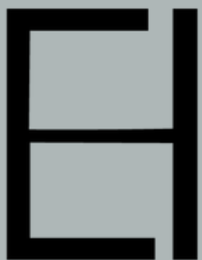
Adapting to Change: Evolving Acquisition Strategies in a Volatile Market



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Whitepaper by Viktor Ström and Nikolaos Siotis
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Mergers and acquisitions (M&As) have long been regarded as a cornerstone in corporate strategies for expansion[1]. A common motive is growth opportunities—undergoing the inorganic growth from an M&A is exponentially faster than growing organically[2, 3]. In addition, M&As have been promoted as a means for companies to position themselves competitively, to stay ahead of the curve, by expanding into new geographic locations, growing and diversifying the customer base, or by moving into new industries[2]. Yet, despite their widespread popularity and professed benefits, the actual performance of M&As tells a different story. A comprehensive literature review analyzing failure rates among M&As estimates these to be between 50% and 80%[4]. Additionally, M&As fail in delivering on promises to several of the stakeholders involved, with target and bidder shareholders experiencing varying changes in share price[1,5].

So, what constitutes a failure? There is within M&A literature no consensus on what constitutes a "successful M&A", in part due to disagreements on which performance metrics are most relevant to measure.

Schoenberg suggests evaluating M&A success through cumulative abnormal returns, managerial assessments, divestment statistics, and expert opinions[6]. The Principles of Corporate Finance define success as when the combined post-merger value exceeds the pre-merger value of the acquiring firm plus the acquisition price[7]. Galpin and Herndon support this by stating that success

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[1] Poniachek, H.A. (2019). Mergers and Acquisitions: A Practitioner's Guide to Successful Deals. World Scientific Publishing Co. Pte. Ltd.
[2] Gaughan, P.A. (2015). Mergers, Acquisitions, and Corporate Restructurings. 6th edition. John Wiley and Sons, Inc.
[3] Tamosiuniene, R., and Duksaite, E. (2009). The importance of mergers and acquisitions in today's economy. KSI Transactions on Knowledge Society: p.11-15.
[4] Koi-Akrofi, G. (2016). Mergers and acquisitions failure rates and perspectives on why they fail. International Journal of Innovation and Applied Studies, 17(2), 150-158.
[5] Cartwright, S, and Schoenberg, R. (2006). Thirty Years of Mergers and Acquisitions Research: Recent Advances and Future Opportunities. British Journal of Management, Vol. 17: p.1-5.
[6] Schoenberg, R. (2006), Measuring the Performance of Corporate Acquisitions: An Empirical Comparison of Alternative Metrics. British Journal of Management, 17: 361-370.
[7] Brealey, R. A., Myers, S. C., & Allen, F. (2005). Corporate finance (8th ed.). New York: McGraw-Hill.

occurs if shareholder value increases more than if the companies had remained separate[8]. Hitt and colleagues outline additional criteria such as gaining market shares, achieving economies of scale, and securing lower capital costs [9]. However, Jugdev and Müller criticize these standardized measures as insufficient[10]. This is in line with other authors such as Lim and Mohamed[11], as well as Wateridge[12], who argue that success criteria vary among stakeholders, implying that an M&A might be deemed successful by some criteria and a failure by others. Regarding the assessment period, Calipha et al. argue that assessing financial results from the second to seventh year post-acquisition provides a more comprehensive measure of success compared to shorter time windows, as this period reflects the realization of synergies and integration efforts[13].

As argued in one of our earlier whitepapers—*Empowering Entrepreneurs Through Decentralized Management*—the primary reason for the high failure rate in M&As is a misalignment between the strategic purpose of a transaction and the specific needs post-transaction. For instance, acquiring an entrepreneurial firm dependent on a small number of key employees, coupled with an aggressive integration strategy, is problematic: the loss of autonomy and the disruption of routines associated with integration has been found to decrease employee retention in certain situations [14]. The retention of employees, especially key employees who constitute the core of the firm's competitive advantage, is crucial for preserving the acquired firm's capabilities based on tacit knowledge[15]. If the acquiring firm loses these employees

