, economic, and cultural structures that govern the allocation of time, effort, and attentional focus of organizational decision-makers in their decision-making activities” (Ocasio, 1997, p. 195). A firms’ attention structures consist of the formal or informal ‘rules of the game’ guiding decision making, the ‘players’ involved, including their ‘structural position’ in the organization, as well as the available ‘resources and routines’ (Ocasio, 1997).

M&A are characterised by specific attention structures. Though acquisitions are rare strategic events, even for serial acquirers (Zollo, 2009), they involve a broad range of repetitive activities as well as various internal and external players with different structural positions. As



soon as firms embark on an acquisition, multiple departments need to be involved (M&A department, Finance, Legal), and they enter the ‘market’ for corporate control, which can be seen as an entire industry with specific legal frameworks (Haspeslagh and Jemison, 1991; Manne, 1965). As such, they need to comply with certain rules (e.g., anti-trust regulations) and work with a broad range of actors (such as investment banks, lawyers, and other professional service firms), giving rise to an M&A specific attention structure. This is similar to recent research on equity crowd-funding, which shows that the very characteristics of this context, shapes which information potential investors allocate their attention to (Butticè et al., *fc*). Combined, this channelling of managerial attention may increase or decrease the availability and salience of specific issues and answers compared to other available options (Li, Maggitti, Smith, Tesluk & Katila, 2013).

Thus, we argue that in order to understand the allocation of attention towards specific synergy types requires a more in-depth analysis of how attention structures influence the use of the very practices and procedures of synergy valuation. Hence, this paper asks the following research question: *How does the interplay of organizational attention structures as well as synergy valuation practices shape the attention allocation towards specific synergy types?*

## **METHODOLOGY**

In line with recent research on valuation in the strategy and organization literature (Mason et al., 2019; Mason et al., 2017), we draw on an exploratory, qualitative research design (Yin, 2018). Such research designs are particularly warranted to shed light on the inner workings of an ill-understood phenomenon (Siggelkow, 2007; Yin, 2018), such as the interplay of attention structures and synergy valuation practices. Below, we describe the research context of this paper as well as our approach to data collection and analysis.

## **Research Context**

As this paper aims to understand the allocation of attention towards specific types of synergies and by investigating the practices through which they are constituted. To do that we required access to actors involved in the evaluation of synergies. These actors typically involve M&A practitioners in firms, as well as consultants in professional service firms that advise acquiring firms on the synergy potential of a particular acquisition. On the firm side, strategic M&A decisions are usually made by the top management team. At the same time, the deal execution, which includes the deal preparation with synergy evaluation as well as the transaction phase, is usually done by a dedicated M&A function or department in larger corporates (Trichterborn et al., 2016). However, for the individual steps in an acquisition, M&A functions or departments commonly rely on specialised consultants with industry and acquisition expertise. This is especially important when firms evaluate the synergy potential of targets. Here, consultancies provide firms with a broad range of tools and benchmark studies aiming to justify the estimated synergy potential and ultimately, the premiums paid (Damodaran, 2005; Sirower, 1997). Consequently, we focussed on corporates as well as a global consultancy to collect data. By combining internal corporate M&A data and data on external experts, we were able to gain deep insights into valuation practices resulting in attention allocation towards different types of synergies.

## **Data collection**

Our study relies on different data sources. First, the primary data source is semi-structured interviews with 19 M&A managers and 31 consultants that lasted between 30 and 90 minutes each. The interviewees were located in the United Kingdom, Germany, the United States of America, and Australia. The sample firms were either large mid-cap firms or large listed global conglomerates, which can all be labelled as serial acquirers. In line with acquisition research showing that about 40-60% of acquisitions fail (Homburg & Bucerius, 2005; 2006), the firms

in our sample show similar patterns. While we neither intend nor are able with the data at hand to draw a direct link to acquisition performance, a look at secondary data reveals that the average success rates of the acquisitions of the involved corporates are disappointing. The positions of the M&A managers ranged from Vice President M&A to M&A Manager, the positions of the consultants ranged from consultant to partner. Interviews took place either in person or online. Out of 50 interviews, 37 were recorded and transcribed verbatim. For 13 interviews, we took notes as interviewees considered the subject matter of the interview as too sensitive and therefore asked us not to record the interview. In every interview, we asked interviewees about their understanding of the term synergy, how they evaluate synergies in practice, examples of such valuations, how synergies are tracked, as well as challenges in the valuation of synergies. For all of those questions, we asked interviewees to refer to specific instances in order to obtain contextualised accounts of synergy evaluation.

Besides the interviews, we participated in two European-wide online meetings of the M&A advisory on “buy and integrate” and on “reshaping results”, where the latest tools and insights regarding M&A and synergy evaluation and realisation were introduced. Additionally, we received access to slide decks and internal valuation material of the M&A advisory and were allowed to see detailed acquisition plans and the corresponding baseline models of five corporates. Further, e-mails and a number of clarifying phone calls allowed us to better understand some of the provided material. Lastly, we had regular follow-up meetings and discussions with the M&A advisory on partner and director level.

### **Data analysis**

We followed an abductive approach to data analysis (Dubois and Gadde, 2002). While we identified the valuation practices inductively from the analysis of our interview data, the further interrogation of the data was guided by Ocasio’s (1997) differentiation in spatial, temporal and

procedural characteristics of these practices. We used NVivo in order to analyse interview transcripts as well as interview notes. Overall, our approach to data analysis followed four steps.

*Step 1:* In the first step of data analysis, and in line with our analytical framework, we investigated how interviewees conceptualised different types of synergies, as ‘issues and answers’ (Ocasio, 1997) salient in M&A transactions. This question was asked in every interview. Following Miles, Huberman and Saldaña’s (2014) theme and categorisation analysis, we compiled evidence related to synergy definitions offered by interviewees and assigned descriptive themes, such as ‘cost savings due to overlapping supply chains’ or ‘cost savings achieved by creating shared services’. We then compared these descriptive themes in several iterations. The objective was to identify commonalities and differences between themes and to form more coherent and abstract categories that would include multiple descriptive themes each. This step of the analysis ultimately resulted in three types of synergies, each comprising of a number of aggregated themes: functional, business model, and strategic synergies. Table 1 provides an overview of the three synergy types, the aggregated themes as well as sample evidence. As this paper forms part of a larger study on synergy management in M&A, this step of data analysis was conducted already prior to this publication and a simplified version of the synergy typology was published in a German-speaking magazine. The purpose of this short article in a practitioner outlet was to link the three synergy types to integration and realization measures (Bauer et al., 2020).

*Step 2:* In a second step, we built on the outcome of step 1 and focused on the data underpinning each synergy type in order to identify the practices through which these synergies were constituted. We created lists of activities that interviewees mentioned as they described specific examples of synergy evaluation in which they were personally involved. Our understanding of the interview data was heavily influenced by the wider contextual information on M&A which

was provided to us in the form of documents and reports. This allowed us to understand acronyms and other technical jargon used in interviews. The outcome of this part of analysis was a list of practices for each of the three types of synergies (see Tables 2 -4).

