MASTER THESIS

Achieving extraordinary fit

Adopting simple rules to the target selection process in M&A

Evy Siemerink

MSc Business Administration
Entrepreneurship, Innovation & Strategy
Department of Behaviour, Management and Social Sciences

EXAMINATION COMMITTEE
Dr. Ir. Erwin Hofman
Ir. Björn Kijl
Roy

January 2021

UNIVERSITY OF TWENTE.

Волков бояться — в лес не ходить
If you are scared of wolves, do not go in the woods[1]

[1] Russian proverb originating from gathering mushrooms and berries in the woods, which in English means "nothing ventured, nothing gained". It can also be interpreted as a simple rule.

Acknowledgements

Writing this thesis would not have been possible without the help of so many of you. The many conversations we had, the interviews we did and the questions you answered for me have helped me a lot in doing this research. I learned so much about the world of M&A.

A special thank you to my supervisors Dr. Ir. Erwin Hofman and Ir. Björn Kijl, for challenging my thoughts in order to improve this research at all times. I would also like to thank Roy from Company Beta, for providing me with the case, giving a lot of input for M&A from a firm's perspective, and for the many interesting conversations we had about the topic. Moreover, I would like to thank all the people who were willing to participate in an interview, your expertise in M&A provided me to be able to answer a lot of questions about this research which will hopefully also help other firms aspiring to set up an M&A strategy. Then, a special thanks to Bert and Rudy for sharing your opinions and ideas about the topic, and that on a Friday afternoon.

Furthermore, thanks to Jelle, who has proofread everything and was always available to answer my questions. And of course, a thank you to my family and friends, for your understanding and patience.

Evy Siemerink
Enschede, 9th of December 2020

Abstract

Aim. A substantive body of research has shown that there are many antecedents for mergers and acquisitions (M&A) that lead to post-deal success. However, the process on how targets are selected, and what criteria are adopted in this process leave a gap in the literature to be filled. Moreover, simple rules as described by Eisenhardt and Sull (2001; 2015), create possibilities to better structure this process.
Method. In this research, a literature study on 83 papers suggests that targets are screened in a certain order whereby they assess their expectations of a target by going through different categories. These categories are the management of a target, financing, products, services, markets, synergy, integration, size and location. The list of criteria is tested by doing semi-structured interviews with a sample of 11 Dutch M&A experts. Finally, simple rules are set up by organizing a focus group at Company Beta for better structuring a possible target selection process.
Findings. Results show that the application of simple rules into this process gives the firm the ability to 1) better structure their target selection process by assessing the internal motives for M&A and 2) providing structure to the process while at the same time leaving room for flexibility.
Contribution. The findings of this study contribute to the process perspective in M&A, where it is argued that a good process can lead to better decisions. Moreover, a list of rules for screening targets are offered, next to a framework on how to apply simple rules in the target selection process in firms. The implications for research and practice in M&A are discussed.

Table of Contents

Appendices

Chapter 1. Introduction

Firms often adopt heuristics to make complex decisions easily comprehendible. Creating value in an ever-changing industry forces firms to look for new ways to grow and to create robustness against developments in a dynamic environment. Growth can take place organically, or through buying new technologies or knowledge, by mergers and acquisitions (M&A). M&A enables organizations to renew existing practices, create a new firm structure or change the firm culture. However, often M&A is deemed ineffective. On average, 40-60% of M&A fail to succeed in creating value (Bauer & Matzler, 2013; Bower, 2001), leading to numerous studies into the topic, making M&A a fundamental aspect of strategic management research. In the literature, scholars tend to focus on financial performance of M&A (e.g., Jensen, 1988), the fit between target and buying firms (e.g., Kim & Finkelstein, 2009), the effects of M&A on culture and organizational behaviour (Chatterjee et al., 1992), and the process which can lead to M&A success (e.g., Angwin, 2004). The M&A phenomenon is particularly interesting in the light of decision making. However, before embarking on the outcomes of M&A, a firm must first start inside out by looking at their own strategy: why would you buy? And in line with that, what can be added to the resource base of the firm by doing an acquisition? The target selection process for a strategic buying firm remains a topic to be explored in academic literature, in contrast with other phases of M&A, such as post-deal (Kaul & Wu, 2015), where a wealth of studies is to be found on for example the success of merging firms. What is clear is that firms tend to prefer targets that are more similar and less distant to their own facilities (Chakrabarti & Mitchell, 2013; Schildt & Laamanen, 2006), but firms also tend to look for strategic fit and synergy potential through finding complementarities in resources or markets. Welch, Pavicevic, Keil and Laamanen (2020) describe in their literature review that targets are often selected for their R&D capability, patent portfolios or environmental capabilities. Still, in identifying and selecting the right acquisition candidate, firms struggle to find a target with enough strategic fit and find it hard to search for targets in new countries (Very & Schweiger, 2001).

Some strategic buying firms have found themselves being effective in M&A, such as Cisco. At Cisco, they aim to seek for a target with “not only a strong business case, but also a shared business and technological vision, and where compatibility of core values and culture foster an environment for success” (Cisco, 2020). Experience in acquisitions might be a good predictor for success, especially if the experience is based on internal processes, such as identifying of targets, negotiating successfully and integration of the target (Chatterjee, 2009). It might be fruitful to set up an acquisition programme, which defines the logic behind a group of acquisitions, for example how M&A is meant to create value for a firm. Cisco has set this up very well, leading to effective acquisitions. By creating a set of rules that a target needs to comply with, a group of targets can be easily screened and brought to the next phase of decision-making. These rules are for example: *a target must share Cisco’s vision of where the industry is headed*, *geographic proximity to Cisco*, and *culture must be compatible with Cisco’s* (Eisenhardt & Sull, 2001). So, what we see here is that a firm is creating heuristics to deal with the amount of information when assessing these targets, shortening the assessment process. Bingham, Eisenhardt and Furr (2007) define these heuristics as rules of thumb that are often informally used and shared amongst multiple participants within a firm and are for example focused on capturing opportunities. These heuristics arise when the ability to deal with a lot of information in a short amount of time is limited (Newell & Simon, 1972).

Cisco's rules can be characterized as simple rules, which create flexibility and provide for the efficient capturing of opportunities in firm processes. Simple rules specify actions and are meant to offer a limited amount of guidance, are designed to be easily remembered and are tailored to the situations of the people that will use them (Sull & Eisenhardt, 2015). Simple rules find their foundation in cognitive and social psychology where a distinction is made between intuitive and deliberate decision making. With intuitive decision making, it seems as if judgments are made quickly and effortlessly, without being aware of the rationality behind the thought (Kruglanski & Gigerenzer, 2011). Deliberate decision making however arises from going through all options systematically and rationally, by taking a lengthy thought process. Kruglanski and Gigerenzer (2011) have found however that both judgment styles are rule-based and that the same set of rules underlie intuitive and deliberate decision-making styles. This leads to the idea that deliberate judgments are not more accurate than intuitive decision making based on heuristics. Moreover, in complex decisions, a trade-off is made between efficiency and flexibility. Leaving less structure will open up an organization for more opportunities, but makes it easier for mistakes to arise. More structure, on the other hand, will create effectiveness in decision-making but at the same time more rigidity. Performance fades with structure, but also with flexibility. Based on this, Davis and Eisenhardt (2009) find that simple rules are robust across multiple environments. Because these heuristics streamline the decision process and make sure all participants in the firm know what opportunities to pursue, the efficiency of a process is increased, poor opportunity capturing is eliminated and decision-making speed is increased (Bingham, Eisenhardt & Furr, 2007; Eisenhardt, 1989).

In this thesis, the theory of simple rules will be adopted to the target selection process of strategic M&A from the perspective of the buying firm, with the goal of increasing decision-making quality and acquisition success. This will be done by an extensive literature review of 83 papers on the target selection process that can be found throughout the literature, based on the question: *What criteria do firms use to select targets*? Then, the findings are being tested by practitioners in M&A in the field to grasp the possible discrepancies between theory and practice. Based on this and the theory of simple rules by Sull and Eisenhardt (2015), a basis for an acquisition programme is laid out at Company Beta, which is described hereunder.

1.1 Problem statement of firm

Key to preventing hazards such as oil spills, fires and holes in pipelines is integrity management. Company Beta's Integrity Division aims at operating assets in a safe way. In fact, they want to become a safeguard of integrity for other companies, which is an important driver to operate in the asset-intensive oil and gas industry. Company Beta can be characterized as having a hands-on integrity engineering and consulting focus. The integrity market within the oil and gas industry consists of different players, namely data management organizations (e.g., IBM), business analytics firms (e.g., Accenture), engineering and consultancy firms (e.g., DNV GL) and solution integrators (e.g., Emerson). The market is fragmented. For integrity activities in the industry, there is a considerable market available for asset management in general (Company Beta's Internal Market Research, 2019). Based on their current revenues, Company Beta's Integrity Division has a market share of less than 1%. This is one of the drivers to grow in this industry.

The strategy of the Integrity Division is based upon the ambition to grow fast, in order to become a significant player in the market and to gain more clients in the integrity industry. Therefore, an acquisition strategy is considered amongst other growth mechanisms, like organic growth and strategic partnerships. This makes Company Beta in the light of this research a strategic buyer. As a dot on the horizon, the ambition is to grow the revenue by approximately 10 times in 10 to 15 years. Without the acquisition strategy, the growth is predicted to be 2 times the current revenue in the same time frame. With organic growth only, the revenue goal is unlikely to be achieved. Currently, around 50 employees work for the Integrity Division at Company Beta. Company Beta's Integrity Division is mainly focused on improving market share; therefore, the organizations they will target for will be consultancy & engineering firms. Consultancy and engineering are a service whereby trust is essential. This also counts for trust between the target firm and the buying firm. At this point however, Company Beta does not have an M&A strategy in place, because they have always been able to grow organically. Therefore, this research attempts to increase decision making effectiveness for acquisitions by researching decision criteria for M&As and in the long-term, increase M&A success for Company Beta.

1.2 Research objective and research questions

Simple rules have been applied to diverse practices in the business administration literature. However, little evidence is found on the combination of using M&A target selection criteria as simple rules. Therefore, the objective of this research is to contribute to the fragmented target selection literature by creating an overview of the important target selection criteria based on empirical research and to contribute to the theory of simple rules by Eisenhardt and Sull (2001) and Sull and Eisenhardt (2012; 2015) in the frame of target selection and the application of simple rules in the M&A literature. The practical objective is to understand how a company can effectively use target selection criteria in assessing M&A candidates, in order to contribute to the quality of decision making. The research question linked to this is as follows: *How can decision making quality be improved in target selection by taking on a simple rules approach to assess M&A candidates?*

The main research question can be split up in different categories, namely general M&A decision criteria, the assessment of target selection at Company Beta, and M&A target selection criteria for firms. The questions within these categories are outlined in Table 1.

Table 1
Research questions

Category	Question(s)
Main research question	*How can decision making quality be improved in target selection by taking on a simple rules approach to assess M&A candidates?*
1. M&A decision criteria	1.1 What do we know so far about M&A target selection criteria, based on the literature?

	1.1.1 What do M&A scholars see as effective target selection criteria in M&A decision making? 1.1.2 Can this be translated into company-specific M&A target selection decision-making? 1.2 What are the rules on M&A target selection, based on the literature? 1.3 To what extent is there a discrepancy between the M&A target selection rules as found in the literature and the rules in practice?
2. Assessment of target selection at Company Beta	2.1 What does Company Beta expect from acquisitions? 2.1.1 What must be realized with acquisitions? 2.1.2 What skills and resources would you like to add to your own resource package? 2.1.3 What do you expect of a target?
3. Target selection criteria in firms	3.1 What value can Company Beta harvest from structured M&A decision-making, or a simple rules process? 3.2 How can we translate the criteria of M&A target selection for firms into simple rules? 3.3 What simple rules are important to M&A target selection for Company Beta and how can they be applied?

1.3 Relevance

It is important to understand why the application of simple rules in M&A processes might be effective while M&As are known for their ineffectiveness and high failure rates. Simple rules are powerful because they provide guidelines and structure within which managers can pursue opportunities. According to Eisenhardt and Sull (2001), this approach provides just enough structure to seize opportunities, linking it to the 'edge of chaos' within complexity theory. Complexity theory describes that systems are unpredictable, due to a great number of interactions and feedback loops that change the system continuously (Burnes, 2005). The environment Company Beta operates in is constantly changing due to uncertainty due to oil prices and geopolitics, interactions, and relationships between others. This research adds to the simple rules literature by shaping rules for one distinct part of strategy only, namely M&A target selection. Also, a literature review will be done where it is assessed what is important in target selection and what criteria can be distinguished from empirical research in the pre-deal phase of M&A.

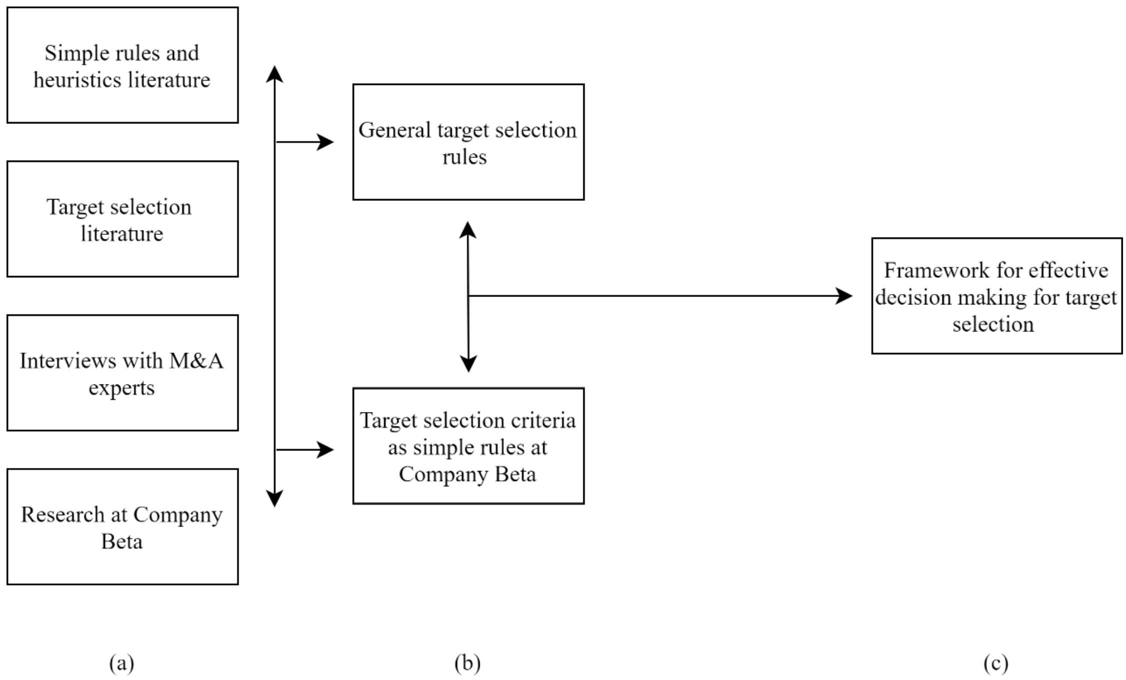
Acquisitions are a means to keep an organization fresh and vital because it counters organizational inertia and prevents a success trap, whereby organizations focus on their future successes based on current offering, by neglecting innovation and sensing of the environment (Vermeulen, 2005). The process of buying and integrating new businesses enables companies to renew themselves. Moreover, if a firm can put more effort in the target selection and assessment stage of M&A, it might also result in higher post-acquisition performance (Hassan, Chidlow & Romero-Martinez, 2016). Being able to better shape the pre-deal process as a firm can thus bring advantages in the post-deal phase, because a better fit between the buying firm and the target firm can be achieved by adding simple rules.

1.4 Outline of the thesis

The structure of this thesis is as follows. In the methodology section, the research design and data collection methods are discussed, as well as the sample for this research. In the literature section, a review is given on the theory of simple rules as well as on the pre-deal literature on M&A. The pre-deal literature is fragmented, therefore there is a need to combine multiple research streams simultaneously. Among this, the target selection literature, due diligence literature and venture capitalists' decision-making literature is considered. The rules following from the literature review are then tested during the interviews with M&A experts. Then in the results chapter, the findings of the research are described based on the interviews conducted with M&A experts. Accordingly, the expectations of a target and the list of simple rules for Company Beta are presented, together with a framework for target selection in M&A. Finally, in the discussion, the results will be placed in a broader perspective and a conclusion will be given on this research. The research model of the paper is based on the findings of Verschuren and Doorewaard (2003), is also shown graphically in Figure 1. In this model, the steps are provided leading to the goal of this research, namely, to create a framework for effective decision making during the target selection phase of M&A. To get here, we start with (a) literature on simple rules and heuristics, and literature on target selection. This is combined with interviews with M&A experts and research at Company Beta that will eventually lead to (b) general target selection rules and a specified set of target selection criteria defined as simple rules for Company Beta. Together, this will contribute to reach (c) the goal of increasing decision-making quality with simple rules in M&A.

Figure 1

Research set up of this thesis.



Chapter 2. Methods

In this section, the methodology of this research is described. At first, the research design is justified. Then, the sample for this research is discussed as well as their characteristics and role in the organization. Additionally, the data collection and data analysis will be described. Finally, the quality criteria used in this research are discussed.

2.1 Research design

The objective of this research is to contribute to the theory of simple rules by Sull and Eisenhardt (2001) and Eisenhardt and Sull (2015) by researching how a company can effectively use decision making criteria in assessing M&A candidates in the form of simple rules. To explore how this set of simple rules can be created, a literature study and a qualitative study was conducted into applying simple rules in an M&A context. A literature review and two methods for qualitative studies were applied in this research: semi-structured interviews and a focus group. The literature review is conducted in order to analyze the widely available research on M&A target selection and to come up with general rules that can be applied to this specific process. This might already lead to a wealth of rules where firms can choose from, as a place to start their target selection process. Moreover, these rules have already proven their value in previous research. A qualitative study is suitable in situations where phenomena can be complex and are often based on experiences of others. Decision making about M&A or venture investments can take place very implicitly (Petty & Gruber, 2011). The inquiry approach that suits this, is grounded theory, whereby theory is being built from data and developed during the collection process (Newman, 2012). Through making comparisons between the literature and practice, a theory on M&A target selection could be built. The ethical approval that is necessary before starting empirical research can be found in Appendix A.

According to Bryman (2012), qualitative research is based upon the notions of understanding, phenomenology and symbolic interactionism. The topic being studied must be described from the social world the subject may find her/himself in. Taking this into account, it was important to give a description of the sample being studied as well as the situation the respondent might have found her/himself in. In this study, we were researching a process that is being carried out by multiple persons simultaneously, namely a target selection process. For each respondent, the heuristics may be different. Therefore, flexibility was preferred during the empirical research process. Applying semi-structured interviews in this research helped to create a detailed understanding of what is deemed important in M&A candidates. In the literature study, a general set of simple rules has been created. This set of rules was tested during semi-structured interviews with M&A experts to create a thorough understanding of how these rules can be, or are applied in practice. Semi-structured interviews permit a better understanding of the phenomenon and helped us to prioritize and reshape the set of rules created in chapter 3. The interviews took place face-to-face online, through Skype, Zoom or Microsoft Teams. An advantage of this is to also be able to observe the respondents during the interview, to be better able to ask suitable questions.

After having conducted the interviews, the new set of rules was then tested amongst Company Beta personnel during a focus group. A focus group is an effective method for collecting data, whereby respondents also have the chance to ask questions to other respondents and can give their personal opinions. The goal of this focus group was to reshape the rules, so that they became relevant for use in the Company Beta context. The rules needed to be simple enough to be remembered and applied. The theory of simple rules by Sull and Eisenhardt (2001) and Eisenhardt and Sull (2015) served as a foundation for the new set of rules created during the focus group, to add to the ambition of Company Beta.

2.2 Sample selection

In this section, the sample is described of the qualitative methods. A total of 11 interviews were carried out with 9 M&A specialists, 1 academic specialist in target selection and 1 M&A specialist working in the same industry, for the purpose of testing the general list of rules with regards to their practical knowledge. These people were selected via a convenience sampling method through LinkedIn and targeted email. Sufficient experience was important, preferably more than 5 years. Based on the literature, more experience is often better. If an interviewee is working for an M&A advisory firm, then this threshold was less strong, because the frequency of deals with firms in different industries is high. On average, the interviewees have around 15 years of experience in M&A. For field experts, this experience should be in conducting M&A or consulting on M&A. The experts needed to be working at different organizations in different industries. The interviewees are working at 11 different organizations in the Netherlands, ranging from M&A advisory to private equity investors. Sometimes it was possible to find interviewees working in other countries, but due to the sample size, there is chosen to only focus on Dutch organizations. Another prerequisite was that at least two respondents should be working in the same industry as Company Beta, namely the broader oil and gas industry. Only one interviewee was working in the same industry at the time of the interviews. However, taking into consideration the various backgrounds of the interviewees, this will already bring multiple perspectives to the same set of rules as created in chapter 2. Table 2 describes the participants for the semi-structured interviews.

Table 2
Research sample for the semi-structured interviews.

Interviewee	Gender	Function	Experience	Type of firm
1.	Male	Associate Professor	> 5	University
2.	Male	Partner	15+	Private equity investor
3.	Female	Associate	3,5	M&A advisory
4.	Male	Manager	5+	Firm active in M&A in same industry
5.	Female	Manager	5	M&A advisory
6.	Male	Partner	15	M&A advisory
7.	Male	Associate	9,5	Private equity investor

8.	Male	Partner	13,5	M&A advisory
9.	Male	Partner	15	M&A advisory
10.	Male	CFO	30	Private equity investor
11.	Male	Owner	20	M&A advisory

After conducting the interviews, a small focus group was carried out for setting up simple rules at Company Beta. Considering that the simple rules should be remembered and specific to the process of target selection, these rules serve as a threshold for structure while at the same time avoiding restrictions that arise from using too many rules. In their book, Sull and Eisenhardt (2015) advice to form a team ranging in size between 4-8 members whereby at least some of the members will be applying the rules regularly. The rules must be written in a language that is understandable so that especially users are able to use them. The members of this team are selected based on whether they will be going to be involved in a possible M&A within Company Beta and their experience in M&A. A team of 4 members was formed, of which one person was not able to attend, so the session was carried out with a total of three persons and the researcher. The team, which is outlined in Table 3, consisted of three male employees of Company Beta, who all have had experience with M&A, some more than others, in either Company Beta or in other firms. It was important to look at the different management layers in the organization, and the different backgrounds of the participants, so that different perspectives can be taken together when creating the simple rules.

Table 3
Research sample for the focus group.

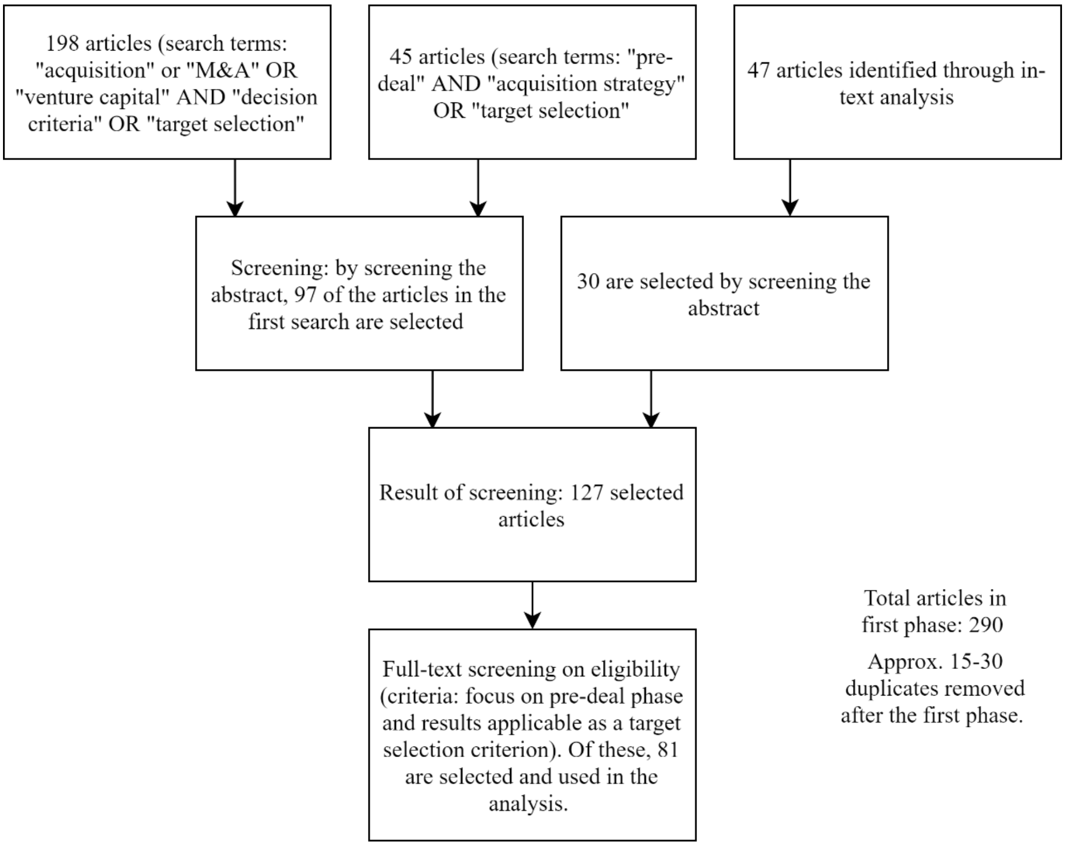
Interviewee	Gender	Function	Experience in M&A
1.	Male	Regional Director	Yes (in buying and selling firm)
2.	Male	Head of Finance	Yes (in advisory and selling firm)
3.	Male	Head of Integrity Division	Yes (in selling firm)

2.3 Data collection

The literature review process is done on a step-by-step basis. At first, the search terms are identified, of which two distinct searches have been carried out. In the Scopus database, several journals have been selected, for example Strategic Management Journal, Management Science, Journal of Business Venturing and Management Decision. One of the criteria adopted is that the impact factor of the journals should be higher than 3. Of this analysis, 243 articles have been found to be potentially relevant. Later in the process, 47 articles have been added to this through an in-text analysis of references and by looking at the impact factor of the journal. Duplicates have been removed, approximately between 15 and 30 articles. Of the articles left, a screening is carried out on the abstract and on the journal. Based on this, 97 articles have been selected after the first search, and 30 articles are selected based on the second. Then, a full-text screening is carried out, resulting in 83 articles that are of interest for this research. The literature review process is also shown in Figure 2.