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[8] Galpin, T.J., Herndon, M. (2014). The Complete Guide to Mergers and Acquisitions. 3rd edition. Jossey-Bass.
[9] Hitt, M., Harrison, J., Ireland, R.D. and Best, A. (1998), Attributes of Successful and Unsuccessful Acquisitions of US Firms. British Journal of Management, 9: 91-114.
[10] Jugdev, K and Müller, R. (2005). A Retrospective Look at Our Evolving Understanding of Project Success. Project Management Journal. 36. 19-31.
[11] Lim, C.S and Zain, Mohamed. (1999). Criteria of project success: An exploratory re-examination. International Journal of Project Management. 17. 243-248.
[12] Wateridge, J. (1998). How can IS/IT projects be measured for success? International Journal of Project Management. Vol 16, Issue 1, p. 59-63.
[13] Calipha, Rachel and Tarba, Shlomo and Brock, David. (2010). Mergers and acquisitions: A review of phases, motives, and success factors. Advances in Mergers and Acquisitions. 9. 1-24.
[14] Ranft, A. L. and Lord, M. D. (2002). Acquiring new technologies and capabilities: A grounded model of acquisition implementation. Organization science, 13(4), 420-441.
[15] Ranft, A. L. (2006). Knowledge preservation and transfer during post-acquisition integration. In Advances in mergers and acquisitions, 5(1), 51-67.

post-transaction, their innovative capabilities risk being disrupted or even lost.

Even when theoretically doing (most) things right—implementing a decentralized acquisition model focused on acquiring entrepreneurial, niched, resilient firms with positive cash flows and high margins—some portfolio firms perform better than others. This results from operating in the knowledge economy, often characterized by the acronym VUCA—volatility, uncertainty, complexity, and ambiguity—where unplanned and even unforeseen events occur more frequently. When these events are significant, they are called crises. These vary vastly in nature and origin, ranging from internal deficiencies to external shocks[16]. Among the recent examples of such crises that shook our economy can be mentioned COVID-19, the collapse of both Credit Suisse and Silicon Valley Bank in 2023, rising inflation and interest rates, as well as the ongoing war between Ukraine and Russia. Regardless of their source, crises are typically characterized as low-probability but high-impact events.

These crises, which threaten the viability of entire organizations, also offer valuable opportunities to learn from. This whitepaper aims to better understand variability in portfolio firm performance and its underlying causes. The study intentionally minimizes the theoretical framework, meaning it keeps the background concepts and theories to a minimum, since it builds on our earlier work. Instead, the focus is placed on highlighting the detailed insights provided by the respondents.

We conducted six in-depth, semi-structured interviews with employees from four of our platform companies (Table 1). Interviewees were purposefully selected for their extensive knowledge and experience in M&A and long-term involvement with the platform companies, enabling us to conduct a detailed investigation of the phenomenon.

Table 1: Respondent description.

[16] Pearson, C. M., and Clair, J. A. (1998). Reframing crisis management. Academy of management review, 23(1), 59-76.

RESPONDENT	DESCRIPTION
R1	This respondent currently works as a Senior M&A Associate at one of the platform companies and has been with the platform company since the beginning.
R2	This respondent is a CEO of one of the platform companies and has been with the platform company almost since the start.
R3	This respondent is a co-founder and CEO of one of the platform companies.
R4	This respondent is a co-founder of one of the platform companies and currently works as a M&A Director.
R5	This respondent is a CEO of one of the platform companies.
R6	This respondent is a co-founder of one of the platform companies and currently works as a M&A Director.

Note: The respondent's industry has been omitted to maintain anonymity.

The text below will first provide insights from respondents regarding their views on what constitutes a successful acquisition. After that, recurring patterns in the best-performing and worst-performing acquired firms will be discussed, as well as the distinguishing characteristics that separate the high-performing from the lower-performing acquisitions. Concluding remarks will follow.

Respondents' views of a successful acquisition

Respondents emphasized that the success of an acquisition depends on continuous evaluations to ensure that the acquired firm meets or exceeds expectations. These expectations are based on the firm's growth and profitability, as well as its strategic alignment with the platform company's ecosystem.

R6 argues that a target company is deemed successful if it performs better and grows larger post-acquisition. This perspective aligns with **R1**, who underscores the necessity for continuous growth and profitability, suggesting that companies should grow at least 10% annually through organic growth while maintaining or improving profitability to be considered successful. **R3** offers a slightly different take, stating that success depends on

meeting or exceeding the customized expectations set for a specific acquisition, implying that each acquisition could have different strategic goals. This consensus indicates that achieving financial growth requires successful operational and strategic integration. However, these aspects alone do not define a successful acquisition without financial growth. Ultimately, the key measure of success is whether the company experiences financial growth.