*Step 3:* Steps 1 and 2 constituted the necessary inductive ground work for a more detailed analysis of attention allocation towards different synergy types. In a next step of data analysis, the practices constituting functional, business model and strategic synergies were analyzed ‘deductively’ in great detail. According to our analytical framework described above, we did that by investigating the spatial, temporal and procedural characteristics mentioned by interviewees (Ocasio, 1997). Again, the outcome of this step of data analysis is shown in Tables 2 – 4.

*Step 4:* Finally, we investigated the extent to which the M&A attention structure influences the salience of particular synergy types. As part of our interviews, we also asked questions about the conduct of acquisitions more generally and why actors emphasised certain ways of evaluating synergies. Based on these responses and following Ocasio (1997), we developed a picture of the ‘typical’ attention structure in M&A deals by drawing on Ocasio’s four attention structure dimensions (rules of the game, players, structural position, and resources). We then systematically analyzed our interview data to collect accounts in which interviewees described how and why particular synergy types were difficult to pursue and compared them with Ocasio’s attention structure model. This step of data analysis revealed that the congruence of the M&A attention structure influences the salience of particular synergy types. We summarised this step of data analysis in Table 5.

## **MANAGERIAL ATTENTION AND SYNERGY TYPES IN M&A**

Below we reveal the valuation practices underpinning different synergy types. Based on that, we highlight how the attention allocation on valuation practices and procedures channels attention towards functional synergies at the expense of business models and strategic synergies.

Ultimately, this results in an attentional crowding out of strategic and business model synergy types.

### **Synergy types: The issues and answers of synergy evaluation**

When asked what synergies actually are, most interviewees initially reacted puzzled. It is one of those terms that is habitually used in day-to-day practice, yet neither consultants nor M&A professionals in corporations ever reflect on what the term really means. In our interviews, the initial answer has frequently been: “ $1+1=3$ ”. This answer conveys the foundational assumptions that synergies are a particular type of value creation in firms. More specifically, one that can only be achieved by combining two entities and not by optimising the “*stand-alone value of a firm*”, as Peter, Partner in a global professional services firm, put it. When asked further, our interview partners answered with a large number of specific examples of instances that would typically be considered ‘synergies’. These instances can be clustered into three different types of synergies (see Table 1).

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Insert Table 1 about here  
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*Functional synergies.* When prompted to discuss their experience in managing synergy, most interviewees referred to what we label ‘functional synergies’. These are cost savings in the combined entity that are realised by comparing the organizational design of the stand-alone entity with the future operating model of the combined firm. The particular cost savings may be due to overlapping functions, IT systems but may also be due to a reduction in purchasing costs, based on economies of scale of the larger, combined entity. Tom’s (Partner in an advisory firm) account is symptomatic for this type of synergy:

*‘Costs are [...] the whole [...] reduction of overhead costs in various functional areas. Usually, of course, in IT, HR, Finance, Treasury, Controlling, etc. – so all of the cross-divisional and support functions, which then due to bigger, or the size of the company, allow for significant economies of scale.’ (Partner, M&A Advisory)*

Functional synergies are often enrolled to make claims about the viability of a deal. Any other value, another Partner level respondent argued, is part of the '*strategic intent*' of an acquisition and would not be called a synergy at all. Yet, for many other interviewees', synergies have dimensions beyond the functional domain of organizations. We turn to those synergies next.

*Business model synergies.* M&A may also result in synergies on the level of the existing business models. These synergies are not 'subtractive' in the sense of the cost savings in the combined entity. Rather, they are 'additive', as business model synergies result in new value creating opportunities. Such synergies may result from opportunities to change a firm's operating model, for instance, via new ways of routing resources and products through a global supply chain. Moreover, another important aspect that was frequently mentioned refers to the leverage of go-to-market channels. Benjamin, Manager in a M&A advisory, describes how revenue related synergies may be created by combining an acquirer's distribution channels with a target's existing and new products.

*'And a very important, but also very complicated topic, are synergies in turnover, like how can I improve my product portfolio when two companies merge, either by jointly switching customers to one product, or by cutting certain products or strengthening capacities by simply relocating.'* (Manager, M&A Advisory)

Finally, business model synergies may also refer to the possibility of using acquisitions to move the firm to a more attractive price point in an industry. By acquiring a firm in a more up-market segment, the firm may benefit from the brand 'halo' for the remaining product portfolio.

*Strategic Synergies.* Finally, respondents also highlighted the opportunity of a third type of synergy, which promises the greatest future value creating potential. We call those examples 'strategic synergies'. Similar to 'business model synergies', strategic synergies are also additive. Contrary to business model synergies, whose benefits derive from the combination of the existing business models, strategic synergies may create substantial additional future revenue if translated into new business models. Above all, strategic synergies are about creating new

market opportunities and/or creating new organizational capabilities that go beyond the existing business models of the merging firms. Such synergies may result from the skilful integration of R&D as an Associate Partner reports:

*‘[this applies to the] R&D area, so that two companies work together to create new developments that were not possible with their previous know-how, thus opening up completely new market potentials.’ (Associate Partner M&A Advisory)*

To leverage strategic synergies, it is even more important to have a clear strategic rationale for the purpose of the deal and for how it contributes to the future strategy of the firm compared to business model and functional synergies.

*‘[...] what is the transaction about, investment, divestment, what is the strategic rationale. Because the various strategic rationales also come to various synergy focus areas. And it is always very important, to make sure that this strategy, which you have set up in order to invest, to buy the company, fits the case behind it, and that you follow it.’ (Partner, M&A Advisory)*

Each of these three synergy types is enrolled in the justification of the viability of M&A. Also, at the point of strategic planning, each of these synergy types is ‘counter factual’. They are estimates, projections and may ultimately result in goals that need to be achieved for a deal to deliver the desired effect. In other words, as part of the financial due diligence and any pre-closing evaluation of synergies, these synergies are constituted by a set of valuation practices through which the value of each synergy type is established.

### **Valuation practices underpinning functional synergies**

The evaluation of functional synergies rests on a plethora of valuation practices that may be used in isolation or combination. An overview of those practices is presented in Table 2. Below we provide an overview of the characteristics of those valuation practices and their shared constitutive mechanisms through which valuations are achieved.

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Insert Table 2 about here  
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*Spatial, temporal, and procedural characteristics of valuation practices:* The valuation practices constituting functional synergies shown in Table 3 have a number of mechanisms in



common through which valuations are performed. As the practices underpinning the evaluation of functional synergies follow highly standardised procedures (usually templates, excel sheets, etc.), their evaluation process can be conducted in dispersed teams with limited coordination efforts. Synergy analysis can be conducted remotely and only requires a limited number of people. Also, these valuation practices predominantly rely on publicly available data (e.g., balance sheet or P&L data) or available industry benchmarks. Thus, this analysis can be conducted within a relatively short period of time.

An important valuation practice, for instance, is the comparison of the target's organizational blueprint, using P&L data, with the acquirer's blueprint. This reveals differences in headcount as well as cost on departmental or functional levels. Other valuation practices (such as external benchmarks or deal type categorisation) do not engage with the actual data about the target at all but rely on past data of 'similar' cases. "*Rules of thumb*" as one consultant called it, in order to gauge the expected level of synergy for a firm in a particular industry and of a similar size.