Figure 2

Literature review process



To prepare for the interviews, an interview guide was prepared with a set of topics and guiding questions that could be asked during the interview, which can be found in Appendix C. Prior to the interviews, a pre-test was conducted to check whether all questions were well-phrased and could be well-understood. Semi-structured interviews guide an interview and facilitate for asking more questions and going deeper into the topic. Example questions are listed in Table 4. The observations made during the interview and the observations made during the focus group were collected, stored, and reported to effectively organize the data and create an audit trail.

Table 4
Interview guide example questions.

Theme	Goal of question	Question
Simple rules	Assessing how-to rules	How do you carry out the target selection process?
	Assessing priority rules	Do you use any criteria to prioritize one target over another? When is one target better than the other?
Management & team	Assess what is seen as important from a practical perspective when screening the management and team of a target.	What criteria do you use for screening the target on the management and team?
Synergy	Assess what is seen as important when screening for synergy and how criteria for synergy are manifested.	What criteria do you use for screening the target on synergy potential?

The interviews were expected to take a maximum of 1 hour. Often, the interviews took around 45 minutes and were recorded on telephone or through the online meeting software. All interviews took place via digital meeting software and were conducted from the researcher's home office. For all interviews, permission was granted to record the conversation. After the interviews, the audio files were exported from telephone to a laptop, both secured with passwords. The audio files are stored in a folder secured with another password. After presenting the results of this research, the audio files will be deleted. After the interview, the audio file was transcribed within one week after the interview and sent back for a participant check on correctness and to be sure that no things are included in the transcript that could be company-private information. In two cases, some lines have been deleted or changed, without changing the scope of the point discussed during the interview. Participants were ensured that all data is handled anonymously, and that no data can be traced back to the interviewee or the organization they work for. In Table 5, a quantitative overview is given of the research sample and interview characteristics. Important to note is that there is quite a difference in the shortest and the longest interview. In the shortest interviews, the interviewees were faster in answering questions, or spoke at a higher speed. In the longer interviews, more details are given, e.g., more examples from practice, or more questions have been asked to go a bit more into detail.

Table 5
Quantitative data about the interviews and participants (n = 11).

Duration of interviews	Shortest	25:28:00
	Longest	54:09:00
	Average	42:24:38
Gender of research participants	Female	2 (18%)
	Male	9 (82%)
Experience in years	<5 years	3
	5-10 years	1
	10-15 years	3
	15-20 years	2
	>20 years	2
Type of firm	M&A advisory	6
	Private equity investor	3
	University	1
	Firm active in M&A in same industry as Company Beta	1

Accordingly, for the focus group another data collection procedure was carried out. Prior to the focus group, two interviews have been executed with employees of the firm, namely the Head of Integrity Division and the Regional Director, in order to get a better idea of the reasoning behind acquisitions and what employees of Company Beta actually expect of a target. Of these two interviews, only notes have been made, which are sent back to the employees for a thorough check. In the results section, these interviewees are labelled interviewee 12 and interviewee 13. Based on this, the case of Company Beta could be described and used as input for the focus group session. The focus group method can be seen as a group interview. With several participants and a strictly defined topic, interaction in the group was expected and meaning was given to a certain topic (Bryman, 2012). The central question concerning the focus group was: *How can we shape the general set of rules for target selection into simple rules so that it fits with the needs and goals of Company Beta's Integrity Division?*

During the session, which lasted for two hours, it was important to collect the right data. Bryman (2012) advises not to structure the session into detail. Rather, a small set of general questions can serve as a guideline during the focus group session. Therefore, a Powerpoint presentation was prepared with the objective to structure the session and to give every participant the right information. Since the group was quite small, it is chosen not to record the session, but to take extensive notes during the session. These notes were sent back to the participants to do a check. Participants were able to discuss freely and anecdotes were often used by the participants to look at a question from a different perspective. During the session, the participants were asked to go through each target selection category and to consider what is expected of a target. Some categories already appeared more important than others. The role of the researcher was to structure the meeting, to take conclusions after a discussion and to guide the formulation of simple rules. The end product of the focus group session was the set of simple rules for target selection in M&A for Company Beta, which are described in chapter 5.

2.4 Data analysis

The procedure adopted in this research fits the grounded theory approach. Although there is controversy about the exact meaning of grounded theory due to the many changes in the theory and the number of scientists promoting it, the grounded theory approach is more or less similar to the inductive research approach. One of the tools of grounded theory, coding, is used as a data analysis tool in this research. Here, a combination was made of different coding procedures and it was carried out in the qualitative data analysis programme Atlas.ti. For all interviews, permission has been granted, so every interview was transcribed and coded into detail. Coding consists of reviewing interview transcripts and splitting the text up in parts that fit the topic being studied (Bryman, 2012).

In this research, the coding procedure as described by Strauss and Corbin (1990) is adopted. By coding, observations are assessed on how they function within the context of the research (Basit, 2003). A code, or label can be given to a piece of text, whereby the code is supposed to be giving a general idea of what is described in a selected piece of text. This procedure consists of multiple steps. In the first step, the pieces of data are connected to a set of codes. The second step is thematic coding, whereby the pieces of text and their corresponding codes are compiled into different themes (Strauss and Corbin, 1990). This process was done in Atlas.Ti, where the open codes were grouped together following the categories retrieved from the literature study. The third step is called selective coding, whereby the goal is to identify patterns and test theories. In this research, this was done by making comparisons and contrasting the data from M&A field specialists and the literature. In Atlas.Ti, several networks are built for a deeper analysis of how codes might fit together or contrast each other. Generally speaking, in the third step in the coding process, a core category that systematically relates to all other categories can be selected. However, in this research this was not possible since the interviews have an open character, and a core category was not retrievable. The outcome of the coding process is the ability to contrast, add to, and delete rules from the list of rules generated from literature as formed in chapter 3 and will be described in the results section in chapter 4.

To ensure that the codes that were connected to the text by the researcher are reliable, the intercoder reliability is calculated. Intercoder reliability can be described as the extent to which two (independent) coders reach the same conclusion after evaluating a piece of text (Tinsley & Weiss, 2000). This is important because the qualitative coding process is dependent upon judgments of the researcher. Also, if two independent coders can distinguish the same conclusion on a piece of data, then there is coherence, which might indicate quality of research. It can also control the accuracy of the coding procedure as two coders are involved. There are different ways to calculate the intercoder reliability, for example with Scott's Pi, or Cohen's kappa, whereby a percentage of consensus is calculated. There is however a possibility of overestimating reliability. Therefore, the intercoder reliability was calculated manually in this study.

The second, independent coder is a student colleague currently studying a master's in business administration. Due to this background, the independent coder was aware of the theme studied but not an expert. The independent coder was asked to code the middle three pages of two interviews, to check whether there is any discrepancy between the codes assigned. There were a few differences in coding style to differentiate. First is the length of texts selected. The independent coder selected shorter pieces of text than the researcher. Also, because the coding procedure was open, the independent coder was asked to code the pieces openly. This made that the independent coder did not know of any categories that have been questioned during the interviews. In the first interview, the researcher assigned 37 codes in the same piece of text where the independent coder assigned 56. In the second interview, the researcher assigned 39 codes where the independent coder assigned 52. From these, respectively 30 and 37 codes were more or less identical. For some pieces of text, the researcher assigned a more general code. When the code of the independent coder was in line with the general code, then an item was considered identical. For example, 'choice based on emotions', selected by the independent coder was considered identical to 'connection between two parties' selected by the researcher, because the same text was selected. Based on this analysis, the intercoder reliability was calculated according to the Holsti method (Holsti, 1969). By using this method, an intercoder reliability of 0.73 has been calculated, which seems sufficient. The range of the intercoder reliability is from 0 to 1, whereby 1 is perfect agreement.

The analysis of the notes of the focus group, and the two interviews conducted with the two employees of Company Beta were done in a similar manner as described above. In order to describe the outcomes of the interviews and focus group session into simple rules and to create a framework for applying simple rules in a target selection process, the outcomes were compared to the theory of Eisenhardt and Sull (2001) on simple rules. The results are presented and discussed in chapter 4 and 5.

2.5 Quality criteria and ethics

Limitations to the use of qualitative research are concerned with subjectivity, difficulty to replicate or generalize and a lack of transparency into the process. Qualitative research is often based on a smaller sample than quantitative research. Yet, qualitative research enables the researcher to go into depth on a certain topic. The difficulty to replicate comes from the lack of standard procedures during the process and the position of the researcher as the main instrument of data collection (Bryman, 2012). Qualitative data is less structured than quantitative data and is dependent upon the interpretation of the researcher. Bryman (2012) suggests that this can be overcome by describing the process into detail and showing the interpretation of the results clearly. This was also done in the results section, where the interpretation of the participants' reflections was discussed clearly, and also multiple perspectives have been considered before stating a conclusion. Due to the unstructured nature of the data, generalization becomes hard. In this research, the interviewees are considered to be experts on the topic, but they are not representative of the population. The goal of this research, however, was to find a specific set of simple rules that Company Beta can apply to their target selection process. The set of simple rules is based upon a literature study that is being tested on M&A field experts and M&A scholars. This might be an aspect that can be generalized.

Several criteria must be adopted to both enhance and assess the quality of the research. First, reliability concerns the repeatability of the study. In qualitative research, it is difficult to assess whether a study can be replicated as such, since no scales and indexes are used (Bryman, 2012). Therefore, the complete process of how the research is carried out is described into detail. Second, validity refers to whether you are measuring what you want to measure and whether there is a match between observations and theoretical ideas (Bryman, 2012). Also, here, the transparency into the process of research adds to the validity of this research. Moreover, the operationalization of variables within the categories of the literature study is described in chapter 3, following the operationalization in the relevant studies into that subject. Hence, the results following from the interviews are compared to the findings from the literature study in order to increase the validity of this research. Next to this, validity is related to the generalizability of the study. Qualitative research studies are not commonly known for their generalizability. As both quality criteria are hard to assess in qualitative research, alternative criteria are proposed by Guba (1981) and Lincoln and Guba (1985). Therefore, in this research, the quality criteria as described by Guba (1981) and Shenton (2004) were used to ensure trustworthiness.

Four criteria were assessed, namely credibility, transferability, dependability, and confirmability. Firstly, credibility, or the correct representation of reality can be assessed by adopting well recognized research methods (Guba, 1981). In this research, qualitative research with semi-structured interviews were used, in combination with a review of the literature and a focus group. These are all recognized research methods. Moreover, the transcripts of the interviews were checked by participants for a thorough check, and the notes that have been made during the focus group session and internal interviews at Company Beta were sent back for a check. The transferability, or the possible application of findings to other situations can be fulfilled by providing enough data about the case, situation, and context of the study (Shenton, 2004). This allows comparisons for the generalizability of the research and is as such described in the sample of this research and in the problem statement in Chapter 1. The dependability measures whether the outcome will be the same if the research is iterated with the same respondents and methods (Guba, 1981). This was fulfilled by providing in-depth descriptions of the methods, and the employment of multiple, overlapping methods. Finally, the confirmability, or the extent to which the investigator can be objective needs to be assessed (Shenton, 2004). It is important to provide the limitations of the study and create an audit trail, which demonstrates how the research is carried out, to show whether the findings are grounded in the data. Moreover, a clear rationale for decisions was given to fulfil this criterium.

Chapter 3. Literature

In this chapter, the simple rules theory as well as the antecedents and target selection findings leading to successful M&As in terms of performance are mapped through an extensive literature study on the pre-deal phase. First, the rationale on the use of simple rules in this thesis is examined. Second, the research streams on target selection are discussed, after which differences and similarities in findings on certain target selection criteria categories are considered. Based on the similarities in the literature, certain rules can be applied to the target selection process. A summary of the rules can be found at the end of this chapter. These rules will be used in the rest of this thesis as a basis for the target selection criteria for a company, like Company Beta.

3.1 Simple rules

Chaos in markets raises the necessity for rules to guide the organizational processes to jump on opportunities and to gain a competitive advantage. The law of requisite variety by Ashby (1956) states that complexity needs to be met by complexity. For example, in a complex situation where important decisions need to be made, more alternatives need to be explored. However, in many situations, only a few factors matter, while a lot of other factors can be ignored without any consequences. Next to that, participants in a firm are only boundedly rational, meaning that the majority of decisions and choices are made with incomplete information (Todd & Gigerenzer, 2000). As Eisenhardt (1989) has shown, decision-makers should move fast and keep pace with the innovations. For this, fast decision-making is required. Fast decision-makers are able to do that by using real-time information, by analyzing multiple alternatives, by integrating multiple decisions on different layers in the firm, and by asking for advice (Eisenhardt, 2008; Eisenhardt, 1989). Heuristics show how people make decisions under constraints of information flow and time. This way, optimizing the outcome of a decision by going after all the information will not increase the success of the outcome of the decision. Gigerenzer (2008) argues that heuristics therefore are a form of satisficing, where decisions require to ignore a grand amount of information. Satisficing can be described as making a decision whereby a set of alternatives are analyzed with in mind a certain threshold to adhere to. Due to bounded rationality, satisficing often leads to a higher accuracy than other cognitive strategies where more information and calculations are considered (Kruglanski & Gigerenzer, 2000). Moreover, heuristics are also fast. Heuristics or rules are therefore a robust approach to decision making. The authors argue that rules can be defined as an if-then sequence and that principle is accepted by multiple participants in a firm, or in a society. Thus, a rule consists of an instruction. Using rules often makes them to become a routine, where it can seem like a decision is made based on intuition. But for a rule to become routinized, the rule should be selected at first.

The theory of simple rules is based on heuristics. Simple rules are intended to offer only limited guidance, and can be applied to a specific situation, activity, or process. Not only in business, but throughout the whole community, rules address the most important issues. Developed from experience, by looking at others or from learning through books, rules serve as heuristics to different processes (Sull & Eisenhardt, 2015). In business, the strategy as a simple rules approach can help organizations provide guidelines within which decision makers can look for opportunities (Eisenhardt & Sull, 2001). For organizations, they offer just enough structure but leave enough room for flexibility to innovate. Simple rules function as heuristics in organizations, whereby organizational decision makers develop a set of rules that fit available information and attention, through providing solutions that can be adjusted to different situations, but are easily workable (Bingham & Eisenhardt, 2011). These heuristics can be very well embedded in organizations, as they are explicitly learned and communicated. In the simple rules approach, managers pick a number of vital processes within the organization, such as R&D, new market entry, or M&A, whereby a small number of rules are created to effectively shape these processes. It is important that there is a match between the rule and the process it is applied to, which is called ecological rationality (Kruglanski & Gigerenzer, 2011). Thus, a set of rules specifically created for M&A cannot be applied to the process of market entry.

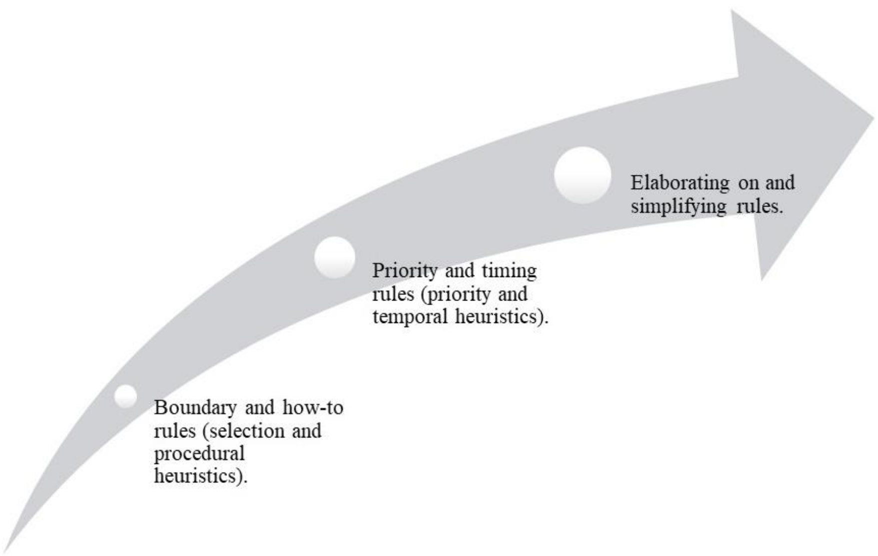
According to Sull and Eisenhardt (2015), simple rules work because people using the simple rules do not need to reconsider every detail, making the decision-making process run smoother and faster. Broadly, they have considered six types of rules, namely boundary rules, how-to-rules, coordination rules, priority rules, timing rules, and exit rules (see Table 6). Boundary rules help decide between alternatives, how-to-rules provide details on how to execute processes, coordination rules prescribe how to behave in relation to others, and priority rules help to rank different opportunities. Timing rules define the pace and rhythm for processes, and exit rules can be developed for providing details on when to stop pursuing opportunities (Eisenhardt & Sull, 2001). Bingham and Eisenhardt (2011) find that firms, whenever they undergo the same process several times, learn boundary and how-to-rules first. After learning these heuristics, firms learn timing and priority rules. With increasing experience, the firm can adapt the simple rules to better suit the situation, for example by scrapping rules or by simplifying them. This process is visualized in Figure 3. As expertise increases, the rules become strategic, abstract and the set of rules gets smaller and smaller (Charness, Reingold, Pomplun & Strampe, 2001). A firm's superior ability to create simple rules, and use simplification strategies to better shape the set of rules is considered a dynamic capability by Bingham and Eisenhardt (2011) and adds to creating a sustainable competitive advantage for the firm.

Table 6
Simple rules adapted from Sull and Eisenhardt (2016) and Eisenhardt and Sull (2001).

Simple rule category	**Definition**	**Example**
How-to rules	Indicate how a process is executed and address how a process can be done without going into too much detail.	Firefighting: "Start an escape fire in the path of the advancing fire if possible" (Sull & Eisenhardt, 2016, p.77)
Boundary rule	Provide a focus for selecting the right opportunities and for disregarding opportunities outside the scope. These rules help to make a decision between two alternatives and to screen	"Acquire companies with at least 75 employees of which 75% are engineers" (Eisenhardt & Sull, 2001).

	the best targets based on the available information.	
Priority rules	Help rank the accepted opportunities where opportunity costs and scarcity come into play. These can be ranked if they compete for money, time or attention.	"Hire recruits referred by a current employee" (Sull & Eisenhardt, 2016, p. 57)
Coordination rules	Serve as a guide in clarifying social behaviour in a complex system. These rules help to define the behaviour of the one against the behaviour of the other.	Napoleon: "March toward the sound of gunfire" (Sull & Eisenhardt, 2016, p. 87)
Timing rules	These rules form a guide on when to take a certain action, for example when a triggering event occurs.	"Product development time must be less than 18 months" (Eisenhardt & Sull, 2001)
Exit/stopping rules	Help to decide when to stop with a certain opportunity in order to prevent escalating commitment.	"Stop new initiatives that don't meet sales and profit goals within two years" (Eisenhardt & Sull, 2001)

Figure 3
Framework of how firms explicitly learn from process experience by Bingham and Eisenhardt (2011)



Simple rules are a robust strategy, especially in unpredictable environments (Davis, Eisenhardt & Bingham, 2009). Less structure paves the way for addressing more opportunities, while more structure enables more efficiency when executing opportunities. The authors found that performance gradually fades when there is too much structure, or when there are too many rules, but also decreases when there is too little structure. More information might hinder decision processes even though people prefer more information while they make complex choices (Zacharakis, Meyer & Baron, 2000). This trade-off between structure and flexibility makes that simple rules might be a good strategy to pursue and improves decision processes, especially when there are a lot of opportunities, there is a lot of information, and when a dynamic environment is present.

When applying the simple rules approach, it is important to pinpoint where to use the rules, preferably at bottlenecks. Bottlenecks exist when there are more opportunities than resources available to execute on, for example, in this case, the M&A process (Sull & Eisenhardt, 2012). After that, the rules can be defined, which works best if it is done by the end users of the rules. A team can be set up from 4-8 members to develop these rules (Sull & Eisenhardt, 2015). Another way to develop simple rules is by reviewing scientific literature, to determine the most uniform findings, and to place these findings into a simple rules format. Both approaches are combined in this research, starting by reviewing the scientific literature on M&A target selection.

3.2 Research streams in M&A target selection

Extensive empirical research is done into the M&A process, especially on motives for acquiring firms, cultural differences, and synergy in M&As. However, little can be found on specifically the target selection criteria that firms adopt as part of an M&A strategy. Hassan et al. (2016) discuss the outcome of M&As in their paper about the business evaluation process. The authors found that the assessment of firms for final selection is weak in their whole sample. Also, Haspeslagh and Jemison (1991) recognize that there is a need for managers to develop a decision-making process whereby opportunities are assessed that can result in a just argument to execute an M&A deal. Opportunism and momentum are reasons for the lack of a target selection strategy. There is a certain need for speed in M&A deals and if enough executives agree with the offer, then oftentimes, the deal can be executed without looking at any obstacles along the way. However, in the literature, different research streams can be combined to find the antecedents leading to M&A performance, for example in the M&A literature on the pre-deal phase, the due diligence literature and streams on culture and synergy.

Several perspectives can be distinguished from the vast number of studies on M&A, such as the financial economic perspective, the strategic management perspective, the organizational behaviour perspective and the process perspective (Bauer & Matzler, 2013). The financial economic perspective mainly considers wealth effects for shareholders, whereas the other schools focus on the pre- and post-merger phase and consider strategic and cultural fit and integration issues. These schools are of most interest to this thesis, and are considered in the literature analysis. Specifically, the process school addresses the need for considering issues in the pre-acquisition phase that might lead to post-acquisition success (Haspeslagh & Jemison, 1991). The authors argue that e.g., cultural differences need to be managed strategically to lead to M&A performance. Moreover, the contingency literature plays a role in this. Success is often dependent on multiple factors that need to be addressed suiting the situation of both the acquiring and target firm. One general set of rules will therefore not guarantee better M&A performance, but these rules need to be adapted to fit the local situation.

A distinction can be made between the pre-merger and post-merger phase in the M&A literature. In the pre-merger phase, the assessment of cultural and strategic fit is often related to M&A performance, especially in terms of synergy, complementarity, similarity and relatedness. Some examples of studies on cultural and strategic fit are Kim and Finkelstein (2009), Fiorentino and Garzella (2015), and Wang, Hain, Larimo and Dao (2020). The due diligence literature also uncovers many processes that need to be exercised before doing the deal. Due diligence is the process of carefully examining the key aspects of a target firm (Ahammad & Glaister, 2013). In this process, certain factors are considered, such as financial, legal, human resources, cultural, business, and operational factors. During this process, the acquirer is learning about the target firm as much as possible, to plan the implementation of the M&A as well as the integration process. Ahammad and Glaister (2013) have found that the more extensive evaluation of strategic and cultural fit and employee and business capabilities, the better the cross-border acquisition performance. In the due diligence literature, there is a call for more behavioural and human due diligence, whereby the role of culture and employees in the process are better understood, in order to uncover potential conflict areas, disparities in capabilities and differences in decision making (Harding & Rouse, 2007; Marks & Mirvis, 2011; Shimizu et al., 2004). McCarthy and Fader (2018) argue that the nature of the customer base is also essential to consider in the valuation or due diligence process.

