

## Chapter 22

# Leadership Perspectives on the Global Market for Corporate Control

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### ABSTRACT

*This chapter discusses the latest leadership perspectives on mergers and acquisitions, which represent a simultaneously established and expanding phenomenon known as the global market for corporate control. Worldwide traffic in mergers and acquisitions totaled over USD12 trillion in the last century, with the first decade of the present millennium already exceeding USD8 trillion in corporate assets exchanged in domestic and international interfirm combinations. The financial prominence of mergers and acquisitions coupled with their intensive and often very invasive impact on shareholders and stakeholders of the transacting firms make the market for corporate control a fruitful context for the renewed exploration and application of strategic management perspectives with a particular focus on service science research.*

### INTRODUCTION

Despite new heights in national and cross-border merging, analyses from many years of dealmaking have demonstrated that intercorporate combinations on average fail to create value for the acquiring firm shareholders (Dewing, 1921; Jensen & Ruback, 1983; King, Dalton, Daily, & Covin, 2004). Although certain types of deals—such as

those involving smaller acquiring firms (Moeller, Schlingemann, & Stulz, 2004), acquiring and target firms in the same industry (Morck, Shleifer, & Vishny, 1990), acquisitions of private firms or subsidiaries (Fuller, Netter, & Stegemoller, 2002), predominantly cash financing (Linn & Switzer, 2001), or low premiums (Sirower, 1997)—have historically generated higher acquirer returns, M&A transactions overall have yielded net wealth gains only because the typically positive

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target shareholder returns have outweighed the typically negative acquiring shareholder returns. Moreover, performance outcomes do not vary with the choice of metric. Whether assessed by divestiture rates, operating cash flows, acquirer stock price returns (Agrawal, Jaffe, & Mandelker, 1992; Kaplan & Weisbach, 1992; Agrawal & Jaffe, 2000), by innovation capability (Kapoor & Lim 2007), or by a cultural compatibility index (Stahl & Voigt, 2008), most mergers do not succeed. Usually the acquiring firm shareholders would have experienced superior gains if the free cash funneled into M&A deals had instead been diverted into paying down debt, buying back stock, or issuing dividends (Blanchard, Lopez-de-Silanes, & Shleifer, 1994), or if the acquiring shareholders as individual investors had simply purchased units of the comparable investment index in the designated timeframe (Henry, 2002). In this challenging national and international strategic context, leadership becomes of key importance.

Notwithstanding their lackluster track record, interfirm combinations, potentially pyrrhic in outcome, persist as a fashionable corporate strategy (Park & Vamberg, 2010). The merger wave of 2003-2008 (the sixth wave since tracking began and the first of the present millennium) resulted within six years in the disclosed transfer of USD 8 trillion in assets (FactSet Mergerstat, 2009), offset by losses yet to be calculated. The 1993-2000 merger wave witnessed the purchase of over USD 7 trillion in public or private shareholder equity in the US (FactSet Mergerstat, 2004), and over USD 12 trillion worldwide (Selden & Colvin, 2003), but the destruction of more than USD 240 billion in domestic shareholder value (Moeller, Schlingemann, & Stulz, 2005).

### **Mergers and Acquisitions from the CEO Perspective**

Why then does dealmaking persist? Numerous motives have surfaced over the decades, spanning a range of factors endogenous and exog-

enous to the firm. These factors notably include risk reduction, labor contracts, tax savings, monopoly power, and empire building (Mueller, 1969; Steiner, 1975; Firth, 1980; Amihud & Lev, 1981; Ravenscraft, 1987; Roll, 1988; Trautwein, 1990). Firm resources and capabilities, whether material or intangible, tend to erode with time, and one way to expand and renew capabilities is through acquisitions (Penrose, 1959). Mergers also provide a mechanism for knowledge circulation and diffusion (Inkpen, 1998; Ranft & Lord, 2000). Deals may be proximately triggered by stock market exuberance (Shleifer & Vishny 1990), imitation of associates in interorganizational networks (Haunschild, 1993), or the urge to cut costs and trim managerial deadwood in the target firm (Shleifer & Vishny, 1988; Castanias & Helfat, 1991; Walsh & Ellwood, 1991). Broad economic and political forces contextualize and drive the events alongside individual executive decisions (Shull & Hanweck, 2001).

Researchers considering the managerial viewpoint on corporate strategy and contract fulfillment aimed to specify a parsimonious yet sufficient set of drivers. Scholars from the 1990s forward concentrated on managerialism, synergy, and hubris as the three dominant and distinct motives for merging (Seyhun, 1990; Walsh & Seward, 1990; Berkovitch & Narayanan, 1993; Eun, Kolodny, & Scheraga, 1996; Seth, Song, & Pettit, 2002). In connection to the previous work yet exploring the factors most directly relevant to CEOs involved in M&A transactions, this chapter focuses on the *managerial power and discretion perspective*, the *shareowner-manager (principal-agent) relations perspective* and the *overconfidence perspective* as the core trio of leadership perspectives for further analysis.

### **Three Leadership Perspectives and the Underlying Classic Conceptions**

The managerial power and discretion perspective and the shareowner-manager (principal-agent)

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