*'[...] there are a lot of assumptions, I mean we come in here and bring benchmarks with us, and say that in this sector one can or, as experience shows, we see savings in this and that area.'* (Senior Manager, M&A advisory)

A key procedural characteristic of these practices is the use of existing information (either internal or external via benchmarks). The use of existing data might jeopardise comparability with the acquirers' data. However, this issue is circumvented, as the data is structured (made 'commensurate' to use Kornberger's (2017) term) via accepted terminology and systems of classification, such as the P&L account. Also, synergies are represented in numerical form. They take the form of '*headcount*', '*cost*' or '*purchasing volumes*'. This is nicely illustrated in the interview with Dieter, "*in your mind you go through the P&L step by step*", he said, "*this has nothing to do with fine art, like many aspects of our job, this is craft. Like a carpenter.*" (Senior Manager, M&A advisory) It is also expressed in the following quote by a senior manager:

*'Usually, you start with the direct costs. That means that I have my [profit contribution] somewhere, or in terms of gross profit, I move in the area of material costs, or directly attributable costs, external services, etc. Where I naturally have synergies, for example in the area of economies of scale and procurement.'* (Senior Manager, M&A advisory)

*Implications for synergy valuation.* The practices and procedures used to value functional synergies solve an important problem. They can be administered quickly by multiple actors simultaneously, and they can be used based on limited information. Still, they allow for the establishment of 'relative' evaluations, i.e. numerical comparisons between two organizational entities. Such comparisons may reveal a cost saving potential which can be used to justify a particular deal, or to communicate synergies to capital markets, as the following example shows:

*'Company A buys company B and A makes 3 billion sales, B makes 5 billion sales, and both have a purchasing volume of 50%, or wherever the number is, [...].'* (Senior Manager, M&A Advisory)

In other cases, synergy valuations are not represented as relative cost savings measures but as visual representations in management 'grids'. This, for instance, is the case in a practice called 'deal type categorisation'. The outcome is the positioning in a particular spot or quadrant of a 2x2 matrix, where the underlying logic is based on data on previous deals. This again allows the juxtaposition of different deals in order to gauge the risk-benefit potential of an acquisition.

### **Valuation practices underpinning business model synergies**

Our findings also reveal that synergies are evaluated on the level of the business model of a firm - the integrated set of activities and choices through which value is created and captured (Zott and Amit, 2010). As shown above, functional synergies are constituted via a plethora of valuation practices. This is not the case for synergies on the level of business models. Interviewees highlight two practices in particular: the valuation of product portfolios and the valuation of the business model more broadly (see Table 3). The valuation of business model synergies aims to identify complementarities in terms of market potential. This might involve complementary products or services that make sense as a broader 'system' of products and services and/or the complementarity of market segments. Martin, M&A Director of a large chemicals

company, explained how the valuation of the product portfolio is key.

*'Our acquisition approach is comparatively simple, once you know [...] what strategy, what kind of companies are we looking at, in saturated markets where we already have a good position, for example, Germany, DACH region, USA, Australia, England. There we are looking to grow in breadth. So there we look at complementary companies. For example, complementary in terms of sales structure or complementary in terms of products.'* (Martin M&A Director)

The same logic is involved when firms are not just following a product portfolio logic but when they investigate the complementarities of the entire business models of acquirer and target. Similar to portfolio valuations, the focus of synergy targets is 'additive', i.e., identifying additional revenue potential that can only be achieved by merging or by acquiring a particular entity aiming to combine two business models.

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Insert Table 3 about here  
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*Spatial, temporal, and procedural characteristics of valuation practices:* Valuation practices constituting business model synergies are a lot less 'structured' compared to functional synergies and may therefore require the contribution of multiple actors, potentially in close proximity, for instance, as part of workshop settings. They lack the commonly shared terminology that characterises P&L or benchmark-related practices, and they also lack the data sets that are easily available and easy to process. So, data collection and analysis are substantially more time consuming. In contrast, both portfolio and business model-related valuation practices require in-depth discussions to understand the extent to which products and/or markets etc. are indeed complements. This discursive approach to valuation is necessary as there is no straightforward approach of 'commensuration' (Kornberger, 2017), of establishing a quasi-objective point of reference. This is pointed out by Julian, also M&A Director in the chemicals sector.

*'It's more like processes that arise, so to speak, in discussions, where you notice that we can [...] give you something that brings you added value as well as us. [...] I would also like to say this acquisition model, let's go a certain path together, that you also participate in the synergies [...] which we have promised you and which are exactly the reason that we want to go together now.'* (Julian, VP Corporate M&A)

The central aim of this discursive approach is to elicit valuable data that allows firms to enhance

the existing business model of the firm and/or the target.

*'And with the help of this data, I can in turn support the business model of SHOE [a global Sports shoe brand] and it may well be that this will potentially make SHOE's product development much more efficient. It may simply be that it will also enable me to develop my product portfolio much better. Well, there are an incredible number of possibilities [...]' (Senior Manager, M&A Advisory)*

This quote, yet again, expresses the additive nature of business model synergies. Valuation practices may use visualisations such as a “business model canvas”, it also monetises the synergy potential by highlighting “*top-line*” potentials, additional revenues or increased effectiveness.

*Implications for synergy valuation.* The relatively ill-structured nature of valuation practices aiming to understand business model synergies, at least compared to functional synergies, constitutes a challenge. The discursive approach requires access to actors on the side of the target, and there might be regulatory constraints that affect the feasibility of this approach (e.g., limited access to the target pre-closing). In addition, the valuation of business model synergies is time consuming, as a shared understanding of what constitutes a business model needs to be established in the first place before agreeing on a combined model. Complementarity of products, services or technologies cannot be assumed. Valuation tools, such as a business model canvas, may facilitate the accomplishment of such a shared understanding, yet they are not a substitute for the discussions between firms. Thus, the valuation of business model synergies constitutes a risk. In a time constrained situation, such as the pre-deal phase of an acquisition, neither firms nor consultants may want to take the risk of investing time and resources in identifying synergy targets, for which no standardised approach for measuring and visualising exists. Even if the scale of the opportunity is far greater compared to functional synergies, they are more difficult to robustly justify to other stakeholders.

### **Valuation practices underpinning strategic synergies**

Strategic synergies are the least clearly articulated type of synergies, yet very often the one with the greatest potential for the future development of the firm. While functional (and to a

certain extent also business model) synergies are described in monetary terms with clearly defined and commonly agreed categories, based on existing practices, this is not the case with strategic synergies (see Table 4). Our findings suggest that strategic synergies are constituted mainly via two valuation practices: strategic gap analysis and cross-functional valuation teams. We find that valuation practices for strategic synergies require a holistic point of view aimed at the future development of the firm. As such, the valuation of strategic synergies (even more so than other synergy types) deals with ‘counter factu-als’; assumptions about the future, assumptions about the market, and assumptions about what constitutes competitive advantage and an intended future state as expressed by Susan (Head of M&A, automotive industry): “...an acquisition is about closing our strategic gaps in the market.” For some interviewees closing the strategic gap requires “access to technology” (M&A Manager, chemical industry) or a leap in sales (VP M&A, steel industry). Ultimately, valuation practices for strategic synergies create a ‘rich picture’ of the strategic logic of an acquisition. As we will show below, the practices enrolled in evaluating strategic synergies have yet again distinct spatial, temporal, and procedural characteristics (See Table 4).