The post-merger phase is less relevant in this study, but some aspects are still considered, as already in the pre-merger phase some negative implications from combining two distinct firms can be prevented. Especially integration is considered in this stream of research. When combining two firms, the tasks, culture, and employees are combined. Integrating them too much or too little can have the effect of not realizing the synergies calculated up front. Therefore, some aspects of this stream have been regarded, such as the amount of integration, communication, planning, and speed.

The final research stream that is considered in this literature review is the literature on venture capitalists (VCs). VCs spend a lot of time screening business proposals before making an investment in a venture and often use criteria to effectively assess these proposals. Their experience can help in the selection of potential targets in M&A. This stream adds to the literature by giving concrete examples on what leads to better venture performance. These criteria can be compared with the findings in the M&A literature, leading to a more thorough understanding of the rules.

Based on the streams discussed above, 83 empirical papers have been studied, from which seven categories can be drawn, wherein rules can be composed that lead to better M&A performance. These are management and human capital, financial capital, product/industry, synergy, culture, integration and size and experience, which will be discussed in the following sections. A complete list of the empirical papers studied can be found in the appendix (Appendix B).

3.3. Target selection rules

Based on the findings in the literature, it is possible to already pre-filter on some of the best practices in M&A target selection. These best practices are defined as rules in this chapter. Kruglanski and Gigerenzer (2000) describe a rule as an instruction consisting of an if-then sequence that is accepted by multiple participants. A total number of 19 rules are found resulting from combining the multiple streams of literature selected in this research. The rules can serve as a general guide from which a firm can borrow and can form a basis for a firm's own set of heuristics on target selection. It is important to note that the rules are relevant in different stages of the selection process. Some things can only be found out if the buying firm and the target firm are in contact with each other. As the strategy behind M&A might differ per firm, some rules might be more relevant to a firm than others. Therefore, they cannot be called simple rules, but rather just rules. Simple rules must fit the ecological rationality principle; the rule should match the process and the environment of a firm, which differs per firm. The rules are, per category, described in the next sections.

3.3.1 Management and human capital

The category of management and human capital can be found in the VC literature as well as in the M&A literature. In the VC literature, several criteria come into play on the entrepreneur or team. Especially the personality and experience are oftentimes described as relevant to VCs. According to Muzyka, Birley and Leleux (1996), the track record, quality of the entrepreneur and other management team criteria are amongst the most important for VC criteria (see also Siegel et al., 1988; Zacharakis & Shepherd, 2005). However, there is contrasting evidence on this. Petty and Gruber (2011) have considered the rejection reasons for business proposals and argue that these criteria are not always as important. Still, the frequency of mentions of these criteria makes that it needs to be considered in the screening process. Hereby, Zacharakis and Shepherd (2005) find that a greater general experience in leadership is preferred by venture capitalists, but that they value it higher in large markets with many weak competitors. If there is no general leadership experience, then start-up experience is sufficient. Hereby, leadership experience is operationalized as the average number of years of experience a management team possesses in leadership positions (Zacharakis & Shepherd, 2005). The start-up experience is operationalized by looking at the numbers of experiences in a start-up, so by assessing a target management teams' start-up track record.

Also, in the M&A literature the capacities of the management team and of employees often recurs. Managerial talent is seen as an important instrument for creating value in M&As (Anslinger & Copeland, 1996). This can be evaluated by screening the current management team, screening potential managers not yet in those positions and by hiring outside industry experts. Essential capabilities are for example managerial talent, business competence, technological capabilities, knowledge on markets, and effective HR policies to put them in the right place (Ahammad & Glaister, 2013). Ahammad and Glaister (2011) have found that retention of employees is important for the reason of transferring knowledge. When there is a higher amount of knowledge transfer, the acquisition performance is higher. Employees can be seen as a vital part of a target firm's resource base and therefore need to be highly considered as an acquirer in retaining them (Ahammad, Tarba, Liu & Glaister, 2016).

Overall, organizational changes affect the status quo in business. If there are differences in behaviours of the buyer's and target's top management teams, this can lead to uncertainty among managers in the target firm, leading to potential conflicts, anxiety, and frustration. For management teams, this means that organizational changes often negatively affect networks, knowledge, and dynamic capabilities, while their capabilities are essential for post-acquisition performance (Kiessling, Harvey & Heames, 2008). This adds to the call for a thorough understanding of the organization and its employees. It is vital for M&A success to assess the capabilities of the management team as well as the differences in management styles, which can be done in the (human) due diligence process (see also Harding & Rouse, 2007). The more extensive the evaluation of capabilities of personnel and the company, the higher will be the acquisition performance (Ahammad & Glaister, 2013). These findings together lead us to compose the following rules:

R1a: The management team of a target should have sufficient industry or leadership experience.
R1b: Start-up experience can substitute for general leadership experience of the management of a target.
R1c: In competitive environments, leadership experience in a target firm is important.
R2: The management team and key personnel of a target should be willing to stay in the firm as their retention is essential for post-acquisition performance.
R3: Employees of the target firm should have enough capabilities (e.g., managerial talent, business competence, technological capabilities, market knowledge, effective HRM policies) that can effectively contribute to synergy realization.

3.3.2 Financial capital

In the VC literature, revenue growth is often named as one of the most important investment criteria. According to Block, Fisch, Vismara and Andres (2019), VCs pay a lot of attention to revenue growth, a company's business model and their current investors. Also, MacMillan, Siegel and Subba Narasimha (1985) have found that among the criteria seen as essential for VCs, a pay-out in less than 10 years and a good return on investment (ROI) are frequently rated. Within the financial criteria, the financial structure of the firm (e.g., their revenue streams and the valuation of the firm) is an important aspect. In the M&A literature, it is mentioned that a good due diligence will provide a forecast of future growth of the target firm. Negative findings during due diligence can for instance be a high future investment that needs to be made to survive in the current market, overvalued fixed assets, or weak cash flows (Ahammad & Glaister, 2013). However, Ahammad and Glaister (2013) have found no effect of thorough evaluation of investment and financing factors on acquisition performance, but nonetheless, it might uncover any potential future conflicts. On another note, firms are more likely to choose targets that perform better in terms of sales and debt level only if they enter new markets, which is especially the case if a firm has strong acquisition capabilities (Kaul & Wu, 2015). However, in already existing markets, firms tend to prefer targets that are inferior in terms of productivity. This is therefore dependent on a firm's capabilities and strategy.

Mason and Stark (2004) mention therefore, that a possible exit route is important in the financial considerations of a firm in the VC literature. For example, after a certain number of years of investing, a venture capitalist is looking to capitalize on their investment. In the M&A literature, an exit out of the target selection process is supported as well. Acquirers often do not walk away from deals because they have already spent a lot of time in making the deal, the so-called escalation of commitment (Very & Schweiger, 2001). However, it might be interesting for a buying firm to include some sort of exit. Some reasons for exiting a deal might be that there is no fit with management, no synergies are expected, or the target is not profitable enough. There are certain exit strategies available. One way is by using a termination fee clause for both parties, which, according to Lee, Joo, Baik, Han and In (2020), decreases the likelihood of deal failure because withdrawing becomes expensive. This might give more motivation to both parties to succeed in the deal. Another way is by using specific deal-killers, which can force target management to uncover more information if the deal should succeed. When setting up simple rules, these deal-killers can be composed in the form of a stopping rule. Taken together, these findings lead us to compose the following rules:

R4: A target should have sufficient year-on-year revenue growth.
R5: A target should give a sufficient pay-out in a set up time frame for the buying firm, or a good ROI.
R6: The existence of an exit rule during the target selection process is crucial and there should be one present.

3.3.3 Product and industry

The product and industry category are another category in which the M&A and VC literature complement each other. What is often named in the articles is a protected product, e.g., in the form of a patent, which is identified as one of the most important product characteristics (MacMillan et al., 1985). The added value of a product must be clear, and if there are no advantages in a product to a certain market need, then VCs often reject a business proposal, even though there are other positive factors to find (Petty & Gruber, 2011; Block et al., 2019). If there is added value to the product, then there is a chance that the product has an ability to sustain a company's market position. Interestingly, product and market criteria seem to strengthen each other. Bapna (2019) has found that product certification, or protection, and prominent customers are complements, even as product certification and interest of other investors. While market acceptance is difficult to evaluate, the patentability and innovativeness of a product or service is not (Kollmann & Kuckerts, 2010). Therefore, this is interesting to consider as an acquiring firm. Another point that can add to this, is the number of alliances and the importance of these alliances a firm has. According to Baum and Silverman (2004), the alliances of a start-up and patents both have a positive effect on attracting investments of VCs. While this is research done into start-ups, the alliances and partnerships are also often used to assess the success of a firm's business model (e.g., Gurley, 2011) and can thus possibly also be interesting to consider as an acquiring firm. For product and service, this leads to the following rules:

R7a: The product or service of a target should provide for and sustain a competitive market position, or should be protected.
R7b: If a start-up is acquired, then it is important that patents and good alliances are in place in a target.
R8: The value-added of the product/service of a target should be high: the improvements in cost-reduction or service quality should represent significant improvements to the acquiring firm's products/services.

Consistently shown in the VC literature is the importance of market criteria, such as the growth of the market, the market need, the number of competitors and potential barriers to entry (Mason & Stark, 2004). Firms tend to prefer targets in industries they are familiar with, which is also shown in their success in performance in terms of merger success and in terms of announcement returns (Caproni & Shen, 2007). Shelton (1988) has found that acquisitions that offer the buying firm access to new, but related markets can create a lot of value. The barriers to entry, competitors and market need might be important because they are difficult to assess and might create potential risks affecting a firm’s profitability. Therefore, the degree of competitive threat and market acceptance in terms of demand of the product are identified in the VC literature as predictors of a firm’s performance (MacMillan, Zemann and Subba Narasimha, 1987). Moreover, Papadakis (2005) found that environmental hostility and the success of M&A are negatively related, meaning that the more hostile an environment, the bigger the chance of failure of an M&A. Environmental hostility is assessed by the Papadakis (2005) in terms of environmental riskiness, stressfulness, and dominance of the environment over the company. Chatterjee (2009) has found in their research on acquisition programmes that successful programmes have in common that they are strong at exploiting inefficiencies in the market. In line with this is the degree of technological change in a certain market or industry. If there is a high degree of technological change, this leads to products becoming quickly obsolete and a high need for innovation. A firm should be able to catch up with these developments. It is important to assess these developments in a market to justify a deal.

Within a certain industry, M&A occurs in waves. A merger wave can best be described as a period wherein merger activity is higher amongst industry incumbents. McNamara, Haleblian and Johnson Dykes (2008) found that the performance of acquisitions is higher for firms that move early in a merger wave. Acquisitions done later in a merger wave have detrimental effects on acquisition performance. Early acquirers have superior information, can identify the best targets, and can choose for targets that can create the best synergies (Haleblian, McNamara, Kolev & Dykes, 2012). Also, here, the industry volatility plays a role, because early acquirers in a merger wave seem to get the most benefits in a stable and munificent environment. Implications of these findings are that not acquiring is sometimes better than acquiring too late. Haleblian et al. (2012) indicate that an awareness, motivation, and capability perspective can add to a better performance in merger waves. Buyers should be aware of the environment, have great motivation to act and the right capabilities in-house to act. Assessing developments in a market can also help justifying a deal. Based on this, the following rules for the market and industry can be distinguished:

R9a: Prevent buying targets from very hostile environments (high risk, high dominance), but do look for inefficiencies in a market.
R9b: If there is a merger wave going on, do not bother buying; it is most probable that the acquisition will not pay out. Watching the market trends can help in acquiring early.
R10: The target firm should have a good number of prominent customers, which could indicate market acceptance.

3.3.4 Synergy

An important stream of research to be found in the M&A literature is about synergy, or the extra effect in performance of combining two organizations over the effect that two distinct organizations can achieve (Sirower, 1997, p.20). Synergy is relevant to the target selection process, since the acquirer needs to understand what potential synergies can be achieved. Certain strategies and markets might fit better with the acquirer. Two types of synergies can be distinguished, namely explicit and implicit synergies (Wang, Hain, Larimo & Dao, 2020). The explicit type of synergy is typically related to combining similar resources, knowledge based on combining overlapping activities and integration of tasks after M&A, also characterized as 'low-hanging fruit' (Wang et al. 2020). The other type, implicit synergies, are more difficult to achieve and bring more uncertainty in realizing them. This type of synergy originates from combining complementary resources, mostly embedded in the organization or in the minds of the people working there for example via knowledge transfer. A result of combining these resources is a higher revenue outcome. Important here is that tacit resources can be leveraged. An acquiring firm should assess the leverage potential of this knowledge. A similar typology in the synergy literature that can be made is that of economies of sameness and complementarities (Weber, Tarba & Bachar, 2011). These economies of sameness result from the two firms having similar marketing focus and product operations, while the complementarity of resources can lead to a possible transfer of capabilities and knowledge.

In empirical research on M&A performance, the relatedness of the target and acquirer have regularly been studied. It has been found that relatedness between the buying firm and the target firm leads to better acquisition performance (Rottig, 2017; Datta, 1991; Lubatkin, 1983). Next to that, related or focused acquisitions often outperform unrelated acquisitions, because of the integration possibilities. Unrelated firms are more difficult to merge because of the wide variety of tasks, resources, and knowledge. The relatedness of the acquisition can be by industry, product or market overlap, strategic overlap, cultural similarities, or technological similarities (Renneboog & Vansteenkiste, 2019). Relatedness does however not explicitly mean similarity, but means that there is an affiliation or connection. Kim and Finkelstein (2009) have studied the effects of different types of complementarity on acquisition performance in the context of related (complementary) acquisitions. These types of complementarity are strategic and market complementarity. They found that both types have a positive effect on M&A performance. Strategic complementarity is especially interesting to pursue for firms who have a diffuse business portfolio, because they are able to manage more diverse resources and have developed skills that can help in M&A (Kim & Finkelstein, 2009). Moreover, evaluating the strategic fit of both organizations can lead to better acquisition performance (Ahammad & Glaister, 2013). Again, these findings suggest that due diligence is essential in the pre-deal process. Market complementarity has a strong positive effect on acquisition experience, but only when the firm already has experience in acquisitions in other markets (Kim & Finkelstein, 2009). This insight shows that the success of M&A is dependent upon the situation, whereby the contingency perspective comes into play. For the acquirer, this means that self-evaluation is essential to compose their own target selection heuristics.

While the potential of pursuing synergy is clear, the acquirer should be careful in assessing it. Fiorentino and Garzella (2015) have identified three synergy pitfalls that can lead to M&A failure. The first pitfall is *mirage* which indicates that the acquirer might overestimate the synergy potential. The second is *gravity hill*, meaning that the process of realizing the synergies is underestimated after which difficulties and conflicts might arise. The third, *amnesia* means that no attention is brought forward to realize the synergy. In this case, especially the first one is interesting, because too good of an image can be created of a potential deal, leading to overconfidence, and pursuing the deal without sufficient information. To counter this, a synergy measurement model can be adopted, as created by Garzella and Fiorentino (2014), whereby the type and form, the size, the timing, and the likelihood of achievement of synergy can be assessed. These findings together lead to the following rules:

R11: The target firm and buying firm should preferably overlap in either industry, product, market, strategy, or technology or some combination of them.
R12a: The target firm must have complementary resources that generate both explicit and implicit synergies.
R12b: The target firm should be able to leverage complementary capabilities, or enhance the acquiring firm's competencies.
R13: Market complementarity should only be pursued if the buying firm has experience with integrating and managing a target firm located outside of their traditional market.
R14: There must be enough strategic fit (product strategy or complementing the overall strategy) between the target and buying firm, especially if the acquirer has a diffuse business portfolio.

3.3.5 Culture

In the literature on M&A performance, culture is perceived as a 'double-edged sword' (Reus & Lamont, 2009), because its effects can lead to multiple outcomes. In this section, both the organizational culture and the national culture will be examined.

The organizational culture of a firm is consistently seen as an objective reality (Schein, 1991). The differences in values, philosophies, and behaviours of employees and top management between a buying firm and a target firm can lead to frustration, anxiety, and conflicts. In cross-border acquisitions, clashes can arise because of bringing together different cultures (Ahammad & Glaister, 2011). Different scholars have studied the effects of organizational culture on M&A performance, with the with the same negative results. The higher the cultural differences between the two merging firms, the lower the acquisition performance will be (Ahammad & Glaister, 2011; Ahammad et al., 2016; Rottig, 2017; Stahl & Voigt, 2008). Culture is hereby assessed in terms of the general management style, values, beliefs, philosophy, rewarding systems, risk-taking approaches, and home country culture (Ahammad & Glaister, 2011). In their quantitative meta-analysis, Stahl and Voigt (2008) have found that cultural differences especially have a negative effect on sociocultural integration. This indicates that most of the conflicts arise in the integration phase, where the costs are high when integrating culturally diverse firms. However, they also found that cultural differences do not affect synergy realization (Stahl & Voigt, 2008). This finding is interesting as it might indicate that culturally diverse firms can create synergies together, but must be handled well. Again, the integration phase is critical. Nonetheless, the negative effect between organizational culture and M&A performance is moderated by industry similarity, from which it can be concluded that related acquisitions are preferred (Stahl & Voigt, 2008; see also R11). In their study on culture clashes, Lee, Kim and Park (2015) look at the different perspectives on culture, namely the traditional perspective of culture as an objective reality and the social constructivist perspective of culture as a shaped reality. In the traditional perspective, it is often argued that after a deal is closed, the employees of the different organizations interact, learn, and perceive cultural differences in a less and less negative way due to a learning process taking place. In the social constructivist perspective, they argue that conflicts because of cultural differences are hard to anticipate, because these conflicts cannot be predicted only by objective cultural differences. Groups interact in different ways together and predicting behaviour upfront might become impossible. It is interesting and important to take these differences in account.

The national culture research stream is more diffuse, with a lot of contrasting results. Boateng, Du, Bi and Lodorfos (2019) found that national culture differences between firms have a negative effect on the short term. In the long term, this effect becomes insignificant, indicating that resources and capabilities to overcome these cultural differences appear to be worthwhile. Reus and Lamont (2009) found that the effect of national cultural distance is not directly related to M&A performance. They indicate that the effect of cultural distance is dependent upon communication and understanding between the merging parties. National cultural distance is often assessed by Hofstede's (1983) cultural dimensions. Ahammad et al. (2016) find that national culture has no significant effect on acquisition success and on knowledge transfer, but do find that organizational and national culture are concepts that differ and are not correlated in any way. They argue that a greater cultural distance can create a unique combination of resources which firms can take advantage of. Also, Stahl and Voigt (2008) find something similar; differences in national culture have a less negative effect than organizational culture on the integration of firms and synergy realization. However, the volume of M&A is lower when the two countries where the firms are located are more culturally distant (Ahern, Daminelli & Fracassi, 2015). Firms thus already tend to find a lot of obstacles in two culturally distant firms before making a deal. A final interesting finding by Chakrabarti, Jayaraman and Mukherjee (2009) indicates that M&As perform better in the long term if the merging firms come from culturally disparate countries. A possible explanation for this is that higher synergies and a more diverse resource base can be created that help to compete in the international market. So, based on these findings, it can be concluded that cultural differences might be overcome if a good integration system is in place, whereby there is transparency between the firms and a healthy amount of knowledge transfer to profit from synergies. However, based on these contrasting findings, no rule is created relating to national culture. On organizational culture, the following rule is composed:

R15: Organizational culture similarity significantly contributes to M&A performance. Greater differences in organizational culture lead to lower performance. The organizational culture differences between the buying firm and the target firm should be low.

3.3.6 Integration

Integration effectiveness, synergy potential and cultural differences are strongly related (Weber et al., 2011). Therefore, it is interesting to consider integration during the pre-deal phase, to learn and to decide upon potential strategies. Integration is relevant, because higher levels of integration lead to a higher level of synergy realization (Duncan & Mtar, 2006; Weber et al., 2011). During the integration phase, it is expected that people from both organizations can collaborate with each other and transfer capabilities (Haspeslagh & Jemison, 1991). Stahl and

Voigt (2008) describe the integration process as a combination of two processes: the integration of tasks and sociocultural integration. Task integration consists of the transfer of capabilities, learning and sharing of knowledge, and the sociocultural integration can be described as creation of a shared identity, positive attitudes towards people of the merging firm and trust-building in both firms. However, it is still seen as one of the most important causes of failure in M&As (Very & Schweiger, 2001). Ahammad and Glaister (2011) indicate that suboptimal results can be caused by a tendency to over- or under-integrate. For the target firm, a higher level of integration means higher disruptions in the resource base, but it is necessary to achieve potential synergies. Numerous studies indicate that a higher level of integration leads to better M&A outcomes (Ahammad & Glaister, 2011). But Weber et al. (2011) argue that a certain integration approach might work better in some situations over others.

Based upon the findings of Haspeslagh and Jemison (1991), three integration strategies are proposed: absorption, preservation, and symbiosis, dependent upon the synergy potential and the number of cultural differences. The strategy of absorption means that there is a high amount of synergy potential and a low number of cultural differences, which indicates that a high level of integration with a low level of autonomy for the management is preferred. Preservation indicates the lowest level of integration with a high level of autonomy for the management, because of high cultural differences and low synergy potential. Mostly, this is an unrelated acquisition. Finally, symbiosis means that a complex integration process must be set up, with high cultural differences and high synergy potential. This indicates that managers can choose the best integration approach in order to profit the most from synergies. Based on this, Weber et al. (2011) imply that managers should be aware of these effects before concluding the deal. Negative cultural effects can be mitigated with the right integration approach. Next to that, the speed of integration is relevant to consider. Angwin (2004) has studied the first critical 100 days after the deal on the integration process but found no significant positive effects between the speed of integration and M&A success. Bauer and Matzler (2014) have found though, that the degree of integration is positively related to the speed of integration, indicating that the first 100 days might still be a relevant milestone to consider. Based on these contrasting findings, no rule is composed, but rather a call for an integration planning process is made, whereby acquiring managers consider these findings and plan ahead for integration. Based on the overall findings listed above, we can conclude that:

R16: More (task and sociocultural) integration is a preferred approach to integrating a target. The buying firm should be wary of selecting the right approach based on the level of cultural differences and the synergy potential.

3.3.7 Size, location and experience

In various empirical studies, the factor 'size' is used as a control variable, since the difference between the relative size of the two merging firms influences performance (e.g., Rottig, 2017; Kiessling, Harvey & Thompson Heames, 2008). While some scholars state that there is mixed evidence on this finding (Papadakis, 2005), more recent studies point out that there is an effect between relative size of the firms and acquisition performance. Lee et al. (2020) find that size is a good predictor of M&A performance, based on the size in terms of total assets. Typically, the size of a firm is estimated in terms of sales or asset values (Rottig, 2017; Kiessling et al., 2008), number of employees (Papadakis, 2005), or in terms of deal size as compared to the acquirer size (Lee et al., 2020). The target's size relative to that of the acquirer has an effect on takeover outcomes, whereby the target is preferred to be smaller than the acquirer. If the acquirer is bigger in terms of size, the smoother will be the process of implementing policies and structures and the lesser the implementation problems will be (Papadakis, 2005). An increase in the size of a target firm implies that there is an increase in resistance to fundamental changes (Tushman & Romanelli, 1985). So, while the results may point out a small significant effect, it can be assumed that the size of the target should preferably be smaller than the size of the acquiring firm, to be better able to overcome structural difficulties. Moreover, the timing of acquisitions in light of size is important to take into consideration. In highly uncertain environments, acquiring in an early phase of a starting firm is supported. Benefits of early acquisition are therefore growing flexibly to reach strategic fit and uncertainty in the valuation process, which drives the price of a target down (Ransbotham & Mitra, 2010). This results in the following rule:

R17: The buying firm should choose to take over a smaller target, but the target should have a resource base that is able to provide for synergies.