Assessment timelines vary but are critical across all responses. According to **R4**, long-term success is evaluated over an economic cycle of five to seven years, allowing for assessment under varying market conditions and providing a more accurate measure of the acquisition's impact. This perspective coincides with **R3** and is similar to **R5**, who suggests a three-to-five-year assessment period. This longer perspective is vital for understanding whether the acquisition can sustain growth and stability, adapting to industry-specific challenges and opportunities.

Each respondent reinforces that these evaluations must be continuous, ensuring that an acquisition meets immediate financial criteria while achieving long-term strategic and operational goals essential for the acquirer's sustained success in a dynamic business environment. Thus, the success of an acquisition is not a fixed point but a continuum of evaluations.

Having discussed these perspectives in detail, Table 2 below distills the key factors into a concise summary.

Table 2: Summarized interviewees' perspectives of a successful acquisition.

Main theme	**Core factor**	**Representative code**
Successful acquisition	Growth and profitability	• Sustained growth and expansion post-acquisition • Maintenance or enhancement of profitability post-acquisition
	Expectations and strategic fit	• Meeting or exceeding the customized expectations • Strategic alignment among the acquired company, the acquirer, and the portfolio
	Evaluation and assessment criteria	• Continuous, ongoing evaluation process • Assessment period ranging from 3 to 7 years post-acquisition

Recurring Patterns in the Best Performing Acquired Firms

Respondents' insights highlight the complex interplay of proactive management, market responsiveness, and strategic innovation in evaluating the patterns defining successful acquisitions.

R1 emphasizes the crucial role of proactivity in corporate success, in particular, how performance improves when there is an active sales department that adds new customers. Companies thriving in volatile market conditions do so through deliberate efforts to diversify their client base and nurture relationships with clients, suppliers, and employees. This proactive stance is intertwined with a culture of innovation—successful companies adapt and refine their offerings in response to market demands, focusing on leading products to maximize efficiency and impact. Additionally, as highlighted by **R4**, a diversified client base provides a buffer against market volatility, supporting long-term stability over quick gains from large, concentrated client deals.

R2 and **R4** highlight that operating in a niche market or offering a unique product are key factors in driving successful acquisitions. Companies that perform well in these areas often establish a strong market position. This advantage stems from their ability to offer products that are distinct and meet specific customer needs, setting them apart from competitors. **R6** adds that these companies' products often create what is known as a "lock-in effect", where customers become so reliant on these offerings that switching to a competitor becomes difficult or undesirable. This lock-in effect further strengthens the company's market position, contributing to its long-term success.

As **R3** points out, the leadership qualities within these companies also play a pivotal role. Successful companies benefit from conscientious, hardworking leaders who are deeply knowledgeable about their industries and proactive in their strategic planning. These leaders anticipate and plan for market changes, ensuring that their companies are well-positioned to minimize losses and maximize profits. **R6** emphasizes that these leaders implement a work environment and culture that rewards innovation, competence, and work ethic, fostering a dynamic company that excels across the organization.

R5 adds that internal implementations of digitalization and modernization significantly influence the success of acquisitions. Companies that embrace technological advancements are better positioned to withstand economic headwinds or internal changes such as leadership successions. Furthermore, transparency and cooperation with the platform company are essential for adapting strategies and turning potential challenges into opportunities, as per **R1**. Companies that are honest and cooperative with the acquirer can turn tricky situations into positive outcomes faster. This openness fosters alignment and realistic expectations between the acquired company and its acquirer, which is crucial for mutual success.

Recurring Patterns in the Poorest Performing Acquired Firms

The analysis of least successful acquisitions reveals a pattern of internal shortcomings and challenging external conditions that hinder company performance.

R1 points out a critical flaw in the worst-performing acquisitions: resistance to change and innovation. In these companies, management often opposes new ideas, particularly those introduced by the acquiring entity, in contrast to the adaptability and openness seen in best-performing acquisitions. This inflexibility results in reactive rather than proactive strategies, leaving the company struggling to keep pace with market trends. Additionally, these companies tend to operate with reduced transparency and are more inclined to attribute their failures to external market conditions rather than taking accountability. This lack of responsibility fosters a cycle where the same strategic errors are repeated—management remains resistant to necessary changes, misses opportunities for innovation, and tends to react to market demands rather than anticipating them. As a result, the company struggles to correct its course and is, therefore, falling behind competitors.