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Insert Table 4 about here  
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*Spatial, temporal, and procedural characteristics of valuation practices:* The valuation of strategic synergies on the one hand side requires a cross-section of different expertise, yet it also requires the involvement of the representatives of the firm’s top management team. While the work may take the form of co-located workshops, such analyses may also be conducted remotely. Still, synchronous availability and close coordination are central. Also, the valuation of strategic synergies is made difficult due to the lack of a ‘boiler plate’; agreed upon categories, an agreed upon data standard or accepted norms on how such synergies are best portrayed in order to convince stakeholders. Consequently, valuation practices for strategic synergies are

creating the very analytical scaffold, through which these synergies are captured and described, via a social process, involving actors across the acquiring firm and the target, as well as external stakeholders (such as consultants). This approach is vividly described by Martin, M&A Manager in a large, highly diversified Chemical's company:

*'And that [the discussion] usually takes two days, so that on the first day, the first evening, they can get to know each other personally. Having a beer together, there is also a large socialising component. And the whole thing works that way, we will moderate and prepare it in advance. So we divide into different sub-projects. Because, for example, there is a subproject purchasing. There is the Head of Purchasing from [TARGET] and the Head of Purchasing from [us] are brought together. [...] So everyone presents the company, so [our] CEO and the CEO of [TARGET] each introduced the other company, announced the strategy, etc.. Why do we do it in the first place? And then head over to a workshop, right?'* (VP Corporate M&A)

This social process allows actors to create a shared understanding of the situation at the firm as well as the target, the potentials, and opportunities that exist and what needs to be done in order to make it work. This is captured in the following quote by Julian, also M&A Manager in a large group:

*'And then the workshop, I moderate that and then we have the workshop. As I said, coupling Head of Purchasing with Head of Purchasing. We do the same for sales, we do the same for technical services and consulting. We do the same for the department cross-selling. We do the same for production, research and development. And so there are various sub-groups, where the experts then sit down and this usually lasts for an entire afternoon and actually brainstorming together.'* (VP Corporate M&A)

However, while often the starting point of initiating an acquisition, time pressures and confidentiality during the pre-deal phase make it difficult to create the opportunity for such social interactions necessary to capture strategic synergies. This is mirrored by Paula, a transactions expert in a professional service firm, who describes that involving multiple players across hierarchies is a challenge.

*'But these are often not the right ones to really go into Media Res, but rather then I need the Head of Purchasing, and maybe not just only the Head of Purchasing, but perhaps the Head of Commodity Procurement. So I'm probably already three levels below the Leader of the business unit. And of course, people like that join the process relatively late.'* (Partner, M&A advisory)

*Implications for synergy valuation.* The move to strategic synergies results in the increasing 'socialisation' of valuation practices, manifest in the involvement of different actors. The lack of a commonly agreed rule book for capturing and visualising strategic synergies makes a

discursive approach to synergy valuation necessary. Yet, with the uniqueness of the circumstances comes a risk. The process described in the quotes above is risky. It takes time and resources in an environment that is extremely fast paced. Moreover, the lack of a generally accepted approach for the valuation of strategic synergies (and indeed the very existence of such synergies) makes it harder for management teams to defend those synergies to their stakeholders. A tension seems to arise between the fairly straightforward, “*craft*” like valuation of functional synergies and the complex, yet high impact, valuation of business model and strategic synergies. Our findings suggest that these tensions require a closer look at how attention is allocated. This might help to explain how and why firms often limit the valuation to functional synergies and not even attempt to deal with the more strategic questions.

**Synergy crowding out: How the interplay of M&A attention structures and evaluation practices shapes synergy evaluation and the attention towards specific synergy types**

Our findings shed light on the conditions that influence the extent to which different types of synergies do actually receive attention and get evaluated. Indeed, while the allocation of attention might have situated causes (Nicolini and Korica, 2021), it is also dependent on structural conditions, unique to particular organizational settings (Ocasio, 1997), such as M&A. Below, we show that attention on particular valuation practices is substantially influenced by the congruence between the M&A attention structure of an acquiring firm and the spatial, temporal and procedural characteristics of these practices (see Table 5).

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Insert Table 5 about here  
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While every acquirer has a distinct attention structure, our data suggest a number of structural characteristics common to the M&A context. M&A has distinct rules of the game. Indeed, there is a tight regulatory framework that influences the exchange of information, the presentation of information, and how parties can get access to this information, for instance, via ‘data

rooms', all within strict timelines. Moreover, external consultants often support transactions whose (level of) remuneration is often influenced by the extent to which synergies are actually signed-off on business unit level. This, in turn, influences the synergy evaluation.

*'It's this quantitative understanding. Well, we always try to persuade our counterparts to move into this direction [functional synergies]. Because, at the end, it is easy to measure.'* (M&A Advisory).

Also, attention allocation to different synergy types is affected by the players involved and their structural position. M&A is usually a top-management responsibility, both on the level of the corporation and any business unit, very often supported by external advisory firms (management consultants, investment banks, and law firms). The structural positions of these players imply that they often try to show bottom-line effects within 18 months after the transaction. This is to legitimise the value of the transaction but also to circumvent the issues of tracking synergy realisation in the combined entity once the day-to-day business takes over. This favours easy-to-track synergies, as pointed out in the following quote.

*'Another challenge is to remain realistic, yes I mean, it is relatively easy to run an Excel or to run a [...] Tool and to say, it is obvious, purchasing synergies are 15 million, to get those later is a completely different number, a completely different number. Maybe you still have old contracts, maybe there are other rules that make this very difficult or even impossible, maybe my supplier doesn't fit your technology, whatever it is. And I think you have to be careful not to get too sporty about it. Many become very sporty when it comes to synergies because the transaction dynamic requires it.'* (M&A Advisory)

Finally, attention allocation to specific synergy types is also affected by the availability of resources. This can be a dedicated M&A function of the acquiring firm, which is experienced in deploying standardised approaches to managing M&A. Yet, resources, of course, also refer to the availability of financial resources as well as the timing, when these resources need to be made available as the following quote illustrates.

*'If you notice that it is still not enough [cost savings], well then you have to crank up the pressure in the organization, identify initiatives. That's not easy, you don't want to create short term gains that, in the long term, negatively affect the firm, only to hit your goal. In those cases, I would say, you need to get creative, you need to think what could possibly and plausibly be classified as synergy, without hurting the company too much.'* (Tobias, M&A Advisory)

Any transaction and any attempt to evaluate synergies is affected by these structural conditions. They tend to favour some characteristics of synergy evaluation over others. Below, we describe



the relationship between the M&A attention structure and the characteristics of evaluation practices in greater detail.

The M&A attention structure described above favours speedy and quantifiable synergy evaluation practices channelling the attention towards specific synergy types. This is particularly the case with practices constituting functional synergies, as shown above. These synergies only require limited, decentralised coordination and are fast to evaluate due to highly standardised data, making different acquisitions easily comparable. A consultant highlights this the following quote:

*'Therefore, there is this tendency, when we speak of performance improvements, to think about cost. Even if everybody talks about synergies, we actually talk about cost.'* (M&A Advisory)

Thus, our evidence suggests that established M&A attention structures influence how attention towards different synergy types is allocated. More precisely, we show that the approach to evaluating functional synergies is highly congruent with the attention structure in the M&A context. This gives rise to the following proposition 1:

***PI: The high congruence of valuation practices of bottom-line/functional synergies (i.e. the spatial, temporal and procedural dimensions) with the M&A attention structure, gives rise to increased attention allocation towards this specific synergy type.***

However, this congruence between the M&A attention structure is diminished in the case of business model synergies. Indeed, the very nature of these synergies requires a more coordinated approach to evaluation, with less standardised criteria and thus, requiring substantially more time and effort to evaluate. This is described in the following quote by an M&A consultant in which he describes the challenge in using less standardised data.