In knowledge-intensive industries, the location of a target is important to achieve the benefits of an M&A. According to Ramos and Shaver (2012), targets with a higher knowledge intensity in a single location, and a geographic overlap with the buying firm, can lead to successful knowledge transfer between two firms in the end. Greater distance between the buying firm and the target firm reduces the transfer of valuable (technical) information (Allen, 1977). As firms are more likely to acquire firms that are more similar to the existing firms' facilities, in terms of geography and operational processes, they are even more likely to acquire a firm with inferior capabilities, if it is in close proximity of the firm (Berchicci, Dowell & King, 2012; Schildt & Laamanen, 2006). Geographic proximity between a firm can be calculated in latitude and longitude of a target, or the distance in kilometers between a target and a buying firm (Berchicci et al., 2012; Ramos & Shaver, 2012). Berchicci et al. (2012) have especially investigated the environmental capabilities of the firm, with reference to waste management. If there is more geographic overlap between two firms, the likelihood of an acquisition taking place is higher, especially if headquarters of the target and buyer are in close proximity to each other (Chen, Kale & Hoskisson, 2017). This way, the synergies between facilities can be optimized and capabilities can be leveraged from one firm to another (Berchicci et al., 2012). Preferring geographical proximate targets is especially relevant in related acquisitions. Greater information processing makes that distance can become hard to overcome. A buying firm should decide on the maximum distance between the target and the firm itself, but rather it should be in close proximity, thus, not too far away in order to increase M&A success.

R18: The target firm should choose to take over a firm that is in close proximity, especially if knowledge transfer and leveraging processes is favoured.

Besides, acquiring firms should be aware of their experience in M&A. According to Haleblian et al. (2006), more acquisition experience leads to better acquisition performance because these firms are better able to select targets, manage the integration process (Rottig, 2017) and assess fit between firms (Duncan & Mtar, 2006). However, Ahammad and Glaister (2013) find that acquisition experience can negatively affect the performance of an acquisition across borders. A possible reason for this is overconfidence of the executives doing the deal (Renneboog & Vansteenkiste, 2019). Another interesting finding by Kim, Haleblian and Finkelstein (2011) is that the source of growth for firms, either organically or through acquisitions, may imply that firms become dependent upon other firms for growth leading to a higher price, or acquisition premium, being paid for target firms. This is especially the case when other firms show a higher growth percentage. Managers should be aware of becoming desperate to grow. As Nolop (2007) conveys: "Don't shop when you're hungry". This leads to the final rule:

R19: The buying firm should be aware of their own position and assess the likelihood of success of an acquisition: are we desperate to grow? *Don't shop when you're hungry.*

Together, these rules form the basis of the target selection rules for firms setting up a M&A strategy. In Table 3, a complete list is given of the rules discussed in all previous sections. With reference to the simple rules, the category of simple rule is given in which the rule might fall. Whereas these rules are still fairly general and not focused on the company itself, they do not count as simple rules yet and should be reshaped to address the preferences of the company in question, which will be done in the following chapters. It is important to note that multiple simple rule categories can be connected to the rules. The more specific rules that result from this research will connect more strongly to the simple rule categories.

Table 7

Rules drawn from the literature study and their corresponding simple rule category.

Category	Rule	Simple rule
Management & human capital	**R1a**: The management team of a target should have sufficient industry or leadership experience.	Boundary rule
	R1b: Start-up experience can substitute for general leadership experience of the management of a target.	Priority rule
	R1c: In competitive environments, leadership experience in a target firm is important.	Priority rule
	R2: The management team and key personnel of a target should be willing to stay in the firm as their retention is essential for post-acquisition performance.	How-to rule
	R3: Employees of the target firm should have enough capabilities (e.g., managerial talent, business competence, technological	Boundary rule

	capabilities, market knowledge, effective HRM policies) that can effectively contribute to synergy realization.	
Financial capital	**R4**: A target should have sufficient year-on-year revenue growth.	Boundary rule
	R5: A target should give a sufficient pay-out in a set up time frame for the buying firm, or a good ROI.	Priority rule
	R6: The existence of an exit rule during the target selection process is crucial and there should be one present.	Exit/stopping rule
Product and industry	**R7a**: The product or service of a target should provide for and sustain a competitive market position, or should be protected.	Priority rule
	R7b: If a start-up is acquired, then it is important that patents and good alliances are in place in a target.	Priority rule
	R8: The value-added of the product/service of a target should be high: the improvements in cost-reduction or service quality should represent significant improvements to the buying firm's products/services.	How-to-rule
	R9a: Prevent buying targets from very hostile environments (high risk, high dominance), but do look for inefficiencies in a market.	Exit/stopping rule
	R9b: If there is a merger wave going on, do not bother buying; it is most probable that the acquisition will not pay out. Watching the market trends can help in acquiring early.	Exit/stopping rule
	R10: The target firm should have a good number of prominent customers, which could indicate market acceptance.	Priority rule
Synergy	**R11**: The target firm and buying firm should preferably overlap in either industry, product, market, strategy, or technology or some combination of them.	Boundary rule
	R12a: The target firm must have complementary resources that generate both explicit and implicit synergies.	Priority rule
	R12b: The target firm should be able to leverage complementary capabilities, or enhance the acquiring firm's competencies.	Coordination rule
	R13: Market complementarity should only be pursued if the buying firm has experience with integrating and managing a target firm located outside of their traditional market.	Priority rule
	R14: There must be enough strategic fit (product strategy or complementing the overall strategy) between the target and buying firm, especially if the acquirer has a diffuse business portfolio.	Boundary rule
Culture	**R15**: Organizational culture similarity significantly contributes to M&A performance. Greater differences in organizational culture lead to lower performance. The organizational culture differences between the buying firm and the target firm should be low.	Boundary rule
Integration	**R16**: More (task and sociocultural) integration is a preferred approach to integrating a target. The buying firm should be wary	How-to rule

	of selecting the right approach based on the level of cultural differences and the synergy potential.	
Size, location and experience	**R17**: The buying firm should choose to take over a smaller target, but the target should have a resource base that is able to provide for synergies.	Priority rule
	R18: The buying firm should choose to take over a firm that is in close proximity, especially if knowledge transfer and leveraging processes is favoured.	Boundary rule
	R19: The buying firm should be aware of their own position: are we desperate to grow? *Don't shop when you're hungry.*	Exit/stopping rule

Chapter 4. Results

The objective of this research is to investigate the target selection criteria adopted by strategic buyers in the pre-deal phase of M&A. For this, interviews were conducted with experts from the M&A field, working at e.g., advisory firms. In the literature review, a framework of categories was distinguished, and based on this, participants were asked about specific criteria that are preferred by buyers. The results of the main findings are presented in the following sections, starting from the strategy of the buying firm to the criteria named often by M&A experts, within each of the categories.

4.1 Strategy behind M&A: inside-out

The experts structurally gave one piece of advice to buyers, namely, to start with your own strategy. This can be done by critically assessing the capabilities and talents of the buying firm. One of the interviewees has described this process: *"A good self-analysis, who you are, what you are doing well, what not, what are your insecurities, [...] is step one. Step two is to look at your environment. In step 3, you have to think out of the box. Look, criteria are important, but I think that in the beginning, you should try to think of broadening the criteria, rather than narrowing them down."* (Interviewee 9, 9-10-2020). Based on this, a firm can assess what type of strategy they want to apply or what type of buyer they are. The type of strategy or buyer in turn determines the type of M&A that will be conducted. For example, if a firm has locations throughout the Netherlands, except in the southern part, then in that region a target must be acquired, to create a so-called oil stain of regional spread. A firm can also buy with the focus on differentiating into new markets or adding new products to the portfolio, to skip the internal R&D phase.

Other strategies are buy-and-build strategies, whereby one firm is bought with the aim of serving as a platform company, and then adding at least four firms to the portfolio who can add to this platform with different services and products (MacArthur, Burack, De Vusser, Tang, O'Connor & Rainey, 2019). Here, a participant makes clear how the different strategies form different M&A outcomes. *"If an investor takes over a company that produces a certain type of cheese, it can take them over, break down the company and take the recipe, then they are finished. That is different from a buy-and-build strategy, where you are going to bead companies together whereby synergies are created, and the buyer can do a step forward [in the market]."* (Interviewee 10, 12-10-2020). Based on the different strategies, each firm sets up their own criteria for target selection. *"Everyone has different search criteria in the perspective of the firm."* (Interviewee 6, 1-10-2020). This is important, because if the buying firm is not able to take an inside-out approach to strategy forming for M&A, then the target selection process might start off the wrong foot, resulting in buying targets that do not fit the ideal vision of the firm. The objective of each acquisition must be clear, as well as the goals to reach with each acquisition. *"Each acquisition has an objective, what it is that the acquisition is intended to achieve. The target obviously must fit this kind of objective. If it does not, then the entire acquisition is starting off in a wrong way."* (Interviewee 1, 11-09-2020).

4.2 Target selection process

The target selection process is a specific process carried out in the pre-deal phase of M&A. In this process, there are different aspects that are important, namely duration, nature of the process and psychology of the deal. The duration of the process often takes a couple of months.

The initial screening is often done by creating a longlist of firms that might be of interest to the buyer. Based on this longlist of firms, a more critical eye is given to the list, based on how a target might fit and how they perform on the different criteria, as prepared by the buyer. It takes time to form a good perspective on the target firm. *"It takes time to find out if a firm truly fits. Because you have to know what kind of people, what kind of culture, how processes are designed. You cannot see that from the outside, you have to talk to [people of, red] the firm and come by the office."* (Interviewee 2, 21-9-2020). Often, this process takes a couple of months. *"In terms of lead time, it is possible within a month, but that is fast, then everything has to work, and everyone should be ready."* (Interviewee 3, 22-9-2020).

During the target selection phase, you peel off several layers of the target. This process is different for each firm. Often, a due diligence is conducted. The step-by-step nature of the process makes sure that controls are built in that prevent from buying in a rush of enthusiasm. In the due diligence phase, the different criteria are put in perspective and researched into detail. Is it true what the target is saying? Experts also elaborated on this: *"You can view it as a new relation. In the beginning, everything is nice and fun, but after a while you also find some points you don't like as much as you expected. The target wants to be bought, and creates a good image. So, everything looks good, and everything is possible."* (Interviewee 7, 5-10-2020). The process of target selection is thus relevant for the outcome of M&A because the right target should be selected. This is also reflected upon in the literature. Hassan et al. (2016) have found evidence for the process perspective, whereby they indicate that if the target selection process is improved, the results of M&A deals also improve.

The psychology behind a deal determines how a process is carried out. Making the deal in the best interest of both parties is a plus, especially because a lot of people are involved, directly and indirectly. *"The nice thing about working in M&A is that it is about people, and there are a lot of emotional issues in the process."* (Interviewee 11, 16-10-2020). If a lot of emotion is expected, for example when a family firm is bought, then it is important for a buyer to take this into consideration and communicate clearly. If there is goodwill between the buyer and the target, it makes the chances of success bigger. Is there a fair deal for everyone, do they want to do a good handover? Goodwill is often a reason that firms do not continue the process with that target. *"In the end, a lot of things can be surmountable, but if you allow it each other, then that is the most important thing to make it [the deal, red.] succeed."* (Interviewee 5, 28-9-2020).

The target selection process can be carried out with external advisors. They can bring an advantage because of specialized experience in doing deals. With external advisors, the target selection process can be more streamlined, and the buyer can come more prepared to the deal and post-deal phase, for example, by having reliable information about the target. *"A company that has little experience with M&A, I would advise to use good external advisors who have done the trick over 100 times already, because it can be something exciting, especially if you have not done it before. You come across a lot of new things. Then it is useful to have someone who has done it more often."* (Interviewee 7, 5-10-2020). This is in line with the findings of Eisenhardt and Martin (2000), who indicate that capabilities are learned from experience and from just doing. External advisors can consist of investment bankers, accountants, tax experts or M&A advisors, but also industry experts (Very & Schweiger, 2001). A buying firm can choose to acquire a target by themselves, but it can be very well possible that external advisors already have some heuristics resulting from expertise, that increase the speed of decision making. Moreover, acquirers can prevent a buying firm from paying a high premium for a target (Kim et al., 2011).

4.3 Selection criteria as simple rules

Several criteria can be adopted during the target selection process. The nature of the rules used by strategic buyers are mostly similar. The rules are often specific but not too narrow, because then there can be a trap of selecting a market that is too small. A participant of the study confirms this: *"On the one side is a strict definition quite hard to create, and on the other side, is it a danger because you make the market smaller and smaller. If you have very strict and clear demands and say this is exactly what I am looking for, then you have to be aware that you are not looking for a five-legged sheep."* (Interviewee 6, 1-10-2020). The five-legged sheep as a metaphor for a target that can only be dreamt of, is striking for the need for both flexibility and strictness in using the criteria. This is similar to simple rules, that are aimed to give guidance without being too specific (Sull & Eisenhardt, 2015). Another point about the criteria is that the number is almost always similar, according to the M&A experts. They indicate that a small number of rules are used in the process. In the beginning, this often comes down to 4-6 criteria. Within this list of criteria, there are often a set of common denominators, such as criteria on size, focus of the firm and geography. However, a uniform set of criteria does not exist. This is dependent upon the frame of reference of the buyer in question, which is already acknowledged in 4.1.

In the theory of simple rules, different types of rules are distinguished, such as boundary rules, stopping rules and priority rules. During the interviews, questions have been asked about the ideas of participants about using different criteria that indicate a priority, a boundary, or a reason to quit investigating a target. While this, again, is different for every buyer, it does indicate what is important for targets as seen from an expert viewpoint. *"A lot of things you can overcome. Look, if a team is not at strength, you can hire someone. If the product needs to be developed, you can spend time on doing that. Just, if something is financially interesting, yes or no, the future is already incorporated, so that is hard to address."* (Interviewee 7, 5-10-2020). Another participant shows a different perspective. *"I can compensate finances in the price, so in the construction of shares and the leverage I can tinker, [...] but I cannot say to the management team, if you would be nicer, or if you would listen better to us, then we would pay more, because that is not going to happen."* (Interviewee 3, 22-9-2020). Dependent upon the frame of the buyer, there are things that have priority. For the one, this can be finances, because forecasts are included about future performance of the firm. However, if a buyer would aspire to keep the management in place, then it is important to prioritize that rule.

In line with this, there are also reasons not to buy a target. If certain factors are prioritized, such as the management of a firm, then it might be a reason not to buy if there is not a good connection between the two parties. Other reasons not to buy, *"that can be because they have a bad reputation in the market, or because a CEO says, 'I don't want to do it', or the owners of the firm. We have seen it often. There doesn't even have to be a real reason, just, it does not feel right, we are not going to do it."* (Interviewee 2, 21-9-2020). Remarkable in this citation is that gut feeling is an important factor in stopping the process. While this is difficult to assess, since gut feeling is harder to test than profit margin, it is important to take the emotional factors, or soft factors into account. One of the participants indicated that the emotional factors often arise later in the process. *"If [companies] deliver a list, then there are often hard criteria listed, so from a* *financial and legal point of view. Hence, it is about price, size, real financial KPIs. But you notice, that if you start talking, that the emotional factors arise, that they become important [...].”* (Interviewee 8, 9-10-2020). The importance of these soft, emotional factors come to surface in several categories distinguished in the literature review, such as management and team, culture, and integration. These will be discussed into detail in these sections.

4.4 Target selection criteria adopted in practice

4.4.1 Management and human capital criteria

The management and team of a target seems to be an important criterion because the team is essential for running the business. *“You can have an organization with the perfect idea, the right market, the right product and so on. But if you have a team that is not capable enough, then it will never work.”* (Interviewee 7, 5-10-2020). A few points have come across that are looked at by buyers, such as team balance, knowledge spread, key man risk, gut feeling, and retention. Again, it is important to state that the preferences in the teams and management of a firm are dependent on the frame of the buying firm, and for example the goal of the acquisition. However, in general, some points about the management and team can be made.

The first point is the balance in the team. Dutch M&A experts indicated that if there is a leader, then it is important that employees can voice their opinions in the firm. A participant illustrated this: *“What is important is that the team has a certain balance, so that there is not one clear leader, but that there are people who dare to speak up against each other.”* (Interviewee 7, 5-10-2020). One-man politics are not preferred in the management of a firm by the experts. They indicated that this might influence the capabilities of the team. *“With a dictator [as leader], you see people cramp in the organization, [...] if you do a takeover then you can better take away the dictator, but that does not mean that there are people under control who are not completely drilled and follow everything, and do show leadership themselves.”* (Interviewee 8, 9-10-2020). In line with this is the key person risk, which can be described as the impact of losing a key person, with unique and valuable skills (Wolfe, 2019). Knowledge in the firm must be spread, as well as leadership qualities. A buyer should be aware of this. *“You need to watch that you are not too dependent upon [...] one single person. Or just a few people. What I have seen is [...], that at a given point, you get the idea that the whole business revolves around one person.”* (Interviewee 6, 1-10-2020). In this account, the management serves as a proxy for the team. If knowledge is spread in the management, then it can be expected that the team is in balance as well. Moreover, holes in the different roles in the team are an indicator for quality. *“Often there is looked at the top of the organization, whether it is good, or whether the organization is complete or whether there are holes [in roles in the team].”* (Interviewee 11, 16-10-2020). In small firms, the attitude and culture are often shown in the management of the firm itself, for example the personality of the founder, and what the founder radiates, is striking for what the company is (e.g., Interviewee 3, 22-9-2020). When specifically looking at the management, then it is important that they have the capabilities to bring the firm to the next level and have ambition to grow the firm in the coming years (e.g., Interviewee 11, 16-10-2020). These specific capabilities are dependent on the underlying strategy of the buyer, the goals of the acquisition and the plans about integrating the firm. This adds to R3. Capabilities are important to assess because they can bring the firm a step further. Spread of capabilities is especially preferred. R1a can be confirmed in this research, but there is not enough evidence for the distinction between leadership or industry experience. Most of the time both types of experiences are valued. What can be concluded is that experience is important, especially the track-record of the management team must be checked to see whether the right person is at the right place, but gut feeling is also important to consider as it appears to be an important aspect for buyers. Next to that, R1b and R1c cannot be confirmed in this research, because there is not enough evidence found. Start-up experience can be important, but this is mainly if the person has set up a successful firm (e.g., Interviewee 3, 22-9-2020).

Gut feeling is very important in the process of target selection, as already indicated in section 4.3. The importance of gut feeling is already illustrated in the citation that the process can be called off because there is no connection between the two parties. During the pre-deal phase, the connection between the two parties can already be tested in the early stages of the process. In the first meetings, for example, you can already find out about the atmosphere in the collaboration. *"Those are soft skills [...]. What happens in a meeting is that two managers meet, and if there is not a connection, then it often goes wrong."* (Interviewee 2, 21-9-2020). When assessing the management team, the participant indicated, soft factors arise, such as a connection between the buyer and potential target. *"The management team, [...] must give synergy, and there must be a certain atmosphere, hard to explain in Dutch, but that you can and want to work together."* (Interviewee 3, 22-9-2020). The atmosphere can be estimated in the meetings with the target, and is thus, based on gut feeling.

A final item that is also addressed in the literature review is the retention of the management team. It was found by Ahammad et al. (2016) that (employee) retention is important for post-acquisition performance, because of higher knowledge transfer. M&A experts also confirmed this. *"An organization must be run, [...] with people of whom you want that they stay, because without people, a company is not worth anything."* (Interviewee 11, 16-10-2020). Experts indicated that they could make agreements with the management or with other key personnel about staying in the firm for at least 1, 2, or 3 years, in return for e.g., a bonus. This means that there is evidence for R2, as the management team is considered in the valuation of the firm. Retaining them can lead to achieving more value.

4.4.2 Financial capital criteria

For financial capital, the M&A experts identify certain criteria that are checked. While there is no consensus among the experts about where to look at specifically, some points can be identified. At first is the price of the deal, which is determined by the size of the wallet of the buyer. The expectations of a target must be in line with the price. Second is the revenue of the firm. Specifically, the distribution of revenue is important. *"What is also important, is how the revenue is distributed, for example, how much revenue is made in the Netherlands, and how much in the rest of the world?"* (Interviewee 2, 21-9-2020). That is important, if you want to grow into specific regions, but also if you want to look for complementary, or additional services. "*If you are successful in the Netherlands and want to grow internationally, then it does not make sense to buy a firm that does business in the Netherlands. [...] Revenue to product is important for the same reason. If you sell shoes and want to start selling boots, then you can make a decision based on that."* (Interviewee 2, 21-9-2020). Moreover, recurring revenue is important if the target offers services. Recurring revenues show how much effort you need to make to keep a client for the long-term (Keijzer, 2019). Also, other margins are important, such as profit margins. These must be in line with the industry, because then it shows that the firm performance is equal to industry standards. Revenues, however, do not always have to grow year to year. It can be the case that a buyer finds this an important criterion, but in general, this depends on the frame of the buyer. There is thus not enough empirical evidence for supporting R4.

Another item that is relevant to many experts is EBITDA, a measure of overall financial performance of a firm (Hayes & Berry-Johnson, 2020). The EBITDA reflects the operations of a firm. The term is often used in valuation of firms. Important in this is consistency in the numbers, if it fluctuates over the years then there must be an explanation for it (Interviewee 5, 28-9-2020). Next to that, the cash flow, working capital and debt of firms are considered, all showing how the firm is currently performing. There are no strict guidelines to this. Some experts prefer the financials to be healthy, but this is also reflected in the price, where a higher premium is paid. Other experts prefer the financials to be a work in progress, where, with some adjustments of the buying firm, value can be added. *"If you buy a profitable firm, then you pay a high premium. [...] Most I know, do it for other criteria and say, well, let there be things to improve, because that makes the price lower."* (Interviewee 9, 9-10-2020). This is dependent upon the frame of the buyer. A strategic buyer should know their strengths and should know where they can add value in the target firm. *"Suppose they think, we have 10% returns, and we take over a firm with 5% return, then you often see that, in the same market, that they are capable of increasing that return from 5 to 10%. They know what they have to do."* (Interviewee 8, 9-10-2020).

Besides, the risks should be considered in doing the deal. The risk vs. the return of the deal can be of interest. For example, if the firm has financial numbers that don't show great success, the effort must be considered the buyer has to put in the process to make the M&A successful. Is it possible to achieve synergies? What are the risks that the numbers do not go up? It is important to look at the trade-off between risk and return. *"If the risk is very high, it does not have to be bad if the return is high as well. What I am looking for is a balance between risk and return. All the criteria for target selection, add to this. [...] Preferably, the return should be higher than the risk."* (Interviewee 7, 5-10-2020). The trade-off between risk and return gives a bit of empirical evidence for R5. However, this is not always a goal for the buyer. Pay-out of an investment, in this account M&A can be an important aspect to consider, but this can also be calculated as the potential synergy that can be achieved. So, financial criteria are important, but dependent upon the strategic goal of the buyer.

In the literature section, the presence of an exit is taken into account. In the target selection process, different contractual agreements are consulted, such as a non-disclosure agreement and a non-binding offer, next to the complete due diligence process. These are controls built in the process of target selection. R6 is important to consider, but this can also be in the form of a stopping or exit rule for the target. In the target selection process, the exit strategy is therefore already incorporated. This also directly relates to R19, wherein the '*don't shop when you're hungry*' statement is used. Due to the controls built in during the process, it becomes harder and harder to shop when being hungry.

4.4.3 Product and service criteria

The product and service category of criteria in target selection is important, especially in the strategy building phase of the buyer in question. Multiple M&A experts indicated that clients often already know exactly what it is that they are looking for in a target. *"If you have your own* *product portfolio but you do not offer the total package, then you can orientate in what you are missing in your current portfolio."* (Interviewee 8, 9-10-2020). Based on the strategic question behind M&A, the focus becomes clear, in terms of product, service, or industry. However, while the focus is clear, there are still things that buyers look at while considering a target. First is the technology. A firm can be bought for a technological head start, for unique products or for saving time and money spent on R&D. Also, the next hot thing in technology is important, which is also indicated by one of the participants: "*The whole world thought that [those products] would be the next hot thing, and all of a sudden, the company is in the spotlight, because they have the knowledge."* (Interviewee 9, 9-10-2020).

Second is the scalability of the product (e.g., Interviewee 10, 12-10-2020). Is it possible to rollout the product into multiple regions? Are many changes necessary to the product before it can be produced en masse? Or is the product still in the prototyping phase? These are considerations that must be considered by the buyer in the criteria setting stage.

The third is the quality of the product. This should preferably be equal or higher than industry standards. A firm specialized in creating medicines must be aware of possible side effects following from taking a certain medicine, and a firm in the oil and gas industry must know whether the products used in offshore platforms are explosion safe (Interviewee 8, 9-10-2020). The quality can be assessed by diving into the processes within the firm. *"Is the code for the software good, or did a hobbyist create a spaghetti of code-language, so then you look at how proper a product is."* (Interviewee 6, 1-10-2020). However, the code of a software product can only be checked in a due diligence phase. The quality of the product should meet the requirements the target has and match the strategic goals in mind. So, these three points already show the importance of a product that can bring and sustain a competitive market position, for example by the right technology, by enough scalability and by offering high quality. This provides empirical evidence for R7a.