R2 and **R3** emphasize the impact of external factors on company performance. **R2** notes that less successful acquisitions are more affected by external headwinds such as market downturns, increased competition, and rising prices, which were largely unpredictable (e.g., COVID-19). Despite these challenges, **R2** believes their portfolio companies remain competitive and perform better than their competitors, suggesting a nuanced view of failure: even if acquisitions do not meet expectations, they can still be deemed successful if they outperform the market. Conversely, **R3** underscores that while external challenges like high competition and industry downturns are significant, internal dynamics, particularly problematic management personalities leading to operational disruptions and customer dissatisfaction, play a crucial role. **R3** also mentions ethical issues and regulatory

compliance problems as internal factors often leading to declining profit margins post-acquisition.

R4 adds another dimension by focusing on strategic vulnerabilities. According to **R4**, the least successful companies often lack a diversified client base and rely too heavily on a few large clients, increasing their risk exposure. These companies also struggle due to a lack of distinctive products or clear advantages over competitors, coupled with operating in saturated or non-growing markets. One critical weakness, furthermore, is the absence of a robust organizational structure or leadership, that could otherwise withstand sudden market shifts.

R5, supported by **R6**, continues on this point by stating that companies with high and narrow knowledge concentration often perform worse due to their inability to absorb sudden events or successions because of high dependency on a few key individuals in management or entrepreneurial roles. Additionally, **R5** argues that these companies operate with manual, non-digitalized internal processes, which are highly inflexible and hinder smooth succession.

R1 and **R6** further highlight issues with the revenue-generating model, arguing that companies relying on one-time billing models or project-based services tend to perform worse. Examples include consultancy firms and production companies. These companies often experience volatile revenue and require constant acquisition of new customers or new sales, which can be challenging in a slow economy. During economic downturns, customers tend to cut down on project costs, resulting in fewer deals and a more competitive market, causing these companies to take a hit on their margins to secure new deals.

Defining Characteristics of High-Performing vs. Lower-performing Acquisition

The key factors that distinguish high-performing acquisitions from lower-performing ones include: a deep understanding of the market combined with proactive

and open-minded management; continuous improvement of product offerings and a continuous expansion of the customer base; and a positive leadership, management style, and organizational culture.

The high-performing acquisitions exhibit robust internal structures that support quick adaptation and solution-oriented management, enabling them to respond effectively to unexpected events. Their innovative approaches and openness to new ideas further enhance this flexibility, making them well-prepared to navigate challenges. In contrast, lower-performing acquisitions often downplay the significance of anticipating market changes and are less proactive in adapting to them. This lack of foresight can delay their response to problems, resulting in prolonged issues and missed opportunities. Transparency and cooperation with the acquirer also play critical roles in devising recovery strategies. Companies that are open about their challenges and work collaboratively with their acquirers can implement recovery measures more effectively, prevent problems from escalating, and minimize potential damage.

Another critical factor is a diversified and loyal client base. The high-performing acquisitions work proactively to avoid being over-reliant on a few large clients, which can be vulnerable in times of market stress. These companies are proactive, with sales teams that continuously work to secure new deals, enhancing their stability and capacity to weather economic downturns. Moreover, strong customer relationships enable these companies to handle external pressures, such as price increases, by passing costs on to customers without risking their loyalty. They often work with recurring revenue models instead of one-time billing ones, which enables revenue predictability and financial stability. In contrast, lower-performing acquisitions may need help with responsiveness to new customer demands and maintain weaker customer relationships, resulting in more customer-dependency and an inability to raise prices.

Leadership, management style, and organizational culture are crucial differentiators. Similar to solution-oriented, open-minded management, strong, hardworking, and conscientious leadership can distill a culture of everything is possible. Companies that broadly disseminate know-how and responsibility within the organization are generally more resilient and agile in responding to unforeseen events. Each task within the firm is assigned to an owner who is the most knowledgeable employee in that domain, leading to greater employee commitment and clearer responsibilities. In contrast, the least successful acquisitions typically exhibit a high concentration of knowledge and responsibility among a few key individuals, resulting in the opposite effect.

In summary, the success of acquisitions is influenced by a combination of proactive market engagement, robust internal structures, and effective management practices. High-performing acquisitions excel through their market foresight, adaptability, and transparent communication, which collectively enable them to capitalize on opportunities and mitigate risks. Their diversified client base and resilient organizational culture further contribute to their stability and long-term success. In contrast, lower-performing acquisitions often struggle due to a lack of proactive strategies, insufficient adaptability, and weaker internal practices, which can impede their ability to navigate challenges effectively.