*'And on the market side, it is yet just a little more difficult yet because sales synergies they can be estimated. [...] well you have a new product, and with that we hope for an increase in sales of x%, you can estimate that, but of course it takes longer before you can really take hold of something like that. The sales department must first integrate the new products, go to the customer. [...] But they are not strong in terms of people because I cannot say that I will cut staff, [...] The sales synergy, you can say I do certain marketing measures, I do certain activities to bring new products to the market, but this synergy is not so easy to calculate.'* (M&A Advisory)

The distinct spatial, temporal, and procedural characters of business model synergy evaluation are therefore not fully congruent with the M&A attention structure that forces managers towards hard evidence. Thus, based on our findings, we suggest the following proposition 2:

**P2:** *The medium congruence of valuation practices of business model synergies (i.e. the spatial, temporal and procedural dimensions) with the M&A attention structure, gives rise to reduced attention allocation towards this specific synergy type.*

The challenges raised with regard to the evaluation of business model synergies are even more pronounced in the case of strategic synergies, synergies on the level of organizational capabilities that allow the pursuit of new strategies, or the entry of new markets. The valuation of strategic synergies is not straightforward and even more complex than business model synergies. It requires the co-location or at least the tight coordination of a fairly extended group of actors in order to assemble the necessary expertise, both on the acquirer and target side. Moreover, as shown above, there is no generally accepted approach to evaluate strategic synergies, requiring substantial time and effort to develop an appropriate and robust analytical scaffold as described below.

*'We don't have much time for the Due Diligence in order to look at sources of synergies. We need to focus on the big topics. Because of that, we might erroneously exclude synergies that only seem to be average but in hindsight turn out to be huge. That's normal, everybody in the transaction business has to deal with this problem.'* (M&A Advisory)

Thus, as implied in the previous quote, the spatial, temporal, and procedural characteristics of valuation practices and procedures for strategic synergies stands at odds with the attention structure of M&A deals, decreasing the attention allocation towards strategic synergies. This argument is captured in proposition 3:

**P3:** *The missing congruence of valuation practices of strategic synergies (i.e. the spatial, temporal and procedural dimensions) with the M&A attention structure, gives rise to low attention allocation towards this specific synergy type.*

The interrelationship between the M&A attention structure and the dimensions of synergy valuation practices and procedures for functional, business model, and strategic synergies provide tentative evidence for a synergy ‘crowding-out effect’: the negative effect of the pursuit of functional synergies at the expense of business model and strategic synergies, influenced by the attention structure that underpins M&A transactions. The end-point of valuation practices and procedures, although not directly observed in this paper, is typically the formulation of specific synergy goals. This matters, as these goals guide the entire process of post-merger integration and may be the reason for any challenges that arise and are ultimately used to gauge whether an acquisition was successful or not.

## **DISCUSSION AND THEORETICAL IMPLICATIONS**

In this paper, we develop a framework that sheds light on the attentional dynamics underpinning synergy evaluation. Indeed, while the concept of synergy is central to the strategy domain in general and constitutes the predominant rationale of acquisitions, it has still remained ill-defined (King et al., 2004), and the practices by which they are evaluated have remained unclear. Our findings make two central theoretical contributions:

### **Attention allocation and synergy crowding out**

Our findings reveal how the allocation of attention towards specific synergy types is underpinned by the congruence of attention structures and the characteristics of available valuation practices. Our findings provide evidence that practices constituting functional synergies may crowd out the attention allocation towards business model, or strategic synergies, potentially reducing the expected value of an acquisition. Our findings substantially complement extant research on goal setting. While this paper does not directly analyse synergetic goal setting on the level of management teams, it still sheds light on an important precursor of such goal setting: the mechanisms governing the allocation of scarce managerial attention towards different

synergy types. Indeed, recent research has created an important theoretical path (Chua et al., Kotlar et al., 2018). Goals are interrelated (Allen and Rai, 1996) as they develop over time and through interactions (Cameron, 1978; Pearce and DeNisi, 1983), which might lead to goal conflicts and inconsistencies (Bunderson and Sutcliffe, 2003; Ghoshal and Bartlett, 1994; Gibson and Birkinshaw, 2004). We extend this theoretical path by showing how the M&A attention structure shapes the availability and salience of issues and answers regarding potential synergy types but importantly, also the practices through which these synergies are ultimately evaluated. This is important, as we show that the determination of synergetic value cannot be isolated from the underlying valuation practices. While value creation that might be financial or non-financial, such as socio-emotional wealth (Cennamo et al., 2012), we understand “value not as a noun but as a verb, as an act of valuing” (Kornberger, 2017, p.1754). This puts the characteristics of valuation practices guiding attention allocation at the very centre of research on synergy evaluation.

Our findings suggest that the congruence of the M&A attention structure with the spatial, temporal, and procedural characteristics of valuation practices leads to increased attention allocation on functional synergies at the expense of business model or strategic synergies; a process we call ‘synergy crowding out effect’ For example, as summarised in Table 5, functional synergies are characterised by very structured, clearly articulated categories (procedural-high degree of standardisation) that are widely shared across the entire M&A profession (spatial-dispersed coordination), which makes them easy to be computed with standardised spreadsheets or benchmark tools (temporal-fast). That makes valuation practices constituting functional synergies very time-efficient and transparent in an attention structure that favours speed and the seeming objectivity of results. Contrary, strategic synergies require social interaction and close coordination, sufficient time, and lack standardised procedures. Often, they are captured in narratives but not in numbers. The spatial, temporal, and procedural characteristics of

these valuation practices are thus vulnerable to an attentional crowding out in an attention structure that favours more or less the opposite. Combined, this crowding-out effect, shifts managerial attention to valuation practices congruent with the M&A attention structure.

As a consequence, our findings complement prior research that has already identified an over-reliance on cost-related functional synergies at the expense of growth-oriented business model and strategic synergies by investigating the underlying mechanisms. Our research unpacks the underlying attentional mechanisms of central conflicts in acquisitions. These include for example tensions between financial versus strategic goals (Hitt et al, 1996; Puranam et al., 2003) already highlighted by Haspeslagh and Jemison (1991) or cuts in R&D spending following acquisitions (Higgins and Rodriguez, 2006; Szücs, 2014), harming long term performance. Combined, while multiple acquisition goals might be of complementary nature, the underlying practices that form the planning basis for post-merger integration might compete for attention, thus affecting the subsequent setting of acquisition goals. This provides a new theoretical explanation for why acquisition goals might not be achieved. This is subject to a number of boundary conditions. First, this study has only focused on the evaluation of synergy types. We encourage future research that would investigate the processual dynamics from synergy evaluation and attention allocation through to the political process of synergy goal setting. Second, as our study sample involves advisors and serial acquirers with a dedicated M&A function that coordinates M&A activities (Trichterborn et al., 2016) and provides advanced valuation tools, processes, and management know-how, the results might not be transferable to occasional acquirers. Furthermore, the firms in our research are largely listed entities that are affected by stricter mandatory disclosure regulations and are subject to higher capital market pressures compared to smaller firms, which also influences the attention structure of M&A transactions.