The fourth and final point are the patents or intellectual property a firm contains. Not every product is patentable, but if it is, then a patent is important. However, often it is already expected of firms that they have this in place, that it does not become a criterion in the first place. In industries where patents are important, they can indicate the value of a firm. *"If the firm needs it, then it is important, then they must be handed over, which determines the value of the firm. So, if they are there, and they are necessary, then they have to be taken into account."* (Interviewee 5, 28-9-2020). Intellectual property does not have to be copyrighted, if it is part of the structure of the firm, that makes it hard to copy for competitors and other external parties. *"It depends on the sector, [..]. And that can be patents, but it can also be knowhow, the software code of the firm which makes it very hard to copy. So, it can be protected by law, by a patent, but it can also be protected because the code or knowhow is to such an extent woven in the firm that it makes it hard to copy [...]."* (Interviewee 11, 16-10-2020). In the due diligence phase, this has to be audited. These findings show some evidence for R7b, but can be seen from a broader perspective. Patents are not only important for start-ups, but also in some specific industries where a patent indicates firm value. Incorporating the industry makes R7b more inclusive. Moreover, there is sufficient evidence for supporting R8 because the value added of a product or service should be high, whether that is in synergy, scalability, quality or through patents as described in the paragraphs above.

4.4.4 Market and industry criteria

Being active in a market can be a criterion for a firm to consider a target. However, often, market and industry criteria are not caught in the set of criteria of a firm, because firms already know up front what they want to buy in which industry. This is also reflected upon by one of the participants, *"we know very well in which market we want to be, [...] so we predominantly want to be in that branch, and we based our strategy on three pillars, of which the market is one."* (Interviewee 4, 25-9-2020). For this, the strategy part comes into play again. A firm must know its market very well. *"Do your homework up front. So, by mapping the market, by knowing which parties are active."* (Interviewee 8, 9-10-2020). Hence, in line with this, a knowledge of market trends is important. In the oil and gas industry for example, there is a strong focus on renewable energies, which is also discussed by the M&A firm active in the industry: *"We now also look at the green aspect, is there a chance for us to bring about an acceleration, in line with our sustainability initiatives?"* (Interviewee 4, 25-9-2020).

Bringing about an acceleration can be one of the criteria within the market and industry category. A firm can have a lot of experience in one industry which can be leveraged into another, in order to become less dependent upon volatility in the market. Uncertainty, dynamic pace of change, and volatility upon external circumstances makes that a firm might be looking for stability. *"So, there are firms that at a given moment say, that if we just look at the engineering skills we need for this industry, then there might be different branches where we can leverage those, that makes us less dependent on e.g., oil price."* (Interviewee 9, 9-10-2020). This provides evidence for R9a, that buying from a hostile environment must be prevented. Hostility is also the reason why some M&A advisory firms do not operate in certain markets, for example the retail market (e.g., Interviewee 2, 21-9-2020). Strategically watching start-ups in a market can also bring about innovation. "*As an example, banks [...] are relatively inefficient and cumbersome organized. At the moment you start again and simply create an efficient design, then you can do it smarter. It can be the case that a firm [bank] at a given point realises that you do it smarter, and buys your firm. To go on with that design and take down the old.*" (Interviewee 9, 9-10-2020). However, this is difficult. Timing in buying then becomes a point of realization, especially when a target is already over their peak performance. If you buy too late, it becomes harder to capture the positive things of a deal (e.g., Interviewee 9, 9-10-2020). If this would be a strategy for a buying firm, the timing of buying must be considered, which can be reflected in a simple rule related to timing. The timing of acquisition provides some evidence for R9b, where it is suggested that buying during a merger wave will not pay off.

4.4.5 Synergy

Synergy, the positive additional effect of adding two independent organizations together, appears to be an important criterion for M&A experts. The reason for this is that you are able to get the extra positive effects of the deal that you would not be able to obtain if e.g., the product would be built internally, or the market will be tapped into by the firm themselves. Often, synergy is manifested through calculations on the cost or revenue-side. On the cost side, this can be very elemental. *"Most of the time they express it [synergy] in how to save costs, very concrete, so those costs are rental costs, less management, different staff functions, for example administration, that can be merged. So actually, it's the basic things and not very content-focused on the firm."* (Interviewee 5, 28-9-2020). On the revenue side, the synergy can be identified by offering a total package, or a complementary product. Buyers often have a clear idea on how they are going to capitalize the opportunities of synergy realization.

If the ultimate goal of the M&A is to integrate the firm, then synergy becomes especially relevant, because, on the revenue-side, the knowledge is in the heads of people, from which synergy can only be obtained if knowledge transfer is enabled. Therefore, the criteria for synergy are often interwoven with other criteria, such as integration. *"[Synergy] is very much intertwined in other criteria. Especially to what extent there is overlap in current activities, client base, geography, that determines how much synergy is possible. [...] Every firm that wants to take over, whereby we speak about strategic acquisitions, wants to achieve synergies, and the possibilities to do that are very much intertwined in other criteria."* (Interviewee 11, 16-10-2020). But also, that can be criteria on the product level, on the way the firm is organized, or in the regions the firm is active in (Interviewee 8, 9-10-2020). Preferring overlap in activities provides evidence for R11. But, in fact, synergy is one of the subjects that is hard to capture into criteria. If a firm has a clear idea about how the synergy can be achieved, then those clear ideas can be worked out into criteria for target selection through for example different categories.

The evidence for R12a is less strong. The distinction between explicit and implicit synergies is not something that firms really think about when considering a deal. By watching it from a cost and revenue perspective, a good idea of synergy can be created. However, complementarity is preferred, which can be expressed as the overlap between activities. For R12b, there are stronger findings. Leveraging capabilities is important, a firm always goes for the *1 + 1 = 3* principle, but if the synergy between two firms can only be calculated as *1 + 1 = 1.5*, then the acquisition will be reconsidered. Leveraging these capabilities is important to assess in the integration phase. There is however no evidence found for R13 based on the findings provided by M&A experts. R14 can be confirmed and is often assessed based on the focus of the firm, or the business model, but is also dependent on gut feeling and culture. However, whether that is always the case if the acquirer has a diffuse portfolio cannot be confirmed, as there is too little evidence for this in this research.

4.4.6 Cultural criteria

Culture eats strategy for breakfast. This saying by Peter Drucker indicates that no matter how strong your strategy is built up, if the team does not want to work with it, then it is not going to work. In other words, the culture should not be underestimated, especially not in an M&A setting. In such a situation, it is important that two firms fit together. *"Look, it has to fit. You can have such a good idea, a company of which you think that that is the ideal target, but if in the management layer or thereunder is no fit, then it is often, I would say a reason for failure. Then it is often a reason that companies have chosen to not do a deal in the past, because there was no fit."* (Interviewee 10, 12-10-2020). Culture can even be a reason not to continue with the target selection process. There are numerous examples to find about M&A where the two merging cultures resulted in a clash. A firm can choose not to continue the target selection process with a certain target, *"I think that a lot of good decisions are taken in that way, only we don't know about them."* (Interviewee 9, 9-10-2020). If chosen to make a deal, then the cultures are supposed to merge, at least if integration is preferred. Often, there is an asymmetric relationship between the two parties. *"In the end, you will see that it is quite simple in the market, eventually, there is always one party that is the strongest, and you can sell it as an equal merger, but in practice it seldomly is."*

(Interviewee 6, 1-10-2020). This difference can give rise to resistance of the selling party because an acquisition can be seen as a shock, which gives unrest. More about this will be discussed in the next section about integration.

The fit of two firms can be assessed by looking at the management layer. *"Culture is strongly related to the quality and the basic attitude of the management team."* (Interviewee 3, 22-9-2020). The tone at the top, a term borrowed from auditing, refers to the leadership and commitment of the top management team at a firm in terms of being fair, ethical and honest. It is said that the tone at the top influences the general culture of the firm and their values (Van Bekkum & De Boo, 2020). Assessing this might give a good impression of a firm's culture. Moreover, the fit can be assessed by addressing gut feeling. During communication with the two parties, it is possible to judge whether people working at the buying and target firms have a connection. *"Maybe the most important thing is that cultures fit. You can go into meetings, without immediately bringing an offer, [...] but you just check whether there is a connection."* (Interviewee 8, 9-10-2020). This evidence on cultural fit makes that R15 can be supported, that cultural similarity is preferred in the M&A process.

The findings in the literature on national culture are in line with the findings following from M&A experts, namely that national culture is not such an issue, but that it rather depends upon the firm's capabilities and their experience in working internationally.

4.4.7 Integration criteria

The integration of a target firm in the pre-deal phase of M&A is a theme in the background. Nevertheless, it is not an unimportant theme. In the target selection process, explicit criteria are rarely created for integration, but it needs to be thought of in relation to synergy and culture, if integration is to be achieved. *"That makes or breaks a takeover, integration. Of course, you look at that in advance, broadly, and if that feeling is right, then you do the deal, [...] but that can take two years to do it right, but it is not that you have to have a complete plan up front, but you look at the possibilities."* (Interviewee 2, 21-9-2020). Hence, integration can be gathered under the 'soft' criteria, alongside cultural and management criteria. This provides evidence for R16, whereby integration is the preferred approach to achieve the synergy potential. The extent of integration is dependent upon the frame of the buyer, however.

Firms that are willing to integrate the target firm, are expected to broadly create an integration plan. *"Number 1. If you do not have an integration plan, you are running behind with 4-0. From the moment you announce something, you have to make clear why you do something, what you are planning to do, then you can get a lot of insecurity away."* (Interviewee 9, 9-10-2020). Some firms even appoint integration directors. The reason for this is that integration creates unrest. A quick fix is sometimes preferred by M&A experts, who state that the quicker the integration, the better. However, this depends per target firm. The psychology of the deal comes into play here. If the target is for instance a family firm, then you do not immediately change the name on the front door. You rather take a bit of time. *"But of course, if you go there and you buy something and completely clean it up, you throw people out, then people will think 'Oh my god, what is happening, what if I lose my job?'"* (Interviewee 2, 21-9-2020). The quick fix can be interesting, because then the period of unrest is as short as possible, after which you directly move into business as usual. But, in the literature, the relation between a 100-day integration on M&A success is not significant insofar. Taking into consideration the nature of the deal and the two parties at play, the speed of integration can be decided on a case-by-case basis and more transparency can be created in the communication in the pre-deal phase, to take away some of the insecurity.

4.4.8 Size

The size of the target is one of the main criteria mentioned by M&A experts. The size of the target is strongly related to the size of the wallet of the buying firm, and can be captured in criteria in different ways. First is in terms of price of the firm, so if a price is too high, then a target can be written off. Second is in terms of revenue of the firm, as an indicator of size and indirectly an indicator for the price of a target. Third is in terms of employees. While revenue and price are preferred ways to measure size, the price and revenue are not necessarily known in advance. An expert said the following about the size: *"Well, often in terms of revenue. And if that is not available, [...] then the number of employees is often the one that you look for, you know in a certain market how much revenue per employee is made, then it is more of a proxy than a real given."* (Interviewee 11, 16-10-2020). Nonetheless, size is not only an indicator for price, but also for the complexity of the deal, especially regarding integration potential. If a target is big in relation to the buying firm, integration will become more complex, difficult and will probably take longer. This provides evidence for R17, to which can be added that the size is also dependent upon the wallet of the buyer.

4.4.9 Location

The category for the location of a target is interesting and depends per case. The location of the target firm can be specific, but does not have to be. *"If I have a map of the Netherlands, and I see, I am located everywhere, except in the Achterhoek, then it's simple, I am searching for a target in the Achterhoek. [...] For them [these buyers], it's about brushing away the white spots on the map."* (Interviewee 6, 1-10-2020). In this case, location is important, because the firm wants to get a complete density in their network. This can be decided by looking at the distribution of revenue per region. If there is a hole in the distribution, then you can choose to acquire in that specific area. The criteria can be expressed in terms of a city or region, but also a maximum number of kilometres away from the buyer. As said, the importance of the criterion geography depends per case. *"If [a firm] is particularly skilled for example in doing business over long distances, then maybe physical distance is not an important criterion. Or otherwise, if a company finds itself not capable of doing that, then it should be a very important criterion."* (Interviewee 1, 11-9-2020). However, as Ramos and Shaver (2021) argue, geographic overlap between the buying firm and the target firm can lead to better knowledge transfer. This is important to take into account, but also depends on the type of acquisition. For motives as rollout of a concept, knowledge transfer might be less important than in the case of acquiring a firm with a service as a solution that is to be added to the buyer's portfolio. The difference between tacit and explicit knowledge (Nonaka, 1994) that is to be transferred should be considered as an acquirer. So, also in this case, the filling in of the criteria depends on the capabilities of the buyer, and the strategy the buyer in question foresees. Based on this, there is evidence for R18, but it also is very much dependent on the capabilities a firm has in conquering the distances and the motives for acquiring.

4.4.10 Customer & partner criteria

It is possible that a strategic buyer is considering the clients a firm has, for example prominent clients in a market. The importance of clients is dependent per industry, and is often not captured in criteria. However, it is taken into consideration during the due diligence process. There, you can investigate the clients, because they are part of the distribution process of the firm. *"The background is always with a lot of things [for example] with personnel, clients and suppliers [..], if the situation changes, so a lot of clients walk away or a lot of people, didn't you pay too much?"* (Interviewee 5, 28-9-2020). So, clients can determine the value of the firm. *"We cannot estimate from the outside whether a client is connected to the firm because of the firm itself or because of the owner. So, it is also the ratio of the dependency of the client, but also how much these clients are tied to the person leaving."* (Interviewee 5, 28-9-2020). It is preferred that there is a spread in clients that you serve, because if you have only a few important clients, then you can become too dependent and get into problems if a client determines to walk away. Based on this, it can be concluded that there is some evidence for R10, but it should be added that the client spread and the dependency upon clients can be more important than the number of prominent clients.

Partners is also an item that is assessed by experts. They indicate that the presence of partners can be twofold, namely it can be an indicator of trust in for example the target's product, but it can also show a certain dependency on partners. *"Look, it depends on how the alliances are recorded, sometimes that is recorded in a legal form, then it can be an issue for the buying party, that you are not really interested in that. If they are softer collaborations where you can easily step out of, then you can make up the balance. Because you take that into account in your due diligence, how these branches all work together and whether that hampers you or whether it can be a nice addition."* (Interviewee 8, 9-10-2020). As a buyer, if you do prefer a target with a lot of good partners, then you can buy a target to also get into the spotlight of these partners, which is a process called strategic prefiltering (Interviewee 4, 25-9-2020). However, only in a later stage, the criterion of partners becomes an important item, for example during the due diligence phase. In few industries, partners are an important factor, for example in software development or high technology. The conclusion for R7b is therefore, that the dependency upon the partner is important to assess, as well as the type of industry a target is in. Good alliances can be essential, but it also can create an unvalued dependency.

The findings of this chapter are summarized in table 8. In the left two columns, the rules as described in Chapter 2 are once again listed. In the column 'findings', the consequences of the findings as described in this chapter are illustrated. It can be the case that a rule is adapted, stays in place, or not considered anymore. In the right column, the new rules are listed, resulting from the findings of the literature review and the empirical evidence from the semi-structured interviews.

Table 8
Rules drawn from the literature study and the changes after the empirical results of this research.

Category	Rule	Findings	New rule
Management & human capital	**R1a**: The management team of a target should have sufficient industry or leadership experience.	Confirmed, rule stays in place (R1a → R1).	**R1:** The management team should have a sufficient industry or leadership track record.
	R1b: Start-up experience can substitute for general leadership experience of the management of a target.	Not confirmed, not enough evidence.	
	R1c: In competitive environments, leadership experience in a target firm is important.	Not confirmed, not enough evidence.	
	R2: The management team and key personnel of a target should be willing to stay in the firm as their retention is essential for post-acquisition performance.	Confirmed, rule stays in place (R2 → R2).	**R2:** Retention of the management team and key personnel is essential for post-acquisition performance.
	R3: Employees of the target firm should have enough capabilities (e.g., managerial talent, business competence, technological capabilities, market knowledge, effective HRM policies) that can effectively contribute to synergy realization.	Confirmed, rule stays in place (R3 → R3).	**R3:** Employees of the target firm should have enough capabilities (e.g., managerial talent, business competence, technological capabilities, market knowledge, effective HRM policies) that can effectively contribute to synergy realization.
Financial capital	**R4**: A target should have sufficient year-on-year revenue growth.	Not confirmed, this depends per case.	
	R5: A target should give a sufficient pay-out in a set up time frame for the buying firm, or a good ROI.	Not confirmed, this depends per case.	
	R6: The existence of an exit rule during the target selection process is crucial and there should be one present.	Confirmed, but considered from a broader perspective, a stopping rule is important to consider as a firm to build controls in the process (R6 → R4).	**R4:** The existence of an exit (rule) is crucial and there should be one present.

Product and industry	**R7a**: The product or service of a target should provide for and sustain a competitive market position, or should be protected.	Confirmed, rule stays in place (R7a → R5)	**R5:** The product or service of a target should provide for and sustain a competitive market position, or should be protected according to industry standards.
	R7b: If a start-up is acquired, then it is important that patents and good alliances are in place in a target.	Not completely confirmed, patents are also important in several industries and dependency on alliances should not be too high (R7b patents → R5 and R7b alliances → R9).	
	R8: The value-added of the product/service of a target should be high: the improvements in cost-reduction or service quality should represent significant improvements to the buying firm's products/services.	Confirmed, rule stays in place (R8 → R6).	**R6:** The value-added of the product/service should be high: the improvements in cost-reduction or service quality should represent significant improvements to the acquiring firm's products/services.
	R9a: Prevent buying targets from very hostile environments (high risk, high dominance), but do look for inefficiencies in a market.	Confirmed, rule stays in place (R9a → R7).	**R7:** Prevent buying targets from very hostile environments (high risk, high dominance), but do look for inefficiencies in a market.
	R9b: If there is a merger wave going on, do not bother buying; it is most probable that the acquisition will not pay out. Watching the market trends can help in acquiring early.	Confirmed to some extent, timing is important (R9b → R8).	**R8**: If there is a merger wave going on, do not bother buying; it is most probable that the acquisition will not pay out. Consider the timing of buying by watching the market trends can help in acquiring early.
	R10: The target firm should have a good number of prominent customers, which could indicate market acceptance.	Confirmed to some extent, it should be added that client spread and the dependency on clients and partners should be considered (R10 → R9).	**R9:** The target firm should have a good number of prominent customers, or sufficient customer spread and alliances or partnerships in place without being too dependent on partners.

Synergy	**R11**: The target firm and buying firm should preferably overlap in either industry, product, market, strategy, or technology or some combination of them.	Confirmed, rule stays in place (R11 → R10).	**R10**: The target firm and acquiring firm should preferably overlap in either industry, product, market, strategy, or technology or some combination of them.
	R12a: The target firm must have complementary resources that generate both explicit and implicit synergies.	Not confirmed, distinction between synergies is not explicitly made by targets.	
	R12b: The target firm should be able to leverage complementary capabilities, or enhance the acquiring firm’s competencies.	Confirmed, rule stays in place (R12b → R11).	**R11**: The target firm should be able to leverage complementary capabilities, or enhance the acquiring firm’s competencies.
	R13: Market complementarity should only be pursued if the buying firm has experience with integrating and managing a target firm located outside of their traditional market.	Not confirmed, not enough evidence.	
	R14: There must be enough strategic fit (product strategy or complementing the overall strategy) between the target and buying firm, especially if the acquirer has a diffuse business portfolio.	Confirmed, rule stays in place, but not enough evidence for the acquirer having a diffuse business portfolio (R14 → R12).	**R12**: There must be enough strategic fit (product strategy or complementing the overall strategy or business model) between the target and buying firm.
Culture	**R15**: Organizational culture similarity significantly contributes to M&A performance. Greater differences in organizational culture led to lower performance. The organizational culture differences between the buying firm and the target firm should be low.	Confirmed, rule stays in place (R15 → R13).	**R13**: Organizational culture similarity significantly contributes to M&A performance. Greater differences in organizational culture led to lower performance. The organizational culture differences should be low.
Integration	**R16**: More (task and sociocultural) integration is a preferred approach to integrating a target. The buying firm should be wary of selecting the right approach based on the level of cultural differences and the synergy potential.	Confirmed, rule stays in place (R16 → R14).	**R14**: More integration is a preferred approach to integration. Managers should be wary of selecting the right approach based on the level of cultural differences and the synergy potential.

Size, location and experience	**R17**: The buying firm should choose to take over a smaller target, but the target should have a resource base that is able to provide for synergies.	Confirmed, rule stays in place (R17 → R15).	**R15**: The acquiring firm should choose to take over a smaller firm, but the firm should have a resource base that is able to provide for synergies.
	R18: The buying firm should choose to take over a firm that is in close proximity, especially if knowledge transfer and leveraging processes is favoured.	Confirmed, but it is very dependent on the motives of an acquirer. Rule stays in place (R18 → R16).	**R16**: The target firm should choose to take over a firm that is in close proximity, especially if knowledge transfer and leveraging processes is favoured.
	R19: The buying firm should be aware of their own position: are we desperate to grow? *Don't shop when you're hungry.*	Not confirmed, controls are often built into the process. The exit rule can be more important in this regard (R19 → R4).	
General		Gut feeling seems to be an important point to take into account as an acquirer. Therefore, one new rule is created (R17).	**R17**: Gut feeling is important in order to consider the collaboration potential. There should be a connection between both parties. It must 'feel good'.

Chapter 5. Applying the framework at Company Beta

Now that the general rules in target selection have been discussed, it can be applied to validate the rules. In this research, the case of Company Beta is considered, to shape the simple rules process for target selection in M&A. The goal of applying simple rules to this process is to increase decision making quality. In this section, the target selection rules will be applied to a case, making the rules more specific to the strategy of this buyer. This is done by analysis of two interviews and a small focus group session on setting up the simple rules within Company Beta. Creating simple rules for a certain process in a firm can be done by following a framework, for which the fundament is created in this chapter, which is based on the results of the interviews, wherein the strategy of the firm is seen as a starting point for target selection. For the process of setting up target selection simple rules, there are three steps a firm can follow to set up simple rules. The framework is outlined in Table 9.

Table 9

The Simple Rules framework for target selection.

Step	Goal
1. Inside-out	M&A is a strategic process. The frame from the buyer is especially a relevant start in the process, as it helps structuring different ideas and creates boundaries for searching a target.
2. Expectations	In this step, the users of the target selection rules will go through every category and try answering the following question: What do we expect from a target when it comes to [category (e.g., synergy)]? The categories as outlined in Chapter 3 can be used, as well as the general set of rules, to find a match between expectations and the literature.
3. Prioritizing and shaping simple rules	In the final step, priorities for the firm are outlined and rules are created. The rules must be written in understandable language, and there must neither be too many nor too few rules. It is suggested to use approximately 5 rules for this specific process.

5.1 Strategy of Company Beta: case-building

As already mentioned in 4.1, the strategy behind acquisitions is essential to set up the target selection process of a firm. Two interviews have been carried out with the Regional Manager and the Head of Integrity Division at Company Beta. The asset management industry is broad, and many key players are active there. Becoming significant is one of the drivers for a possible acquisition strategy, because at this moment, only a small market share is captured. So far, the firm is not specifically known for their asset management capabilities, but rather for their technical expertise in assets, such as pipelines (Interviewee 12; Head of Integrity Division, 28-10-2020). The firm already has a diverse portfolio and is strong in making a translation to consultancy and engineering services. A lot of services are placed under one roof. This makes that they already have a brand name in the market, but not yet in the asset care industry.

Moreover, the nature of the service, in this case consulting and engineering services, is a trust product. Relations with clients are important, but without trust, a service will not be sold. Nonetheless, being close to clients is an important aspect of consultancy (Interviewee 13; Regional Director, 2-11-2020). Some markets remain untapped, for example because the consultants are not close enough to the clients. Part of their strategy is therefore to give more attention to localization, by making local hot spots of engineers and consultants specialized in asset management, who will be connected to a central hub (Interviewee 12; Head of Integrity Division, 28-10-2020).

5.2 Expectations of a target

Company Beta already has expressed some expectations of a target. These are split up into the different categories adopted in the literature review. For the management and human capital, the team must have good technical expertise and backgrounds, and must be willing and able to transfer knowledge to Company Beta and to clients. Next to that, retention of people is important, because in consultancy and engineering, the knowledge is less embedded in the firm but more so in the heads of people. Financial criteria are less strict, the target does not necessarily have to show a good profit, as a high profit also increases the premium to be paid for a target. This way, Company Beta can add value and create synergy (Interviewee 13; Regional Director, 2-11-2020). Regarding the products and services, there must be a match with Company Beta's current portfolio. Buying a similar firm is possible, but this will be dependent on the region the firm wants to focus on. A complementary portfolio is especially preferred, to create innovation power and a better service offering (Interviewee 13; Regional Director, 2-11-2020). Synergy is expected from serving in local markets, from references that employees of the target have, and on merging the consultancy processes of the two firms. Also, a lower cost to serve on the cost-side of synergy is favoured (Interviewee 12; Head of Integrity Division, 28-10-2020). Then, the culture of the target must fit to Company Beta's culture, as the target must be completely integrated. Finally, there are expectations regarding the size and the location. The size of the target must be small, and the location should fit the localization strategy. Taking this into consideration, these criteria can form a basis for setting up simple rules and are outlined in Table 10.