Evolving acquisition strategies

When evaluating the evolution of their acquisition strategies, insights from multiple respondents highlight significant shifts towards more robust, predictive, and character-focused approaches, underscoring the importance of deep market understanding, proactive management, and effective risk mitigation.

R1 and **R6** emphasize the importance of predictability in their acquisition strategy. They seek predictability of revenue, operations, customers, and suppliers, ensuring that acquired companies have active sales departments continuously working to diversify their customer base and secure new deals, crucial for handling unexpected market shifts. They also stress the significance of recurring revenues and a solid three-year business plan post-acquisition to maintain stability and facilitate integration and succession processes. Prioritizing the diversification of client bases to prevent over-reliance on major clients, they assess management's cooperativeness during the pre-acquisition phase to gauge the potential for future collaboration.

Echoing the theme of risk minimization, **R2** has adjusted its approach by reducing reliance on earn-out components in deals. They argue that a well-understood acquisition should not require extensive downside protection, reflecting confidence in their due diligence process and understanding that high earn-outs can incentivize short to medium-term behaviors detrimental to long-term success. Their strategy now focuses on acquiring companies with stable customer bases and competent management who are well-versed in the market, aiming for smoother integration and operations post-acquisition.

R3 emphasizes the crucial importance of focusing on management character, as problematic leadership can lead to significant post-acquisition challenges. They now more strongly emphasize the importance of understanding the personal history and character of key individuals, alongside checks for compliance with

regulatory frameworks (e.g., financial and legal due diligence). This more thorough background check ensures alignment with organizational values and operational standards, helping avoid acquiring firms with the potential for future conflict or instability.

R4 states that they have expanded their evaluation process by involving more analysts to assess potential acquisitions, moving away from high-risk models like project-based revenues or consultancy firms. They prefer businesses with recurring revenue models, such as Software-as-a-Service (SaaS) companies, which typically have a diversified client base and more overall predictability. This strategy aims to reduce volatility and enhance acquisition stability.

Lastly, **R5** reflects on past strategies and suggests a focus on acquiring fewer but higher-quality companies if allowed to redo their acquisition approach. They emphasize tailoring agreements to fit leadership situations more effectively and conducting rigorous due diligence on leadership qualities. They also highlight caution with geographic expansions and avoidance of M&As involving very small companies so as to mitigate risks related to inadequate organizational structures.

In summary, the updated acquisition strategies involve a more thorough and critical analysis of potential acquiring firms' ability to predict revenue and operations, proactive management capable of navigating market shifts, comprehensive assessments of management character and ethics, and a preference for stable, recurring revenue models. These adjustments aim to minimize risks associated with volatile revenue streams, ineffective leadership, and incompatible organizational cultures, ensuring that acquisitions contribute positively to long-term business goals.

Concluding remarks

This introspective study emerges at a pivotal juncture for private equity groups engaged in M&A activities. After nearly two decades of a bull market characterized by extended periods of near-zero interest rates, the landscape shifted dramatically due to a series of crises. Here can be mentioned pandemics, bank failures, high inflation coupled with rising interest rates, international trade disputes, as well as new wars and sudden escalations in older ones.

This study is part of an ongoing attempt to continuously learn from such events. Our analysis of variability in the performance of (EHAB-owned) portfolio firms serves here as a case study of root causes impacting private equity as a whole. Although these findings are directly related to our platform firms, given their role as the data source for this endeavor, they are likely relevant to other similar acquirers as well. Key factors identified for increasing the likelihood of successful M&As include prioritizing financial growth; fostering proactive and strategic management; embracing innovation; diversifying the customer base; ensuring strong leadership; maintaining transparency and cooperation; implementing recurring revenue models; and conducting thorough due diligence.

In conclusion, the insights presented here emphasize that success in M&As is multifaceted. It requires a balanced approach that addresses financial, strategic, and operational aspects while cultivating a culture of openness, adaptability, and collaboration. By internalizing these lessons, acquirers will be better equipped to navigate the complexities of M&As and achieve superior outcomes in their future endeavors.

Authors

Viktor Ström

Head of Research

Based on the contributions from the intern as part of pursuing his independent degree of Bachelor, titled *"Performance Variability in M&A : An Empirical Investigation into Factors of Success and Failure*" at the Royal Institute of Technology, School of Architecture and the Built Environment (ABE), Real Estate and Construction Management. The thesis is available via https://kth.diva-portal.org/smash/record.jsf?pid=diva2%3A1877654&dswid=-7748

Nikolaos Siotis

Thought Center
Intern