## **Valuation practices underpinning generic synergy types**

We extend M&A research on synergy that traditionally makes a distinction between bottom-line or cost synergies and top-line or revenue synergies (Herd et al., 2005). While conventionally, value creation in M&A is conceptualised as a one-dimensional, linear process, we argue that synergies are a multi-level construct. For instance, acquisition failure is usually attributed to poor strategic fit (indicating poor synergy potential), or poor acquisition integration (indicating poor synergy realisation), or a combination of both (Bauer and Matzler, 2014; Jemison and Sitkin, 1986; Haspeslagh and Jemison, 1991). We complement this linear one-dimensional view by showing that different valuation practices underpin different generic synergy types, namely functional, business model, and strategic synergies.

The disaggregation of synergy types into constituting valuation practices affects both, the setting of synergy goals in the pre-merger phase and synergy realisation initiatives in the post-merger phase. While we do not show data on post-merger integration, there are strong grounds to assume that synergy types differ in their management but also in their likelihood of realisation. Looking at the underlying valuation practices allows us to better understand the value sources of acquisitions and the setting of synergy goals, resulting in appropriate integration measures.

This contributes to prior research by, creating conceptual clarity regarding a concept that has often been criticised for its lack of specificity (King et al., 2004). As such, we show that the simplified distinction into bottom-line and top-line synergies requires closer attention (e.g., Herd et al., 2005). While we find this distinction in our data, the underlying valuation practices point to a different typology. For example, a common theme across interviews was that top-line or revenue enhancing synergies are based on assumptions (King et al., 2004), making the setting of synergy goals highly probabilistic (Schijven and Hitt, 2012). By moving beyond a P&L statement driven understanding of synergies, our generic typology of functional, business

model, and strategic synergies links value sources to the practices and procedures through which they are evaluated. This is important, as P&L accounts can hardly capture and track the broad range of goals in acquisitions.

Moreover, we complement recent research on synergy realisation by showing that different types of synergies interact with each other during post-merger integration. For example, Feldman and Hernandez, (fc) argue that, so called, co- and dis-synergies, need to be considered in the '2+2=5' equation. This is in line with research showing complementary and substituting effects of resource interactions after deal closing (King et al., 2008). We add to this understanding by showing that synergies compete for actors' limited attention already in the pre-merger stage. The aforementioned is important, as evaluation practices determine the setting of goals and ultimately affect the implementation of specific initiatives in the integration phase.

## **CONCLUSION**

The pursuit of goals is central to management and organization theory. Indeed, the accomplishment of goals is the very reason why organizations exist, why coordination becomes necessary, and how value is created in dynamic environments. In this paper, we focus on synergies in the context of M&A as a particularly relevant domain of scope decisions. However, by drawing on the ABV, this paper does not investigate goal setting directly. Rather, we focus on the attention allocation towards practices that ultimately constitute and favour different synergy types. Based on this perspective, we are able to show that due to an attentional crowding-out effect, synergy estimates very often do not reflect the actual potential of acquisitions. We highlight that the congruence of the M&A attention structure with the spatial, temporal, and procedural characteristics of valuation practices affects the extent to which attention is allocated to functional, business model, or strategic synergy practices.

These findings have implications for further research but also for management practice. As this paper is based on an exploratory, qualitative research design, future research could

investigate the role of this crowding-out effect across a larger sample of acquisitions. This would also allow us to better understand if acquiring firms could avoid the crowding out effect by selecting only specific valuation practices for a specific type of deal instead of using multiple valuation practices. Longitudinal research would also avoid concerns regarding reverse causality that is a clear limitation of our current cross-sectional research design. Nonetheless, an extended longitudinal has the potential to highlight important contingencies regarding the attention contexts across different settings that make this crowding-out effect more or less likely. Such factors, for instance, may involve the overall acquisition experience of a particular firm, the actors involved in managing the acquisition, the type of acquirer (e.g., acquisitions by private equity firms vs. corporates), or activities and the timing along the acquisition process. For example, there might also be an institutional reason triggering the crowding out effect. Larger or listed firms are subject to stricter mandatory disclosure regulations, which might impact the attention structure. Here, longitudinal research could also further unpack the mechanisms through which attention allocation towards synergy types feeds through to the setting of specific goals that are also externally communicated.

We also believe that our findings have implications for managers or consultants involved in M&A. Our paper reveals the blind spots and tensions that are at the heart of synergy evaluation. The intricate interplay of attention structures and valuation practices shapes what is and what is not considered synergy. Thus, our paper sheds light on the reasons why synergy cases may be misjudged. Ultimately, what is not captured in synergy goals will not be translated into explicit initiatives at later stages of integration. Thus, our findings raise the need for managers to critically evaluate the ‘convenience driven’ toolbox of valuation practices in use in order to understand the unintended consequences of these practices.



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## TABLES

Table 1. Synergy types, descriptive examples and sample evidence

<i>Synergy types</i>	<i>Aggregated themes of synergy types</i>	<i>Sample evidence</i>
Functional synergies	Cost reduction in support functions	“when we are with customers, the top ten are always the overhead, so everything which will be reflected in personnel or overhead costs.” (M&A Advisory)
	Supply chain synergies	“Supply chain synergies, where we can use the same channels, use the same locations, locations also become superfluous, investment in new locations, for example, is prevented, or it is prevented that in a new geography, or on a new continent, you have to build your own plant or physical structures because the new partner company already has them.” (M&A Advisory)
	IT cost reduction	“[...] a system standardization, so that two SAP systems can be made into one and then maximum effects, license cost reduction or depression - With license costs, you can save IT costs through the maintenance or the reduction of maintenance costs on one system, for example.” (M&A Advisory)
	Purchasing cost	“You do that by carefully looking at suppliers and compare the contracts to find out which terms are better. There might also be the potential for procurement engineering, to collaborate with suppliers in order to develop a better solution.” (M&A Advisory)
Business model synergies	Operating model synergies	“[...] there is also potential for operating models, i.e. for example, [a] buy-sell model, where effects can also be achieved by, let's say, designing transfer pricing. [...] That would perhaps also be something to save costs.” (M&A Advisory)
	Channel leverage	“So growth synergies there are also various aspects, such as bundling products, reselling existing products of both companies into the respective channels of the other company and having the channel leverage there.” (M&A Advisory)
	Pricing benefits	“Top-line margin synergies, so for example, to participate from other price points, I don't know, a luxury label, buys a smaller label which is not quite in the luxury market yet, pulls that up from the branding and the price of the products increases by 30/40%.” (M&A Advisory)
Strategic synergies	New market potential	“Then, in my view, there is revenue in the R&D area as well, like two companies working together to create new developments that were not available to them with their previous know-how, and this opens up completely new market potential.” (M&A Advisory)
	Capability development	“[...] they actually aim mainly [...] at preparing for disruptive changes. That as an automobile manufacturer, I would say, you have to optimize yourself at the digital interface, and with companies like this to optimize cooperation and, for example, navigation technology. There are new constellations where several traditional companies work together with the same synergy centers or with the same ecosystems.” (M&A Advisory)
	Scaling of businesses	“To scale, for example when a large company buys a small company with an interesting technology, this then scaling up globally, would be a synergy for me.” (M&A Advisory)