Table 10
Target criteria of Company Beta.

Category	Criteria
Management and human capital	Good technical expertise and background. Willing and able to transfer knowledge. Retention is important.
Financial capital	Imperfect results so that value can be added.
Product and market	Match with Company Beta's portfolio. Complementary portfolio is preferred.

Synergy	Serving in local markets increasing revenue and lowering costs to serve. Combining knowledge. Networks of employees working at the target firm. Efficiencies from merging two consultancy processes.
Culture	Culture must be similar to Company Beta's culture.
Integration	Complete integration preferred.
Size and location	Smaller than or around 40 employees. Location should fit the localization strategy.

5.3 Simple rules to target selection in a case

In the small group session, the third step of the simple rules process is carried out. The two interviews are used as input for case-building and used as a check in this session. During the session, the set of simple rules is created by going through every category and considering all target criteria for Company Beta, and then prioritizing some categories and criteria over other categories. What already appeared early in the meeting, is that the category of 'management and human capital' is the most important one and goes hand in hand with synergy realization for Company Beta's Integrity Division. The expectations of the management and team for small firms are that the management consists of so-called industry icons, people who are known by many clients for their knowledge and have created a reputation for themselves in the market. If Company Beta is able to keep these persons in the firm, as to retain them for a minimum amount of time, then knowledge transfer can take place, so that the synergies of an acquisition can be achieved.

The second category, financial capital, can be considered a derivative of all other categories. One of the main reasons for buying for Company Beta is to achieve synergy. What is most important in the target's finances is that the results seem logical and that the firm is considered healthy, especially with regards to sensitivity to economic cycles, debt to equity ratio, and the multi-year trend. If there are outliers in the numbers, there should be a valid reason for it. The risk Company Beta takes should be derived from the financial numbers. The human capital, in this regard the people working in the firm, have experience in the market and should be able to sell their knowledge. Knowledge as part of the service must be providing revenue. Key people working in the firm should be retained. This way, the different categories are interrelated. For the product category, no expectations are discussed. For the market category however, there are two conditions whereby at least one of them must be satisfied. First is that there is a regional focus, preferably a location where Company Beta is not active for now. Second is that the target offers a broadening of the product and service portfolio or a new market focus. For example, this can be done by other applications of the knowledge available in a firm, by offering a specialization in different assets than Company Beta currently does. The category of synergy is already discussed and to a high extent related to management and human capital, at least in this case. Synergies can be found in two categories in this case, namely in management and human capital and in the product and market category.

When it comes to culture, there are not many expectations. The participants argue that the size of the target is so small that a strong culture has hardly taken shape. Whereas Company Beta has a strong culture, the expectations of a target's culture, by keeping eyes on the integration, must not be too strong to streamline the integration process. A strong culture can indicate a good firm identity and shapes the behaviour of employees in a certain firm, but can also create rigidity when change becomes necessary (Bettis & Prahalad, 1995). Company Beta has already indicated that the target should be integrated completely, preferably in a fast way.

The final categories, size and location are important for Company Beta too. Because the target should be integrated, the size of the target should not be too big. The idea is to start looking for targets with a size ranging from 20-50 employees. For the location, the regional strategy becomes relevant again. One of the important prerequisites is that the target is operating in a location where Company Beta is not operating yet, and must be in close proximity to one of Company Beta's existing locations. By taking these expectations into account, the simple rules for this process can be created. The rules must be written down in understandable language. The number of rules must not be too many and not be too few. Moreover, abstract words should be prevented, rather, the rules should be concrete (Sull and Eisenhardt, 2012). In this case, 6 rules are created, whereby rule 1 and 2 are considered most important by Company Beta.

Simple rules for target selection at Company Beta:

1. Employees and management must be willing and able to stay.
2. Target contributes either to regional strategy or to product/market broadening.
3. The culture cannot be too strong.
4. The size must be between 20-50 people.
5. The target must be located in close proximity to an existing Company Beta-office.
6. The target is financially healthy in terms of cash (debt/equity ratio) and operations (multi-year trend, business portfolio).

Based on these rules, a scoring sheet can be created. The scoring sheet can be found in Table 11. Eisenhardt and Sull (2015) often use a traffic light method to indicate the outcome of a decision. Red is an indicator of not fulfilling the rules, yellow is questionable and green is a go for doing further research into the target. Each rule created by Company Beta should be measured accordingly and assessed on whether a target meets a certain rule. In some rules, there is more room for freedom than others. Company Beta has indicated that the first two rules are very important to capture synergy. Therefore, these rules must be fulfilled by a target. If one of these rules is not met, then acquiring a target would not make sense, because the strategy of Company Beta is not taken into consideration anymore. In the scoring sheet, these decisions are considered. By giving a priority to certain rules, the outcome can be influenced in the total score.

Table 11
Simple rule scoring sheet for target selection for Company Beta.

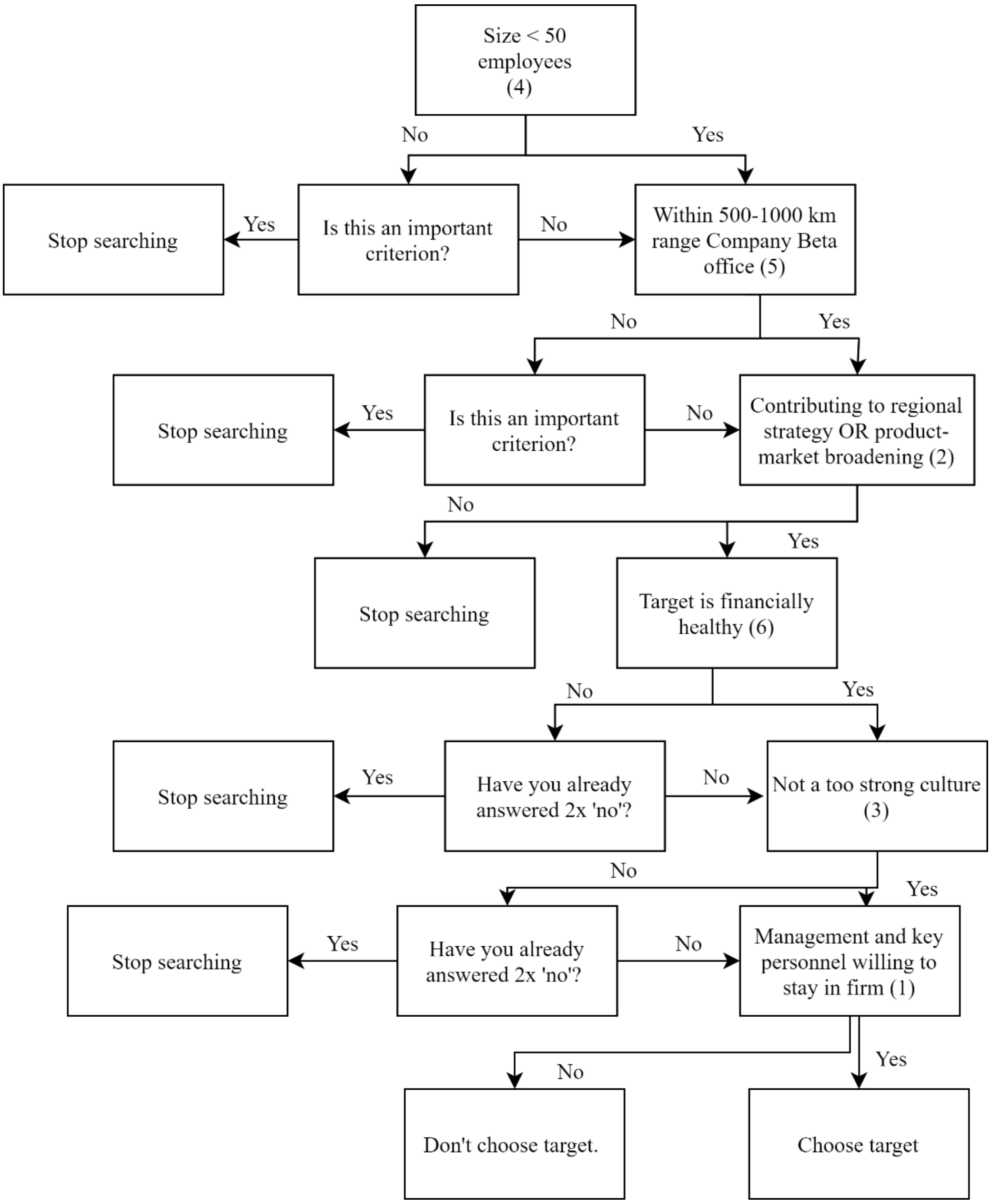
Simple rule	Priority	Color indicator	Position of rule in process	Measurement	Score
1. Employees and management must be willing and able to stay in the firm.	*****	Red = stop researching target.	Can only be checked when meetings between target and buyer take place.	Considering motivation, capabilities and intention during face-to-face meetings by asking questions.	
2. Target contributes either to regional strategy or to product/market broadening.	****	Red = stop researching target.	Search criterion.	Can be found on company websites or in online databases, by looking at the product/service offering, and locations of the firm, or by looking at the revenue distribution per country when financial information is available.	
3. The culture cannot be too strong.	***	Can be yellow/red.	Can only be checked when meetings between target and buyer take place.	Can be answered by asking questions to the people working in the target firm during face-to-face meetings, for example the intention and motivation of working together with the buying firm, but can also be assessed considering gut feeling.	
4. The size must be between 20-50 people.	***	Can be yellow/red.	Search criterion.	Can be found on company websites or in online databases.	
5. The target must be located in close proximity to an existing Company Beta-office.	***	Can be yellow/red.	Search criterion.	Can be found on company websites or in online databases.	

6. The target is financially healthy in terms of cash and operations.	***	Can be yellow/red.	Search criterion.	Financial information retrieved from the target or from databases.	
Total		Red = R Yellow = Y Green = G		First outcome after search criteria only	Go/Stop
				Outcome after including rule 1 and 3 Rule 1 must be green. Rule 2 must be yellow or green.	R = Y = G =
				Decision to continue selection process	Go/Stop

Some rules can be checked easily, for example by doing research on the target's company website. These are named 'search criteria'. The search criteria indicate that on the front, they can decide the effort to put in doing research on the target. Starting with researching these criteria is therefore advised. If these search criteria are not met, then the target can be written off and doing any further research will not be necessary. For the other two rules, information can only be found when having meetings with the target in question. If these rules are met, a target can be considered for doing an acquisition. The scoring sheet is based on a decision tree for the simple rules created at Company Beta. The decision tree can be found in Figure 3. The lower you get in the decision tree; the more research is necessary to get the appropriate answer to the rule.

Figure 4

Decision tree for target selection using simple rules at Company Beta.



Chapter 6. Discussion

The aim of this study was to contribute to decision-making quality by researching the target selection literature through creating an overview of the important rules based on empirical research, by testing these rules on M&A experts, and by applying the simple rules theory as described Eisenhardt and Sull (2001) and Sull and Eisenhardt (2012; 2015) to the target selection process of M&A by creating a framework.

6.1 Theoretical implications

This research contributes to strategy building within organizations. Organizational processes such as target selection in the pre-deal phase of M&A can be carried out more effectively by applying simple rules. This study once again underlines that decision making quality can be improved by creating a set of boundary conditions in between which a firm can hover and take decisions, because the process of target selection becomes more structured. This is in line with previous findings (e.g., Davis, Eisenhardt & Bingham, 2009; Bingham & Eisenhardt, 2011) and shows consistency with a process perspective on M&A (Haspeslagh & Jemison, 1991). Simple rules create structure, but also leave room for flexibility. This trade-off between efficiency and flexibility is essential for capturing the right opportunities and letting go of less interesting ones (Davis, Eisenhardt & Bingham, 2009). The quality in decision-making is dependent upon the decision-makers who are able to make decisions fast, for example by watching real-time information, go through multiple alternatives, make use of counsellors and integrate different decisions (Eisenhardt, 1989). With simple rules, the process of target selection can be executed fast, by comparing multiple targets at once and by pursuing a breadth over depth analysis, which is also shown to lead to fast decisions.

Target selection is the process of identifying and selecting potential targets, whereby potential buyers can use different strategies to do this, for example market screening, creating longlists of interesting targets and going through them (Welch et al., 2020). However, we have found that the criteria for a target to be selected are strongly related to the motives for conducting M&A. Yet, seeing the motives for M&A and the target selection process itself as two distinct procedures will lead to less fruitful M&A outcomes. As M&As are often unsuccessful, successfully structuring the pre-deal process by firms can lead to better choices, and thus better decision-making quality. The theory of simple rules fits this process because it is based on the experience of the users of the rules, it fits the currently available information, is easy to remember, and can provide a certain amount of accuracy in taking actions (Bingham & Eisenhardt, 2011). Simple rules therefore operate as a framework to structure both the motives for M&A process and the target selection process. In this framework, self-assessment is essential for setting up a set of simple rules in a potential buying firm. A uniform set of rules does not exist, hence the importance of including the motives for M&A in the complete target selection process. This study shows that prioritizing some rules over others finds a basis in the environment of the firm, its strategy, and its vision. As Bingham and Eisenhardt (2011) indicate that the rules fit the key problems and exploit the information a team possesses, which creates an advantage by eliminating the number of rules used to better facilitate decision making outcomes.

Another theoretical implication of this research is that a list of rules is created based on a literature review of 83 papers on target selection. Different literature streams have been considered, which led to a total of 19 rules, split up in 7 categories. These findings were then tested in interviews with M&A experts, leading to 17 rules in 8 categories. It is important to note that the different viewpoints of buyers also lead to different rules. Some categories appeared especially important for strategic buyers, such as management and human capital, synergy, and integration.

Another implication that arose from this study, is that the concept of intuition or gut feeling is important in the M&A process. Intuition can affect decision making, for example by speeding up the decision-making process (Kuusela, Koivumäki & Yrjölä, 2020). Executives are encouraged to incorporate intuition in decision making (Kuusela et al., 2020), and in the M&A integration process, intuition appears to be a good way to use alongside rules and standards (Uzelac, Bauer, Matzler & Waschak, 2016). Intuition is fueled by emotion, and influences a decision makers' information processing style. It can be a result of experience because a person has learned to recognize a certain piece of information and to manipulate it (Eisenhardt, 2008; Eisenhardt, 1998). Kruglanski and Gigerenzer (2011) make a distinction between deliberate and intuitive judgments, which both are fuelled by a set of heuristics, either learned explicitly or resulting from experience. The authors also argue that heuristics whereby information can be ignored, which are fast and frugal, can be more accurate than decision-making based on a broad range of information and calculations. In this research, we have confirmed that intuition is an important aspect in the target selection process. During the interviews, we found that the concept of gut feeling has a significant impact. Amid the selection process, a target can comply with all rules, but if it does not feel right intuitively, a target will not be selected. Therefore, intuition, or gut feeling, should be taken seriously. A combination of systematic decision making by applying simple rules and taking into consideration intuition or gut feeling may create a well-informed decision to act on an opportunity or not.

Finally, the role of simple rules as a tool for decision making has its implications. This tool serves to guide the decision-making process. The decision-making quality of a firm can be improved by making decisions fast. Eisenhardt (1998) has found that fast decision-makers are able to rely on a quick and comparative analysis of alternatives, by not going too much into depth and by using real-time information. Therefore, the use of simple rules as a strategy for target selection seems justified. Multiple targets can be analyzed simultaneously, and the information that is used as input for decisions should be the latest. The simple rules that are created by the firm can serve as a manner to do a breadth analysis, instead of going into depth too much. The role of a tool as simple rules should however remain supportive in the decision-making process. There is a possibility to build an algorithm for the target selection process, so that decisions can be made even faster. An algorithm can automatically make more rational decisions and filter out the gut feeling of decision makers. Still, as we argue that intuition is such an integral part of target selection, making only rational decisions will not always lead to better decisions. This implies that simple rules as a target selection tool can only work if it goes hand in hand with humans. As said by one of the interviewees, M&A is people's work. Emotions will always play a role in taking a decision on buying or selling a firm. At least for now, a computer will not be able to copy these emotions.

6.2 Practical implications

For firms, there are three managerial implications. Firstly, there are 17 rules for target selection created based on extensive literature review on how other firms select targets, of which a firm can borrow from and prepare for their own target selection process. Secondly, the use of simple rules in the target selection process can be a proper tool that might lead to selecting superior targets, because they offer structure and at the same time leave room for flexibility. Using simple rules as strategy can lead to being better able to respond to complex problems by using only a few rules. This might open up for more efficiency, a higher speed of decision making and better decisions. The framework and the scoring sheet described in chapter 5 can help in setting up simple rules as a strategy within firms. It is advised to create an internal scoring sheet and think about the traffic light model, whereby a minimum number of rules must be 'green'. For a buying firm, a target selection canvas is created in Figure 4 that firms can use for their own target selection strategies. Thirdly, a firm should be aware of their gut feeling in the target selection phase. Simple rules can be very well able to guide a firm in making takeover decisions, but gut feeling should not be ignored as it can prevent from buying a target that is hard to integrate or where employees will leave the firm. Therefore, we propose to integrate the concept of intuition in the simple rules, for example by including a stopping rule. This way, an overemphasis on rules over intuition is prevented.

Figure 5
The simple rules target selection canvas.

The simple rules target selection canvas

Type of buyer

Strategy behind buying

Match with 17 general rules for target selection			
R1		R10	
R2		R11	
R3		R12	
R4		R13	
R5		R14	
R6		R15	
R7		R16	
R8		R17	
R9			
Total		**Total**	

Expectations within different categories		Priority	Assessment stage of rule
Management & human capital			
Financial capital			
Product/service			
Market/industry			
Synergy			
Culture			
Integration			
Size			
Location			

Simple rules

6.3 Limitations and directions for future research

Even though this study contributes to both practical and theoretical knowledge, there are some limitations of this study. The first limitation is the sample of the study. A sample of M&A experts from the Netherlands is used, who are working in different firms in the M&A industry, mostly in advisory firms. In this way, different perspectives and multiple years of experience have been considered as a result of working with different clients in a short period of time, but there is also a high spread of perspectives as people look from their own position in a firm in a certain industry. As these firms often work in advisory, no first-hand knowledge of firms actually engaged in target selection is taken into account. Moreover, private equity investors are questioned, who have different motives for working in M&A than strategic buyers. This limits the findings' generalizability. It is important to note that this created a multiplicity of perspectives, but not a strict focus. Therefore, future research could use a different sample, for example M&A advisory firms only, private equity investors only, or strategic buyers only by conducting a case study.

Next to this, the participants all work in a firm in the Netherlands, which creates a Dutch perspective on M&A target selection. The Netherlands might be more in line with the Rhineland Model in doing business, whereas firms from other countries might prefer an Anglo-Saxon way of doing business (Albert, 1993). Sometimes these differences arose when participants started comparing integration preferences from US-based firms, who preferred a hard way of integration: quick and strong. Thus, future research could consider the different means of doing business, in order to compare the differences in preference in target selection between the Anglo-Saxon model and the Rhineland model. Another model to differentiate regions is e.g., based on the legal origins as described by La Porta, Lopez-de-Silanes and Shleifer (2008) and can also be used as a background.

This research has focused on doing a broad literature review to assess which criteria firms use to select targets. This created a wealth of studies to choose from, which made that not every category was zoomed into depth into the topic. For every category, the most prevailing findings are compared and discussed. However, it can be possible that some essential elements have not been considered in detail in this research. Therefore, a direction for future research is to take the different categories apart and zoom in further on the target selection criteria that firms use in M&A.

Finally, the long-term effects of applying simple rules in a firm-setting are not considered in this study. This research has only focused on setting up the simple rules in a firm-setting and looking at the criteria firms apply to the target selection process. This research does not focus on how the rules are used in the target selection process. Therefore, a direction for future research is to do a longitudinal study on the effect of simple rules on actual performance of M&A in firms. The performance in M&A can then be assessed in synergy capture and return on investment of an M&A within a firm.

Chapter 7. Conclusion

The objective of this study was to research how decision-making quality can be improved in target selection by taking on a simple rules approach to assess M&A candidates. Consistent with a process perspective on M&A, the results of this study suggest that adopting simple rules to the target selection process can help firms make better argued decisions. Based on a literature study, it appears that targets are screened in a certain order by looking at criteria in different categories, namely by looking into the management, financing, products, services, markets, synergy, integration, size, and location. Certain criteria are broadly adopted by strategic buyers, which are defined into a list of 17 rules. Firms can borrow from these rules and apply them into their own target selection process. The application of simple rules into this process gives the firm the ability to 1) better structure their target selection process by assessing the internal motives for M&A and 2) providing structure to the process while at the same time leaving room for flexibility. However, the concept of gut feeling when taking decisions in M&A must not be overlooked, since a lot of decisions appear to be made because of intuition even though a target can comply with all criteria. Therefore, we suggest that firms consider gut feeling already in the process of setting simple rules. We recommend that future research is pointed to researching the success of applying simple rules on M&A performance, for example by doing a longitudinal study. Improving the process of M&A, could also improve the outcome of M&A.

References

Ahammad, M. F., & Glaister, K. W. (2013). The pre-acquisition evaluation of target firms and cross border acquisition performance. *International Business Review, 22*(5), 894-904. doi:10.1016/j.ibusrev.2013.01.001

Ahammad, M. F., & Gleister, K. W. (2011). Post-acquisition management and performance of cross-border acquisitions. *International Studies of Management & Organizations, 41*(3), 59-75. doi:10.2753/IMO0020-8825410304

Ahammad, M. F., Tarba, S. Y., Liu, Y., & Glaister, K. W. (2016). Knowledge transfer and cross-border acquisition performance: The impact of cultural distance and employee retention. *International Business Review*, *25*(1): 66-75. doi:10.1016/j.ibusrev.2014.06.015

Ahern, K. R., Daminelli, D., & Fracassi, C. (2015). Lost in translation? The effect of cultural values on mergers around the world. *Journal of Financial Economics, 117*(1), 165-189. doi:10.1016/j.jfineco.2012.08.006

Albert, M. (1993). *Capitalism against capitalism.* New York: Four Walls Eight Windows Publishing.

Allen, T. J. (1977). *Managing the flow of technology: Technology transfer and the dissemination of technological information within the R&D organization.* MIT Press: Cambridge, MA.

Angwin, D. (2004). Speed in M&A Integration: The first 100 days. *European Management Journal 22*(4): 418-430. doi:10.1016/j.emj.2004.06.005

Anslinger, P. L., & Copeland, T. E. (1996). Growth through acquisitions: A fresh look. *The McKinsey Quarterly, 1996, number 2:* 96-109.

Ashby, W.R. (1956). An introduction to cybernetics. John Wiley and Sons, New York.

Bapna, S. (2019). Complementarity of signals in early-stage equity investment decisions: Evidence from a randomized field experiment. *Management Science 65*(2), 933-952. doi:10.1287/mnsc.2017.2833

Basit, T.N. (2003). Manual or electronic? The role of coding in qualitative data analysis. *Educational Research, 45*(2), 143-154. doi:10.1080/0013188032000133548

Bauer, F., & K. Matzler (2014). Antecedents of M&A success: The role of strategic complementarity, cultural fit, and degree and speed of integration. *Strategic Management Journal*, *35*(2), 269-291. doi:10.1002/smj.2091

Baum, J. A. C., & Silverman, B.S. (2004). Picking winners or building them? Alliance, intellectual, and human capital as selection criteria in venture financing and performance of biotechnology startups. *Journal of Business Venturing 19*(3), 411-436. doi:10.1016/s0883-9026(03)00038-7

Bekkum, E. van, & Boo, R. de (2020, May 20). Een internal audit naar 'tone at the top'. *KPMG*. Retrieved from https://home.kpmg/nl/nl/home/insights/2020/05/een-internal-audit-naar-tone-at-the-top.html.

Berchicci, L., Dowell, G., & King, A. A., (2012). Environmental capabilities and corporate strategy: Exploring acquisitions among US manufacturing firms. *Strategic Management Journal*, *33*(9), 1053-1071. doi:10.1002/smj.1960

Bettis, R. A., & Prahalad, C. K. (1995). The dominant logic: Retrospective and extension. *Strategic Management Journal*, *16*(1), 3-14.