Table 2. Valuation practices constituting functional synergies

Valuation practices	Dimensions of valuation practices			Sample evidence
	Spatial	Temporal	Procedural	
<b>Blue print analysis:</b> Comparison of focal firm as well as target for every function	<ul style="list-style-type: none"> <li>Standardized data and evaluation procedure allow work in dispersed teams</li> </ul>	<ul style="list-style-type: none"> <li>Standardized data allows instant evaluation and visualization of synergy potential</li> </ul>	<ul style="list-style-type: none"> <li>Numerical evaluation of headcount or cost</li> <li>Use of charts and P&amp;L accounts</li> <li>Affords comparison of as-is and new entity</li> <li>Visualisation via spreadsheet</li> </ul>	<p>“on the cost side it is the, almost, almost stupid/classical as-is, as-is, definition of the deal –[...]. Where it's really, where it's really about describing function by function, how does it work for A, how does it work for B. And then to think about how could it work for A plus B together and quasi best of best to pick out, pick out.” (M&amp;A Advisory)</p> <p>“a target organization can also be modelled, the costs can be simulated and then you have a direct intervention, or a direct effect on the EBIT, if you look at the average notice period - let's say Switzerland of two or maybe the USA has only one month or even less, maybe in Germany then half a year, then they are realized relatively quickly.” (M&amp;A Advisory)</p>
<b>Industry Benchmark:</b> Relationship between industry, company size as well as P&L and Volume	<ul style="list-style-type: none"> <li>Standardized data and evaluation procedure allow work in dispersed teams</li> </ul>	<ul style="list-style-type: none"> <li>Fast evaluation of functional synergies in cases of lack of data</li> </ul>	<ul style="list-style-type: none"> <li>Description of deal using standardised criteria (P&amp;L)</li> <li>Database of historical deals</li> <li>Relative evaluation of synergy</li> <li>Computed based on standardised</li> </ul>	<p>“sometimes you also work with benchmarks, where you know that with comparable purchasing volumes, synergies between 3-5% can be realized.” (Partner M&amp;A Advisory)</p> <p>“So there is the outside-in perspective, which is the evaluation of synergies through benchmarks, through the use of public key figures, which are usually very high level, where the information base is usually very small.” (M&amp;A Advisory)</p> <p>“For me, this is the topic of benchmarking, where you look at how the company is positioned, what are the key figures for employees, what are the key figures for sales and costs. Everything that you can read from the profit and loss account, balance sheet, you can incorporate into the top-down evaluation.” (M&amp;A Advisory)</p>
<b>Deal type categorization:</b> Positioning of deal in quadrants highlights different types of synergy drivers	<ul style="list-style-type: none"> <li>Standardized data and evaluation procedure allow work in dispersed teams</li> </ul>	<ul style="list-style-type: none"> <li>Standardized data allows instant evaluation and visualization of synergy potential</li> </ul>	<ul style="list-style-type: none"> <li>Database of historical deals</li> <li>Categorisation of deals industry (inside, outside) and target size</li> </ul>	<p>“like I said we have four quadrants in general and we divide that up over how similar the business is, so how much you basically divide that up, you're in the same market on one axis and how big is the target on the other axis. So now I have to make sure that I get them all out of my head, if you have a huge target that is in exactly the same market, then it's these scale deals, so you're really just buying economies of scale and you're really going for the cost synergies. For example, if you have a small deal and it's extremely different, that's where we are with the strategic ones.” (M&amp;A Advisory)</p>
<b>Experience based estimation:</b> Identification of 'typical' synergies across functions	<ul style="list-style-type: none"> <li>Fast evaluation of functional synergies in cases of lack of data</li> </ul>	<ul style="list-style-type: none"> <li>Instant availability of evaluation based on prior experience</li> </ul>	<ul style="list-style-type: none"> <li>Based on experience with similar deals</li> <li>Use of standardised synergy categories</li> </ul>	<p>“depending on how professional the company or the external partner is, you can of course also estimate from the experience of similar transactions. See how an external market potential of x millions or billions has been broken down into different functional areas, and what measures are typically taken to do this.” (M&amp;A Advisory)</p>
<b>External validation:</b> Quote from supplier to deliver clearly specified activities	<ul style="list-style-type: none"> <li>Involvement of external service provider</li> </ul>	<ul style="list-style-type: none"> <li>Dependency on external parties may cause delays</li> </ul>	<ul style="list-style-type: none"> <li>Specification of resources and activities</li> <li>Use of accepted categories across functions (e.g., types of hardware, types of service activities)</li> <li>Itemised valuation</li> </ul>	<p>“You specifically ask possible service providers and say, "hey how does it look like, we have a company with X employees, with X sales in the and the industry, we need a service for this and that. What would it cost for you to provide that and the service, or to provide that and the licenses.” (M&amp;A Advisory)</p> <p>“In the purchasing area [...] you go there and really look at the donation volume, the purchasing volume, compare the suppliers, the conditions, and perhaps push certain parts that you buy over to the cheaper suppliers, negotiate with them again because the volume has become larger, and thus realize savings in the purchasing area.” (M&amp;A Advisory)</p>

Table 3. Valuation practices constituting business model synergies

<i>Valuation practices</i>	<i>Dimensions of valuation practices</i>			<i>Sample evidence</i>
	<i>Spatial</i>	<i>Temporal</i>	<i>Procedural</i>	
<p><b>Portfolio analysis:</b> Use of existing industry network to understand potential of the firm</p>	<ul style="list-style-type: none"> <li>▪ Analysis often involves in-depth discussion potentially requiring proximity</li> <li>▪ Multiple actors required (simultaneously)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Extended data collection on portfolio firms required</li> <li>▪ Analysis approach needs agreement and is potentially time consuming</li> </ul>	<ul style="list-style-type: none"> <li>▪ Discursive: In-depth discussion to establish commonality</li> <li>▪ Market facing product categories</li> </ul>	<p>“We leverage synergies, where it does not hurt us. So we do not make rationalization synergies. We are not going to merge two accounting departments now. Or close a purchasing department, but we focus on the market and research synergies, right? That means we develop new products together, each of which can fit into the other portfolio. We look at which distribution channels are served, which sales structures and how you can leverage them.” (VP Corporate M&amp;A)</p> <p>“The other topic is: In which category can I currently buy companies that have one-to-one the same business model that I have? Or do I not have to initiate a process in order not to implement topics that I take over from the target object because they are not the core portfolio of my company, but try to select right from the start.” (VP Corporate M&amp;A)</p>
<p><b>Business model analysis:</b> Comparison of the main value creating mechanisms of the acquiring firm and the target</p>	<ul style="list-style-type: none"> <li>▪ Use of tools such as ‘business model canvas’ to map out value creating activities</li> <li>▪ Business model mapping may require co-location or at least availability of multiple actors</li> </ul>	<ul style="list-style-type: none"> <li>▪ Extended data collection on p target company as well as acquiring company required</li> <li>▪ Non-standardized approach of business model analysis requires coordination and is time consuming</li> </ul>	<ul style="list-style-type: none"> <li>▪ Leverage of combined knowledge and data in managing the product portfolio</li> <li>▪ Usually expressed as increase in ‘revenue’</li> <li>▪ Identification of revenue related potential by leveraging R&amp;D and distribution</li> </ul>	<p>“Yes, it would be an option, it is undoubtedly an obvious one, yes, to revise your own business model, but it could of course also be used to ultimately disrupt the dominant business model of an entire industry and ultimately your own market situation, compared to your peers, strengthen correspondingly.” (M&amp;A Advisory)</p> <p>“In emerging markets and for us, France is unfortunately one of them, [...] we look at companies or look for companies that are within our core business so that we can better support the local company with our know-how and can realize a market for us, okay? Brazil is such an example, we are currently on it and it is exactly like that. We look at companies in the tile sector. Because we originally come from the tile and then it is practically a home game for us, on the product side, and we get the market over.” (VP Corporate M&amp;A)</p>

Table 4. Valuation practices constituting strategic synergies

<i>Valuation practices</i>	<i>Dimensions of valuation practices</i>			<i>Sample evidence</i>
	<i>Spatial</i>	<i>Temporal</i>	<i>Procedural</i>	
<p><b>Cross functional valuation teams:</b> Holistic picture of the potential value contribution of an acquisition</p>	<ul style="list-style-type: none"> <li>▪ Staffing of team with high potentials, consultants as well as members of top management team</li> <li>▪ Requires co-location or close coordination</li> </ul>	<ul style="list-style-type: none"> <li>▪ Extended data collection on p target company as well as acquiring company required</li> <li>▪ Non-standardized approach of business model analysis requires coordination and is time consuming</li> </ul>	<ul style="list-style-type: none"> <li>▪ Participation of top management required</li> <li>▪ Subject specialists understand context and speak the same language</li> <li>▪ No pre-conceived categorisation</li> <li>▪ Emerges in discussion</li> <li>▪ Complex visualisation: Numerical and discursive</li> </ul>	<p>“The reason behind the acquisition was access to technology. [The company] has a technology that we have not yet had in the group and on the one hand and on the other hand, access to [Product A] and the distribution channel [...]. We did that in 2015. We then started immediately or even during the transaction phase to prepare the synergy project, as we call it, with workshops with the management team of the target. It was a proprietary transaction, so we had a very high transaction probability and also great confidence that it would happen.” (VP Corporate M&amp;A)</p> <p>“[...] And then there may be an exchange, maybe a new project will be added, and above all you can see which interface, for example, the sales project team has with the technical consulting project team. And so you bring them together. And then we more or less have a list of topics that can be worked through.” (VP Corporate M&amp;A)</p>
<p><b>Strategic gap analysis:</b> Identification of capabilities to close strategic gap</p>	<ul style="list-style-type: none"> <li>▪ Staffing of team with high potentials, consultants as well as members of top management team</li> <li>▪ Requires co-location or close coordination</li> </ul>	<ul style="list-style-type: none"> <li>▪ Extended data collection on p target company as well as acquiring company required</li> <li>▪ Non-standardized approach of business model analysis requires coordination and is time consuming</li> </ul>	<ul style="list-style-type: none"> <li>▪ Participation of top management required</li> <li>▪ Identification of capabilities to close strategic gap</li> <li>▪ Discursive articulation of synergy</li> <li>▪ No pre-conceived categorization</li> <li>▪ No standardized approach to articulating strategic gaps and capabilities</li> </ul>	<p>“[...] so an acquisition is about closing our strategic gaps in the market [...]. In the core extension in which we enter a market, think, if there is still a product group that we can offer in addition to the market that also fits our system business and the third is transformation, that means there are strategic partners in the market through which we require competitive advantages in the future or for strategic product groups [...] to further expand the systems business.” (M&amp;A Advisory)</p> <p>“in the transformation area you have to look, man, what can we actually do, it is rather more costly, yes, but if I say you only take one company as an example that [produces] axes yes, we have axes, they have axes, then [...] it is actually relatively clear what happens there, [...] you have the experience, because on the operational side very strong, and the integration character is usually very strongly placed on the processes.” (M&amp;A Advisory)</p>



Table 5. Synergy crowding-out: M&A attention structure and attention allocation on different practices of synergy evaluation

<i>Attention structure of M&amp;A transactions</i>		<i>Valuation practices constituting ...</i>											
Dimensions	Attention allocation effect	Dimensions of valuation practices	Functional synergies	Business model synergies	Strategic synergies								
<p><i>Rules of the game</i></p> <ul style="list-style-type: none"> <li>Legal framework regulates transaction</li> <li>Regulated information exchange</li> <li>Tight deadlines</li> <li>Acquires may follow specific processes based on lessons learnt</li> <li>Remuneration of consultants often linked to BU sign-off of identified or leveraged synergies</li> </ul>	<p>Rules of the game favour standardized and time efficient evaluation based on transparent valuation criteria</p> <p>“it’s mostly top-down. Bottom-up analysis actually only happens shortly before closing, when there is agreement on the acquisition. Only then you have the data.” (M&amp;A Advisory)</p>	<i>Spatial</i>	Dispersed coordination	Dispersed / Co-located coordination	Co-location or close coordination								
<p><i>Players</i></p> <ul style="list-style-type: none"> <li>C-Suite and Business-Unit Heads</li> <li>Consultants bring specific expertise regarding transactions</li> <li>Union involvement (particularly in headcount reduction)</li> <li>Board of directors</li> <li>Investors and capital markets</li> </ul>	<p>Boards (approval / risk assessment) and capital markets (interpretation of value potential) demand transparent criteria and short to medium term bottom line effects.</p> <p>“You’ve got to be fast. You can’t say a year and a half later that you’ll try to get additional overhead synergies” (M&amp;A Advisory)</p> <p>“As the stock-market didn’t react in our favour [following the announcement] our CEO announced even more cost synergies. So we had to re-calculate the entire business case.” (Head of M&amp;A)</p>					<i>Temporal</i>	Fast	Medium	Slow				
<p><i>Structural position</i></p> <ul style="list-style-type: none"> <li>C-Suite and BU executives often try to show bottom-line effect within 18 months of transaction</li> <li>C-Suite legitimacy depends on perceived feasibility of synergy case</li> <li>Staff with deep insight in line functions often not involved in synergy case</li> </ul>	<p>C-Suite and BU executives anticipate board and shareholder reaction in synergy case and are constrained involvement of experienced middle management during synergy evaluation.</p> <p>“And there are conflicts of interests with [middle managers] that can be mitigated with an external or more high level perspective” (M&amp;A Advisory)</p> <p>“...there was a proud sum of synergies in the business case. Not sure how they came up with this. They probably don’t understand the business” (Manager of business operations)</p>									<i>Procedural</i>	High degree of standardization	Medium degree of standardization	Low degree of standardization
<p><i>Resources</i></p> <ul style="list-style-type: none"> <li>Experienced acquirers have dedicated M&amp;A function and procedures</li> <li>Availability of financial and other resources influences articulation of options</li> </ul>	<p>Increasing M&amp;A experience results in the establishment of routinized and process driven approaches to transactions.</p> <p>“We have these fabulous checklists and pre-defined processes but sometimes, they simply do not fit.” (M&amp;A Manager)</p> <p>“We have now created the post of an M&amp;A manager that works on a handbook and develops standard processes.” (Head of Organisational Development)</p>												