Bingham, C. B., & Eisenhardt, K. M. (2011). Rational heuristics: The 'simple rules' that strategists learn from process experience. *Strategic Management Journal*, *32*(13), 1437-1464. doi:10.1002/smj.965

Block, J., Fisch, C., Vismara, S., & Andres, R. (2019). Private equity investment criteria: An experimental conjoint analysis of venture capital, business angels, and family offices. *Journal of Corporate Finance 58*(1), 329-352. doi:10.1016/j.jcorpfin.2019.05.009

Boateng, A., Du, M., Bi, X, & Lodorfos, G. (2019). Cultural distance and value creation of cross-border M&A: The moderating role of acquirer characteristics. *International Review of Financial Analysis*, *63*(1), 285-295. doi:10.1016/j.irfa.2018.12.009

Bower, J. L. (2001). Not all M&As are alike – and that matters. Harvard Business Review 79: 92-102.

Bryman, A. (2012). *Social Research Method*s. 4th edition. Oxford: Oxford University Press.

Burnes, B. (2005). Complexity theories and organizational change. *International Journal of Management Reviews*, *7*(2), 73-90. doi:10.1111/j.1468-2370.2005.00107.x

Caproni, L., & Shen, J. C. (2007). Acquisitions of private vs. public firms: Private information, target selection and acquirer returns. *Strategic Management Journal*, *28*(1), 891-911. doi:10.1002/smj.612

Carpentier, C., & Suret, J. M. (2015). Angel group members' decision process and rejection criteria: A longitudinal analysis. *Journal of Business Venturing 30*(6), 808-821. doi:10.1016/j.jbusvent.2015.04.002

Chakrabarti, R., Jayaraman, N., & Mukherjee, S. (2009). Mars-Venus marriages: Culture and cross-border M&A. *Journal of International Business Studies*, *40*(2). 216-236. doi:10.1057/jibs.2008.58

Chakrabarti, A., & Mitchell, W. (2013). The persistent effect of geographic distance in acquisition target selection. *Organization Science*, *24*(6), 1805-1826. doi:10.1287/orsc.1120.0811

Charness, N., Reingold, E. M., Pomplun, M., & Strampe, D. M. (2001). The perceptual aspect of skilled performance in chess: Evidence from eye movements. *Memory and Cognition*, *29*(1), 1146-1152.

Chatterjee, S. (2009). The keys to successful acquisition programmes. *Long Range Planning*, *42*(2), 137-163.

Chatterjee, S., Lubatkin, M. H., Schweiger, D. M., & Weber, Y. (1992). Cultural differences and shareholder value in related mergers: Linking equity and human capital. *Strategic Management Journal, 13*(5), 319-334.

Chatterjee, S. (1991). Gains in vertical acquisitions and market power: Theory and evidence. *Academy of Management Journal, 34*(2), 436-448.

Chen, Z., Kale, P., & Hoskisson, R. E. (2017). Geographic overlap and acquisition pairing. *Strategic Management Journal, 39*(2), 329-355. doi:10.1002/smj.2742

Datta, D. K. (1991). Organizational fit and acquisition performance: Effects of post-acquisition integration. *Strategic Management Journal, 12*(4), 281-297. doi:10.1002/smj.4250120404

Davis, J. P., Eisenhardt, K. M., & Bingham, C. B. (2009). Optimal structure, market dynamism, and the strategy of simple rules. *Administrative Science Quarterly, 54*(3), 413-452.

Dimov, D., Shepherd, D. A., & Sutcliffe, K. M. (2007). Requisite expertise, firm reputation, and status in venture capital investment allocation decisions. *Journal of Business Venturing 22*(4), 481-502. doi:10.1016/j.jbusvent.2006.05.001

Duncan, C., & Mtar, M. (2006). International Acquisition success: Lessons from FirstGroup in North America. *European Management Journal, 24*(6), 396-410. doi:10.1016/j.emj.2006.08.002

Eisenhardt, K. M. (2008). Speed and strategic choice: How managers accelerate decision-making. *California Management Review, 50*(2). doi:10.2307/41166616

Eisenhardt, K. M., & Sull, D. (2001). Strategy as simple rules. *Harvard Business Review, January 2001*. Retrieved from https://hbr.org/2001/01/strategy-as-simple-rules

Eisenhardt, K. M. (1989). Making fast strategic decisions in high-velocity environments. *The Academy of Management Journal, 32*(3), 543-576. doi:10.2307/256434

Fiorentino, R., & Garzella, S. (2015). Synergy management pitfalls in mergers and acquisitions. *Management Decision, 53*(7), 1469-1503. doi:10.1108/MD-12-2014-0692

Franke, N., Gruber, M., Harhoff, D., & Henkel, J. (2006). What you are is what you like - similarity biases in venture capitalists' evaluations of start-up teams. *Journal of Business Venturing, 21*(6), 802-826. doi:10.1016/j.jbusvent.2005.07.001

Franke, N., Gruber, M., Harhoff, D., & Henkel, J. (2008). Venture capitalists' evaluations of start-up teams: Trade-offs, knock-out criteria, and the impact of VC experience. *Entrepreneurship Theory and Practice,* May 2008, 459-483.

Garzella, S., & Fiorentino, R. (2014). A synergy measurement model to support the pre-deal decision making in mergers and acquisitions. *Management Decision 52*(6), 1194-1216. doi:10.1108/MD-10-2013-0516

Gigerenzer, G. (2008). Why heuristics work. *Perspectives on Psychological Science, 3*(1), 20-29. doi:10.1111/j.1745-6916.2008.00058.x

Guba, E. G. (1985). ‘The context of emergent paradigm research’, in Lincoln, Y.S. (ed.), *Organization Theory and Inquiry: The Paradigm Revolution.* Beverly Hills, CA: Sage.

Guba, E. (1981). Criteria for assessing the trustworthiness of naturalistic inquiries. *Educational Technology Research and Development, 29*(2), 75-91.

Gurley, B. (2011, May 24). All revenue is not created equal: The keys to the 10x revenue club. *Retrieved from* http://abovethecrowd.com/2011/05/24/all-revenue-is-not-created-equal-the-keys-to-the-10x-revenue-club/

Haleblian, J., McNamara, G., Kolev, K., & Johnson Dykes, B. (2012). Exploring firm characteristics that differentiate leaders from followers in industry merger waves: A competitive dynamics perspective. *Strategic Management Journal, 33*(1), pp 1037-1052. doi:10.1002/smj.1961

Hall, J., & Hofer, C. W. (1993). Venture capitalists’ decision criteria in new venture evaluation. *Journal of Business Venturing, 8*(1), 25-42.

Harding, D., & Rouse, T. (2007). Human due diligence. *Harvard Business Review, April 2007,* 124-131.

Haspeslagh, P. C., & Jemison, D. B. (1991). *Managing acquisitions: Creating value through corporate renewal,* Vol. 416. New York: Free Press.

Hassan, I., Chidlow, A., & Romero-Martinez, A. M. (2016). Selection, valuation and performance assessment: Are these truly inter-linked within the M&A transactions? *International Business Review, 25*(1), 255-266. doi:10.1016/j.ibusrev.2015.05.004

Hayes, A., & Berry-Johnson, J. (2020, November 2). EBITDA – Earnings before interest, taxes, depreciation, and amortization. Investopedia. Retrieved from https://www.investopedia.com/terms/e/ebitda.asp

Hofstede, G. (1983). The cultural relativity of organizational practices and theories. *Journal of International Business Studies, 14*(2), 75-90.

Holsti, O. R. (1969). *Content Analysis for the Social Sciences and Humanities.* Reading, MA: Addison-Wesley.

Jensen, M. C. (1988). Takeovers: Their causes and consequences. Journal of Economic Perspectives, 2(1), 21-48.

Kaul, A., & Wu, X. B. (2015). A capabilities-based perspective on target selection in acquisitions. *Strategic Management Journal,* 37(7): 1220-1239. doi:10.1002/smj.2389

Keijzer, F. (2019, August 17). Recurring revenue: What does it entail for agencies? *Savvii.* Retrieved from https://www.savvii.com/en/blog/recurring-revenue-entail-agencies/

Kiessling, T., Harvey, M., & Thompson Heames, J. (2008). Acquisition issues: Operational changes to the acquired firm’s top management team and subsequent organizational performance. *Journal of Leadership & Organizational Studies, 14*(4): 287-302. doi:10.1177/1548051808316050.

Kim, J. Y., & Finkelstein, S. (2009). The effects of strategic and market complementarity on acquisition performance: Evidence from the U.S. commercial banking industry, 1980-2001. *Strategic Management Journal, 30*(6), 617-646. doi:10.1002/smj.754

Kollmann, T., & Kuckerts, A. (2010). Evaluation uncertainty of venture capitalists' investment criteria. *Journal of Business Research 63*, 741-747. doi:10.1016/j.jbusres.2009.06.004

Kruglanski, A. W., & Gigerenzer, G. (2011). Intuitive and deliberate judgments are based on common principles. *Psychological Review, 118*(1), 97-109. doi:10.1037/a00200762

Kuusela, H., Koivumäki, S., & Yrjölä, M. (2020). M&As get another assist: When CEOs add intuition to the decision mix. *Journal of Business Strategy, 41*(3), 57-65. doi:10.1108/jbs-01-2019-0021

La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. (2008). The economic consequences of legal origins, 46*(2)*, 285-332. doi:10.1257/jel.46.2.285

Lee, K., Joo, S., Baik, H., Han, S., & In, J. (2020). Unbalanced data, type II error, and nonlinearity in predicting m&A failure. *Journal of Business Research, 109*(1), 271-287. doi:10.1016/j.jbusres.2019.11.083

Lee, S-J, Kim, J., & Park, B. I. (2015). Culture clashes in cross-border mergers and acquisitions: A case study of Sweden's Volvo and South Korea's Samsung. *International Business Review, 24*(1), 580-593. doi:10.1016/j.ibusrev.2014.10.016

Lubatkin, M. (1983). Mergers and the performance of the acquiring firm. *The Academy of Management Review, 8*(2), 218-225. doi:10.2307/257748

MacArthur, H., Burack, R., De Vusser, C., Yang, K., O'Connor, T., & Rainey, B. (2019, February 15). Buy-and-build: A powerful PE strategy, but hard to pull off. *Bain & Company*. Retrieved from https://www.bain.com/insights/buy-and-build-global-private-equity-report-2019/

Macmillan, I. C., Zemann, L., & Subba Narashimha, P. N. (1987). Criteria distinguishing successful from unsuccessful ventures in the venture screening process. *Journal of Business Venturing 2*(2), 123-137. doi:10.1016/0883-9026(87)90003-6

Macmillan, I. C., Siegel, R., & Subba Narasimha, P. N. (1985). Criteria used by venture capitalists to evaluate new venture proposals. *Journal of Business Venturing 1*(1), 119-128. doi:10.1016/0883-9026(85)90011-4

Marks, M. L., & Mirvis, P. H. (2011). Merge ahead: A research agenda to increase merger and acquisition success. *Journal of Business Psychology, 26*(1), 161-168. doi:10.1007/s10869-011-9219-4

Mason, C., & Stark, M. (2004). What do investors look for in a business plan? A comparison of the investment criteria of bankers, venture capitalists and business angels. *International Small Business Journal 22*(3), 227-248. doi:10.1177/0266242604042377

McCarthy, D. M., & Fader, P. S. (2018). Customer-based corporate valuation for publicly traded non-contractual firms. *Journal of Marketing Research, 55*(5), 617-635. doi:10.1177/0022243718802843

McNamara, G. M., Haleblian, J., & Johnson Dykes, B. (2008). The performance implications of participating in an acquisition wave: Early mover advantages, bandwagon effects, and the moderating influence of industry characteristics and acquirer tactics. *Academy of Management Journal, 51*(1), 113-130. doi:10.5465/amj.2008.30755057

Milgrom, P., & Roberts, J. (1995). Complementarities and fit strategy, structure, and organizational change in manufacturing. *Journal of Accounting & Economics, 19*(2-3), 179-208. doi:10.106/0165-4104(94)00382-F

Muzyka, D., Birley, S., & Leleux, B. (1996). Trade-offs in the investment decisions of European venture capitalists. *Journal of Business Venturing 11*(4): 273-287. doi:10.1016/0883-9026(95)00126-3

n.a. (2020). Acquisitions. *Cisco*. Retrieved from https://www.cisco.com/c/en/us/about/corporate-strategy-office /acquisitions.html.

Newman, L. (2012). *Basics of Social Research: Qualitative and Qualitative Approaches*. 3rd Ed., Upper Saddle River, NJ, Pearson Publishing.

Nolop, B. (2007). Rules to acquire by. *Harvard Business Review, 85*(9), 129-139.

Papadakis, V. M. (2005). The role of broader context and the communication program in merger and acquisition implementation success. *Management Decision 43*(2), 236-255. doi:10.1108/00251740510581948

Petty, J. S., & Gruber, M. (2011). In pursuit of the real deal: A longitudinal study of VC decision making. *Journal of Business Venturing, 26*(1), 172-188. doi: 10.1016/j.j.busvent.2009.07.002

Ramos, M. A., & Shaver, J. M. (2012). When individual locations affect the choice of multi-location acquisition targets. *Strategic Organization, 11*(2), 125-155. doi:10.1177/1476127012466649

Ransbotham, S., & Mitra, S., (2010). Target age and the acquisition of innovation in high-technology industries. *Management Science, 56*(11), 2076-2093. doi:10.1287/mnsc.1100.1223

Renneboog, L., & Vansteenkiste, C. (2019). Failure and success in mergers and acquisitions. *Journal of Corporate Finance 58*, 650-699. doi:10.1016/j.jcorpfin.2019.07.010

Reus, T. H., & Lamont, B. T. (2009). The double-edged sword of cultural distance in international acquisitions. *Journal of International Business Studies, 40*(8), 1298-1316. doi:10.1057/jibs.2009.25

Rottig, D. (2017). Meta-analyses of culture's consequences for acquisition performance: An examination of statistical artifacts, methodological moderators and the context of emerging markets. *International Journal of Emerging Markets, 12*(1), 8-37. doi:10.1108/IJoEM-01-2015-0003

Schein, E.H. (1991). *Organizational culture and leadership.* San Francisco: Jossey-Bass Publishers.

Schildt, H. A., & Laamanen, T. (2006). Who buys whom: Information environments and organizational boundary spanning through acquisitions. *Strategic Organization, 4*(2), 111-133. doi:10.1177/1476127006064065

Shelton, L. M. (1988). Strategic business fits and corporate acquisition: Empirical evidence. *Strategic Management Journal, 9*(1), pp 279-287. doi:10.1002/smj.4250090307

Shenton, A. K. (2004). Strategies for ensuring trustworthiness in qualitative research projects. *Education for Information, 22*(1), 63-75. doi:10.3233/EFI-2004-22201

Shepherd, D. A., Zacharakis, A., & Baron, R. A. (2003). VC's decision processes: Evidence suggesting more experience may not always be better. *Journal of Business Venturing, 18*(1), 381-401. doi:10.1016/S0883-9026(02)00099-X

Shimizu, K., Hitt, M. A., Vaidyanath, D., & Pisano, V. (2004). Theoretical foundations of cross-border mergers and acquisitions: A review of current research and recommendations for the future. *Journal of International Management, 10*(1), 307-353. doi:10.1016/j.intman.2004.05.005

Siegel, R., & Macmillan, I. C. (1988). Corporate venture capitalists: Autonomy, obstacles, and performance. *Journal of Business Venturing 3*(3), 233-247. doi:10.1016/0883-9026(88)90017-1

Sirower, M. L. (1997). *The synergy trap: How companies lose the acquisition game.* New York: The Free Press.

Stahl, G. K., & Voigt, A. (2008). Do cultural differences matter in mergers and acquisitions? A tentative model and examination. *Organization Science, 19*(1), 160-176. 10.1287/orsc.1070.0270

Strauss, A., & Corbin, J. M. (1990). *Basics of Qualitative Research: Grounded Theory Procedures and Techniques.* Newbury Park, CA: Sage.

Sull, D., & Eisenhardt, K. M. (2015). *Simple rules: How to succeed in a complex world*. John Murray (Publishers), UK.

Sull, D., & Eisenhardt, K. M. (2012). Simple rules for a complex world. *Harvard Business Review, September 2012*. Retrieved from https://hbr.org/2012/09/simple-rules-for-a-complex-world

Tarba, S. Y., Ahammad, M. F., Junni, P., Stokes, P., & Morag, O. (2019). The impact of organizational culture differences, synergy potential, and autonomy granted to the acquired high-tech firms on the M&A performance. *Group & Organization Management, 44*(3), 483-520. doi:10.1177/1059601117703267

Terlaak, A., & King, A.A. (2006). The effect of certification with the ISO 9000 quality management standard: A signalling approach. *Journal of Economic Behaviour and Organization, 60*(4), 579-602. doi:10.1016/j.jebo.2004.09.012

Tinsley, H. E. A., & Weiss, D. J. (2000). Interrater reliability and agreement. In H. E. A. Tinsley & S. D. Brown (Eds.), *Handbook of applied multivariate statistics and mathematical modeling* (p. 95–124). Academic Press. https://doi.org/10.1016/B978-012691360-6/50005-7

Todd, P. M., & Gigerenzer, G. (2000). Précis of Simple heuristics that make us smart. *Behavioral and Brain Sciences, 23*(1), 727-780. doi:10.1017/S0140525X00003447

Tushman, M. L., & Romanelli, E. (1985). Organizational evolution: A metamorphosis model of convergence and reorientation. *Research in Organizational Behavior*, *7*(1), 171-222.

Tyebjee, T. T., & Bruno, A. V. (1984). A model of venture capitalist investment activity. *Management Science, 30*(9), 1051-1066.

Uzelac, B., Bauer, F., Matzler, K., & Waschak, M. (2016). The moderating effects of decision-making preferences on M&A integration speed and performance. *The International Journal of Human Resource Management, 27*(20), 2436-2460. doi:10.1080/09585192.2015.1116457

Vermeulen, F. (2005). How acquisitions can revitalize companies. *MIT Sloan Management Review, 46*(4). Retrieved from https://sloanreview.mit.edu/article/how-acquisitions-can-revitalize-companies/

Verschuren, P., & Doorewaard, H. (2003). *Het ontwerpen van een onderzoek.* Derde druk. Utrecht: Uitgeverij Lemma BV

Very, P., & Schweiger, D. M. (2001). The acquisition process as a learning process: Evidence from a study of critical problems and solutions in domestic and cross-border deals. *Journal of World Business, 36*(1), 11-31. doi:10.1016/S1090-9516(99)00052-3

Wang, D., Hain, D. S., Larimo, J. & Dao, L. T. (2020). Cultural differences and synergy realization in cross-border acquisitions: The moderating effect of acquisition process. *International Business Review, 29*(1), 1-27. doi:10.1016/j.ibusrev.2020.101675

Weber, Y., Shenkar, O., & Raveh, A. (1996). National and corporate cultural fit in mergers/acquisitions: An exploratory study. *Management Science, 42*(1), 1215-1227. doi:10.1287/mnsc.42.8.1215

Weber, Y., Tarba, S. Y., & Bachar, Z. R. (2011). Mergers and acquisitions performance paradox: The mediating role of integration approach. *European Journal of International Management, 5*(4), 373-393. doi:10.1504/EJIM.2011.040911

Welch, X., Pavicevic, S., Keil, T., & Laamanen (2020). The pre-deal phase of mergers and acquisitions: A review and research agenda. *Journal of Management, 46*(6), 843-878. doi:10.1177/0149206319886908

Woike, J. K., Hoffrage, U., & Petty, J. S. (2015). Picking profitable investments: The success of equal weighting in simulated venture capitalist decision making. *Journal of Business Research, 68*(1), 1705-1716. doi:10.1016/j.jbusres.2015.03.030

Wolfe, A. (2019, January 4). How to manage key-person risk. *Financial Management*. Retrieved from https://www.fm-magazine.com/news/2019/jan/how-to-manage-key-person-risk-201819925.html

Zacharakis, A., & Shepherd, D. A. (2005). A non-additive decision-aid for venture capitalists' investment decisions. *European Journal of Operational Research 162*(3), 673-689. doi:10.1016/j.ejor.2003.10.028

Appendix A. Ethical approval

Received on 18-5-2020 from ethicscommittee-bms@utwente.nl.

UNIVERSITY OF TWENTE.

APPROVED BMS EC RESEARCH PROJECT REQUEST

Dear researcher,

This is a notification from the BMS Ethics Committee concerning the web application form for the ethical review of research projects.

Requestnr. :	200818
Title :	Achieving extraordinary fit: Adopting simple rules to the ex ante M&A process
Date of application :	2020-05-15
Researcher :	Siemerink, E.V.
Supervisor :	Hofman, E.
Commission :	Visser, M. de
Usage of SONA :	N

Your research has been approved by the Ethics Committee.

The ethical committee has assessed the ethical aspects of your research project. On the basis of the information you provided, the committee does not have any ethical concerns regarding this research project.

It is your responsibility to ensure that the research is carried out in line with the information provided in the application you submitted for ethical review. If you make changes to the proposal that affect the approach to research on humans, you must resubmit the changed project or grant agreement to the ethical committee with these changes highlighted.

Moreover, novel ethical issues may emerge while carrying out your research. It is important that you re-consider and discuss the ethical aspects and implications of your research regularly, and that you proceed as a responsible scientist.

Finally, your research is subject to regulations such as the EU General Data Protection Regulation (GDPR), the Code of Conduct for the use of personal data in Scientific Research by VSNU (the Association of Universities in the Netherlands), further codes of conduct that are applicable in your field, and the obligation to report a security incident (data breach or otherwise) at the UT.

Appendix B. Literature study on M&A target selection

Table 12
Studies included in the literature study on M&A target selection

	Key words	Study	Sample	Dep. variable	Indep. variable	Control variable	Key findings
1.	M&A, due diligence	Ahammad & Glaister (2013)	591 UK firms that acquired North American and European firms from 2000-2004.	Acquisition performance	Factors evaluated in due diligence process: strategic and cultural fit, employee capabilities and business competencies, investment and financing issues, IT, tax, and legal systems.	Relative size of acquired firm, use of consultants, all acquisition experience, cross-border acquisition experience, size of target company.	Evaluating strategic and cultural fit has a positive influence on cross-border acquisition (CBA) success. Evaluating the target firm's employee and business capability can improve acquisition performance.
2.	M&A, culture	Ahammad & Gleister (2011)	591 international acquirers from the US	Acquisition performance	Level of integration, organizational cultural differences, knowledge transfer, employee retention	Acquired firm's performance relative to the acquirers at the time of acquisition, the relatedness of the acquisition, and the acquiring firm's acquisition experience.	A share of CBA success is explained by a firm's ability to transfer knowledge between the buying and acquired firms. Whether this is a result of knowledge transfer or integration is unclear. The advantages from cost efficiencies because of higher integration can be greater than the costs of the integration process itself.
3.	M&A, knowledge transfer, culture	Ahammad et al (2016)	CBA between 200 and 2004 of 591 firms in Europe and North America	CBA-performance	Knowledge transfer, national culture distance, organizational culture difference, employee retention	Relative size, relative performance, acquisition relatedness, acquisition experience.	Merging firms' ability to transfer knowledge can explain a share of CBA success. Knowledge transfer is thus an indicator for CBA success. National cultural distance and differences in organizational culture are two different constructs. Whereas national cultural distance has no effect on CBA success, organizational culture does have an impact.
4.	M&A, culture	Ahern, Daminelli & Fracassi (2015)	2063 mergers worldwide between 1985-2008	Mergers	Cultural values	Nation's legal origin, country size and wealth, average corporate tax rate, historical exchange rate growth, bilateral investment treaty, openness, merger dollar volume in public, private and subsidiary targets, geographic distance.	Trust, hierarchy and individualism as dimensions of national culture have an influence on merger volume and synergy advantages. When countries are more distant culturally, then less cross-border mergers are done. If there is a greater difference in trust and individualism, then this leads to lower announcement returns.

5.	M&A, success, integration,	Angwin (2004)	Survey - 70 UK acquisitions between April 1991 and March 1994	Success (very high-very low; cost of capital, profitability, strategic objectives, cultural integration, etc.)	Time since transaction date (first 100 days)	-	There is little support for the first 100 days as an indicator of acquisition success.
6.	M&A, unrelated acquisitions	Anslinger & Copeland (1996)	Acquisitions by 21 US companies	Profitability	Nonsynergistic acquisition	-	“Stick to your knitting” does not mean a company should stay in its core business. It means a company should grow within its field of knowledge.
7.	M&A, complementarity, integration, culture	Bauer & Matzler (2014)	German-speaking part of Europe, 524 SME transactions, 106 respondents	M&A success and performance (measurement by Becker, 2005).	Strategic complementarity (measurement by Pehrsson, 2006), cultural compatibility (Jöns et al 2007; 2005), degree of integration (Cording et al. 2008), speed of integration (Cording et al. 2008).	Type of transaction, relative size, industry growth, institutional distance.	For M&A, a more holistic perspective is needed. Strategic complementarity, cultural fit and degree of integration together lead to M&A success. Strategic complementarity has a positive influence on cultural fit and the degree of integration. Cultural fit has a positive effect on M&A success, but a negative effect on the speed and degree of integration, where speed and degree of integration are positively related.
8.	M&A, innovation	Bena & Li (2014)	2572 US M&A deals between 1984-2006	Acquirer (or target)	R&D, patent portfolio		Acquirers are often companies with large patent portfolios and low R&D expenses. Targets are often firms with high R&D expenses and slow growth in the patent portfolio. A technological overlap between two firms has a positive effect on a possible M&A deal, and this effect is reduced for firms that overlap in product markets. If firms have a connection before a deal, then after a deal they produce more patents. The synergies that are achieved result from combining innovation capabilities which are important drivers for acquisitions.
9.	M&A, environmental capabilities	Berchicci, Dowell & King (2012)	1,936 acquisitions between 1991 and 2005 in the US	Chosen target	Environmental capabilities (facility’s relative waste generation), geographic proximity.	Operational similarity: chemical use overlap, size discrepancy, SIC overlap. Target efficiency: labor productivity. Similarity in the environmental context: regulatory overlap, same state	Firms are more likely to acquire facilities that are similar, in a geographical and operational sense to the firms’ existing facilities. Firms with superior environmental capabilities are more likely to acquire facilities that are physically more proximate with inferior

						location, relative regulatory stringency.	environmental capabilities, and the other way around.
10.	M&A	Boateng et al. (2019)	209 Chinese acquiring firms between 1998-2012	Cumulative abnormal returns (CARs)	Cultural distance, prior experience, Tobin's Q.	Return on asset, deal size, relative size, acquisition relatedness, firm relatedness, geographical origin, cash holding, leverage, debt ratio, language, state ownership, cash payment, price earnings ratio.	Cultural distance has a negative influence on the creation of value for acquirers in the short- and long-term, but not significant in the long-term. The size of the acquirer, prior experience in M&A and Tobin's Q moderate the link between cultural distance and value creation.
11.	M&A, private vs. public targets	Caproni & Shen (2007)	101 acquirers (bidders from US, UK and France)	Acquirer's abnormal returns	Private ownership, diversifying acquisition, acquirer M&A experience in target industry, target international scope, target intangibles, target age, fit	Competing bidder, target relative size to the acquirer, all-cash deal, target pre-merger profitability, target industry growth, US target, acquirer international scope, acquirer pre-merger profitability, US acquirer.	Acquirers prefer private targets in familiar industries and prefer public targets when they enter new markets with a high level of intangible assets. The acquirers of private targets perform better when announcing a merger, and perform better than when they had acquired a public target. The returns for acquirers from target choice are not for everyone, but depend on the type of search and on the merging firms' attributes.
12.	M&A, geographic distance	Chakrabarti & Mitchell (2013)	2070 acquisition announcements by US chemical manufacturers after 1979	Acquisition	Acquisition distance, acquisition is related, prior acquisition distance, prior interstate acquisitions, prior acquisition in state, acquirer is parent, acquirer is subsidiary.	Year of acquisition, prior acquisition experience, acquirer age, acquirer size, acquirer diversification, acquirer is urban, acquirer is public, acquisition is canceled, prior canceled acquisitions, acquirer geographic centrality, target is marketing, target is public, target is urban, target is larger, target in similar city	Acquirers prefer targets that are geographically proximate, especially it is a related acquisition. Search difficulty increases with distance, especially when more information processing is asked. This distance can be partially overcome with direct, contextual and vicarious learning.
13.	M&A, culture	Chakrabarti et al. (2009)	405 CBAs from 34 different acquirer countries and 37 different target nations from 1991-2000	Acquisition performance	Relative difference in per capita income, volatility of exchange rate, target country's openness to foreign trade, extent of bilateral trade, Hofstede distance, religion, language, and legal origin.	Logarithm of bilateral trade between countries, foreign exchange volatility.	CBAs perform better in the long term if the acquirer and target come from cultures that are more different. The divergence (convergence) in the degree of individualism and hierarchy in organizational structures has a positive impact on post-acquisition performance. There is some evidence of synergies when acquirers from countries with stronger corporate governance regimes acquire targets from weaker corporate governance regimes.

14.	M&A, acquisition programmes	Chatterjee (2009)	In-depth analysis of 30 serial acquirers	(Successful) acquisition programmes	Characteristics		Acquisition programmes that are successful have an advantage in 3 stages of acquisition. The firms are good at exploiting market inefficiencies, which leads to win-win deals using a repeatable practice. Discipline towards the programme is essential.
15.	M&A, geography	Chen, Kale & Hoskisson (2017)	1,936 domestic M&A in the US market between 1997 and 2008	Acquisition pairing: likelihood of acquisition	Geographic overlap, acquirer size, acquirer geographic dispersion, geographic distance, product dissimilarity.	Presence of financial advisors, acquirer investment bank prestige, target investment bank prestige, 3-digit SIC industry, prior acquisition experience, internationalization, firm performance, leverage, cash holdings, market-to-book, diversification, firm size.	Higher geographic overlap is linked to a higher likelihood of a deal. Important is that if a firm acquires a target with geographic overlap between operations, especially when the target's headquarters is far away from the acquirer, or when the target offers different products than the acquirer does.
16.	M&A, organizational differences	Datta (1991)	173 acquisitions in the US manufacturing industry	Post-acquisition performance	Organizational differences between acquiring and acquired firms: management styles, reward and evaluation systems, post-acquisition integration	Relative size	Differences in top management styles have a negative influence on performance of acquisitions with both high and low post-acquisition integration. There is no relationship between differences in reward and evaluation systems and post-acquisition performance.
17.	M&A, target selection	Davis & Stout (1992)	Takeover bids for Fortune 500 firms between 1980 and 1990.	Number of days from 1 January 1980 until the firm became subject to a tender offer	Market-to-book ratio, cash flow, debt, age, tenure, family control, bank control, board interlock, size, institutional ownership and background of CEO.	-	The risk of takeover is increased when a firm has greater organizational slack, age and having a CEO with a finance background. Family control and financial points, such as market-to-book ratio lower the risk of takeover. Bank control and network ties have no effect.
18.	M&A, experience, success	Duncan & Mtar (2006)	Case study on a company within the Public Transport Industry in North America	Acquisition success	Previous acquisition experience, strategic fit, integration, cultural fit, focus on core business	-	Acquisition experience in a firm is positively related with international acquisition success, if other factors are present: strategic fit, focus on core business, cultural fit and integration.
19.	M&A, synergy	Fiorentino & Garzella (2015)	Literature study	M&A success	Synergy management pitfalls	-	There are three synergy pitfalls: mirage (overestimating synergy potential), gravity hill (underestimating the difficulties in realizing synergies) and amnesia (a lack of attention to realizing strategy). Effective synergy management requires that 5 dimensions are analyzed: steps of the

							M&A process, the several values of synergy, the effects of poor synergy management, causes of synergy inflation and the selection of solutions to synergy pitfalls.
20.	M&A, synergy	Garzella & Fiorentino (2014)	Survey & semi-structured interview data on 33 members of ADEA on survey - 5 interviews	Influencing factors	Synergy assessment process	-	A synergy measurement model can integrate the assessment of strategic factors, such as the type of synergy, the size of synergy, the timing of synergy and the likelihood of achieving synergy.
21.	M&A, capabilities	Haapanen et al. (2019)	Case study with 2 cases, 4 high-technology SMEs in cross-border acquisitions	Acquisition success or failure	Function-specific capabilities, microfoundations	-	Differences between two merging firms' microfoundations (structures, processes, routines, and skills) can enforce or destroy potential synergies at product/market levels, depending on managerial awareness.
22.	M&A, acquisition experience	Haleblian et al. (2006)	2,523 acquisitions made by 579 companies in the US commercial banking industry from 1988-2001.	Acquisition likelihood	Acquisition experience, focal acquisition performance	Acquirer characteristics, deal characteristics, industry conditions, prior acquisition experience	Acquisition experience, acquisition performance and the interaction between the two are positively related to the likelihood of a new acquisition.
23.	M&A, waves	Haleblian, McNamara, Kolev & Dykes (2012)	12 acquisition waves from 1984 to 2004	Timing of action in the wave	Acquirer technology and marketing intensity, acquirer size, acquirer diversification, acquirer financial slack, acquiring firm prior performance.	Industry dummy, relative market valuation, sales and employee growth, asset turnover, capital intensity, number of acquisitions undertaken, industry relatedness.	The position of a firm in a merger wave is related to the firm's strategic orientation. Early movers in a wave have higher R&D and advertising intensity, so a higher external focus. A firm's structure also influences the position in a wave. Early movers are often smaller with high motivation. Firms with higher slack move earlier in waves, and resources affect the position in a wave.
24.	M&A, due diligence	Harding & Rouse (2007)	Essay	Acquisition success	Human due diligence	-	Acquirers can avoid problems with losing talent and decision-making style differences with human due diligence. Successful acquirers have a rationale behind their deals where they build a pipeline of potential acquisitions where ongoing (human) due diligence is conducted on.

25.	M&A, decision process	Haspeslagh & Jemison (1991)	Interviews with acquirers, field study of acquisitions, and a case study.	Acquisition success	Decision making, integration process, managing acquisition process	-	M&A success is dependent upon the ability to handle the integration process and the decision making. The potential value is determined by strategic fit, and organizational fit determines the difficulty to realize synergies. The actual value is dependent on the company's ability to manage the acquisition process.
26.	M&A, evaluation process	Hassan et al. (2016)	Case study on companies involved in M&A: 2 from the UK, 1 from Switzerland and 1 from the Netherlands.	Outcome of M&A	Business evaluation process components (acquiring firm's characteristics, target firm's characteristics, M&A layout, valuation process)	-	The business evaluation process can be an influencing factor for the outcome of M&A. Strictly controlled and interlinked components relating to the (target) business evaluation process have an impact on the outcome of CBA. If target selection and assessment is improved, the M&A results will be better.
27.	M&A, network synergies	Hernandez & Shaver (2018)	1,357 controlling acquisitions between 1995 to 2007 in the biotechnology sector.	Target choice	Expected network synergy: change in constant and change in status.	Overlap in patent classes, overlap in disease areas, pre-acquisition tie, target's total patents, stage of development R&D alliances, disease diversification, patent class diversification, same country, prior acquisitions by the target.	Firms make choices for targets that are consistent with the presence of network synergies. Acquirers prefer targets that generate an increase in network status and better access to structural holes. These effects are driven by combining the target and buyer's networks whereby complementarity is more interesting than the attractiveness of a network itself.
28.	M&A, target selection	Kaul & Wu (2015)	184 acquisitions in the Chinese brewing industry from 1998-2004	Acquisition (decision to acquire yes/no)	Manufacturing productivity, acquirer productivity, target productivity, new region, acquirer geographic diversification, acquisition experience.	Acquirer sales, target sales, acquirer debt level, majority state owned, majority foreign owned, ownership difference, business group affiliation, region information index, region concentration.	Pursuing targets in new markets and buying a target with greater productivity is less likely for an acquirer. Acquirers prefer inferior targets, in existing geographic markets. But targets are more likely to choose a superior target in a new market, especially if a firm has strong acquisition capabilities.
29.	M&A, TMT, technological similarity and complementarity	Kavusan, Ates & Nadolska (2020)	94 acquisitions and 1988 alternative targets from 1996 and 2002	Acquisition match	Technological similarity, technological complementarity, faultline strength	Acquirers ROA, R&D intensity, acquisition experience, market share, new CEO in focal year of acquisition, TMT size, diversity in terms of age, tenure, gender and functional background, ownership similarity, industry	Similarity and complementarity of technology positively affect target selection. The technological similarity has a larger effect on target selection than complementarity. Top Management Teams with strong divisions between groups are more likely to pay attention to technological complementarities, than

						relatedness, geographic distance.	TMTs with very strong and weak divisions.
30.	M&A, top management team	Kiessling et al. (2008)	102 top executives who have participated in M&A in the past 5 years (2003-2008)	(Post-)acquisition performance	TMT retention, TMT network, TMT knowledge, TMT dynamic capabilities, TMT characteristics, organizational changes	Size, type of purchase, ownership structure	Retaining key personnel is essential. Flexibility and having innovative organizational structures are required in order to retain the TMT of a target.
31.	M&A, comple-mentarity	Kim & Finkelstein (2009)	2204 acquisitions by 504 US banking institutions from 1989-2001.	Acquisition performance (CAR)	Strategic complementarity, market complementarity, acquirer strategic focus, out-of-market acquisition experience	Acquirer age, acquirer size, acquirer performance, acquirer type, acquirer slack resources, acquirer financing capability, in-market acquisition experience, target performance, target financing capability, target type, relative acquisition size, merger of equals, stock consideration, firm type similarity, geographic expansion.	Complementarity is an antecedent of acquisition performance. Value can be created for acquirers by combining product strategies and achieve complementarity. The level of strategic focus of the buying firm however moderates this relationship. Strategic focus has a positive impact on acquisition performance. Banks with lower strategic focus tended to benefit more from strategic complementarity than banks with a higher strategic focus.
32.	M&A, experience	Kim et al. (2011)	878 acquisitions between 1994-2005 in the US commercial banking industry.	Premium paid for an acquisition	Organic growth, acquisition dependence, acquisition experience	Acquirer size, acquirer performance, past acquisition performance, acquirer slack resources, institutional ownership, asset diversification, security ratio, target size, target performance, target growth, target slack resources, related rumours, competing bidders, lock-up agreement, relative acquisition size, stock consideration, firm type relatedness, geographic expansion, geographic expansion deal value ratio.	Firms who really want to grow are more likely to pay a higher price for an acquisition. Advisors' acquisition experience is especially helpful in preventing from overpaying for a target, more so than an acquirers' own experience.
33.	M&A, experience, performance	Kim et al. (2015)	3010 acquisitions made by 642 US publicly traded commercial banks between 1988 and 2005.	Hazard rate of a firm making a subsequent acquisition	Acquisition performance (acquirer market returns), historical aspiration level, social aspiration level, variability in acquirer market returns	Acquirer size, acquirer slack resources, acquirer firm performance, acquirer cost of fund, relative acquisition size, stock consideration, merger of equals, lock-up agreement, regional acquisition density,	The aspirations of firms are influenced by the type of aspiration, either historical or social, and by the prior performance in M&A of a firm. The way how managers interpret their prior M&A performance leads to assessment of success and failure in different ways. An acquisition can be a

						regional total acquisition value, number of banks, bank concentration, prior acquisition experience, prior average acquirer market returns, acquisition speed, first acquisition indicator, aspiration inconsistency.	success in the eye of one manager, but in the eye of the other it could have been considered a failure.
34.	M&A, R&D as predictor	King, Heeley & Covin (2006)	1443 acquired firms between 1990 and 2000	Acquisition status of firm	Industry-adjusted R&D stock measure, three environmental dimensions of munificence, dynamism, and complexity.	Matches of acquired firms with non-acquired firms, acquisition year, firm size effect, firm financial performance, target firm's financial performance with industry-adjusted return-on-assets in the year prior to acquisition.	Firms that invest more in R&D are only a bit more likely to be acquired than firms with minimal investments in R&D. However, the power of R&D as a predictor for the likelihood of an acquisition increases when environmental conditions of a target are considered.
35.	M&A, culture	Lee et al. (2015)	Volvo Construction Equipment's acquisition of Samsung Heavy Industry's division of construction equipment; 19 employees	Experience of employees	Cultural differences	-	National cultural differences possibly negatively affect post-merger integration, because acquired employees are more likely to experience stress during integration. However, how cultural differences are viewed upon depend on whether employees of a target firm see their new 'firm' as more attractive. So, the intensity and speed of integration may differ on other things.
36.	M&A, benefits	Lubatkin (1983)	Literature study	M&A performance	Reasons to do M&A (benefits)	-	Acquiring firms may benefit from merging because of technical, pecuniary and diversification strategies.
37.	M&A, preparation	Marks & Mirvis (2001)	Authors' experience in over 70 mergers and acquisitions	M&A success	Managerial actions in pre-combination phase.	-	The preparation pre-deal consists of strategic and psychological matters. The strategic matters concern analyses that clarify synergy sources, testing in reality and culture and relationship building. Psychological matters concern actions to understand people's mindsets.
38.	M&A, research on success	Marks & Mirvis (2011)	Literature study	M&A success rate	Research questions, corporate combinations, human factors	-	Research questions for the key phases of a deal are proposed, including buying a company and putting two companies together.

39.	M&A, waves	McNamara, Haleblian & Johnson Dykes (2008)	12 acquisition waves from 1984 to 2004.	Acquisition returns	Position in an acquisition wave, industry munificence and industry stability, serial acquirer, stock consideration	Acquirer-to-target relatedness, attitude, acquirer slack, acquirer performance.	For early movers, acquisition performance is higher during a merger wave, but lower for late participators. Industry and acquirer characteristics have an influence on the degree to which firms are able to capture the advantages for early movers.
40.	M&A rules	Nolop (2007)	70 acquisitions within 1 company	Acquisition process success	Rules	-	Advise: Stick to the similar industries, make multiple smaller acquisitions, create a team and sponsorship (business unit managers), distinction between bolt-ons and platforms, don’t shop when you’re hungry.
41.	M&A, communication, environment, formalization	Papadakis (2005)	72 companies conducting M&As, in Greece from 1997-1999.	Successful implementation (results)	Environmental hostility, technological, consequentiality, price/premium, experience, formalization of decision-making, size, communication program, point in time the communication program was designed, communication frequency, percentage of employees leaving the company	-	There is support for an integrative perspective to explain successful M&A implementation. A communication program is important, as well as the external corporate environment, formalization of the decision-making process and the consequentiality of M&A.
42.	M&A, knowledge transfer, geography	Ramos & Shaver (2012)	Multi-location acquisitions of US manufacturing firms between 2002-2004	Target choice	Max patent inventors, total patent inventors, common metropolitan areas, total establishment, average wages, population, industrial demand.	Agglomeration benefits.	Benefits for knowledge transfer are a result of greater geographic overlap with the acquirer, higher knowledge intensity and being in a knowledge-intensive industry.
43.	M&A, target age	Ransbotham & Mitra (2010)	Technology acquisitions in the telecommunications industry between 1995-2001.	Abnormal acquirer returns	Age target	Total market value, buyer leverage, number of prior acquisitions, buyer free cash intensity, buyer R&D intensity, total nr of employees, public/private status, recent patent indicator, technical quality, popular visibility, venture capital funding, deal value, deal weight, cash vs. stock, cross citations, post-bubble indicator, early mover.	The timing of acquisitions matter in high-technology environments. Acquiring early in a uncertain environment is favoured. Young targets drive benefits from early acquisitions, namely flexibility in growth options in order to achieve more strategic fit, and greater valuation uncertainty which leads to lower prices. The negative age of target age is less relevant if a target has patents or is privately held.
44.	M&A delay, failure	Reddy et al. (2016)	Multi-case study of 3 cases on cross-border	Completion likelihood of cross-	Institutional and political environment in host country	-	The environment of firms matters: the government and political intervening

			acquisitions in emerging economies	border acquisition negotiations			nature have detrimental effects on Indian CBA deals (with higher bid value, listed target firms, cash payment and stronger government control in target industry).
45.	M&A, success, failure	Renneboog & Vansteenkiste (2019)	Literature study	A deal’s long-run success or failure	Multiple factors: serial acquisition performance, relatedness, shareholder intervention.	-	3 deal characteristics that are predictors of short- and long-run stock returns and long-run operating performance: 1. Serial acquisition performance (negative) due to CEO overconfidence, 2. Related or focused acquisitions (positive), 3. Shareholder intervention in the form of voting/activism (positive).
46.	M&A	Reus & Lamont (2009)	118 US multinational companies	International acquisition performance	Cultural distance, understandability, communication, key employee retention.	Informant’s self-deception, other-deception, industry, degree of internationalization, prior country experience, prior acquisition experience, prior acquirer performance, relatedness, relative size, autonomy provision, before/after 2000.	The cultural distance makes it hard to understand the key capabilities to be transferred, but also makes it harder to communicate between target and buyer. Also, cultural distance can enrich an acquisition by improving positive effects of understandability and communication.
47.	M&A, cultur	Rottig & Reus (2018)	Literature review	Acquisition performance	Culture	-	Acquisition performance literature is categorized into three streams: 1. Contingency literature, 2. Process-oriented research and 3. The cultural stream. The article relates the cultural stream to both contingency and process-related literature to gain a more inclusive understanding of culture’s consequences for performance.
48.	M&A, culture	Rottig (2017)	Meta-analysis of studies on acquisitions from 1980	Acquisition performance	Organizational cultural differences, national cultural differences	Relative size, age of the acquisition, removal of autonomy, acquisition relatedness, prior acquisition experience.	The effect between organizational cultural differences and acquisition performance is consistently negative. There is a dual effect of differences in national culture on acquisition performance. So, culture is a double-edged sword that can affect the performance of an acquisition in various and opposing ways.
49.	M&A, foreign vs. domestic acquirers, R&D	Ruckman (2005)	93 US drug company takeovers between 1993 and 1999	Acquirer’s value of a potential target	Potential target R&D intensity, R&D intensity cross-product, potential target size, asset cross-	Other motivations for acquisitions	Foreign acquirers that have a low R&D intensity are technology-sourcing the US industry to compensate for low internal

					product, potential target research location.		R&D. Domestic acquirers on the other hand are motivated by a synergy-type strategy with respect to R&D intensity with targets.
50.	M&A, target selection	Salter & Weinhold (1981)	Case studies on Ciba-Geigy and General Cinema Corporation.	Acquisition	Guidelines for screening		Every acquiring firm undertakes an audit of strengths and weaknesses of the target, as well as an analysis of the risk and return profile and cash flow characteristics, the process of developing guidelines for related vs. unrelated acquisitions should differ in focus and content.
51.	M&A, geography and technological similarity	Schildt & Laamanen (2006)	167 intra-industry acquisitions in pharmaceuticals industry between 1991-1996.	Occurrence of acquisition in given year	Alliance, technological similarity, country location	Same subindustry, relative size, private target.	Proximity influences the likelihood of acquisition. Pharmaceutical companies are more likely to acquirer technologically similar foreign companies, whereas they are more likely to acquire technology dissimilar alliance partners.
52.	M&A, culture	Schraeder & Self (2003)	Literature review	Success rate of M&As	Organizational culture, cultural implications prior to the event, cultural implications after the event.	-	An important implication from a pre-deal perspective is the lack of organizational efforts to assess cultural compatibility or fit prior to the merge of firms.
53.	M&A, market complementarity, similarity	Shelton (1988)	218 mergers between 1962 to 1983 of Fortune 500 companies	Change in bidder and target equity	Related-supplementary strategic fits, related-complementary strategic fits, identical strategic fits, target sales divided by bidder sales, merger after Williams Act (1969), other firms bidding for same target		Acquisitions that permit the bidder access to new but related markets create the most value with the least variance.
54.	M&A, cross-border, literature analysis	Shimizu et al. (2004)	Literature study	CBA	Current literature coverage	-	The theoretical perspectives and research bindings on CBAs are examined from three perspectives: 1. CBAs as mode of entry in a foreign market, 2. Dynamic learning processes from a foreign culture, and 3. Value creation strategy.
55.	M&A, culture	Stahl & Voigt (2008)	46 studies with a combined sample size of 10,710 M&A.	Sociocultural integration outcomes, synergy realization, shareholder value	Cultural differences	Relative size, time of measurement	Cultural differences affect sociocultural integration, synergy realization, and shareholder value in different (sometimes opposing) ways. This is dependent upon the aspects of the relationship between target/buyer, e.g., the dimension of

							cultural differences and the degree of relatedness.
56.	M&A, learning, problems, solutions	Very & Schweiger (2001)	Top managers of 26 middle-market firms in France, Germany, Italy, and the USA	Stage of acquisition process for domestic and cross-border deals	Problems faced and solutions employed by acquirer	-	To each stage of the acquisition process, there are problems. Three generic challenges emerge: collecting reliable information, integration and entering a new and unknown territory.
57.	M&A, culture, synergy	Wang et al. (2020)	103 Nordic companies with cross-border acquisitions during 2005-2010.	Synergy realization	National culture differences, pre-acquisition due diligence, post-acquisition coordination efforts	Resource similarity and complementarity, integration extent, geographical distance, host-country experience, former relationship, industry type	National and organizational culture differences have a negative impact on realizing implicit synergies, whereas there is no impact on realizing explicit synergies. National culture differences have a stronger negative effect on synergy realization than organizational culture. A firm should do sufficient culture and human due diligence.
58.	M&A, culture clash, performance	Weber & Drori (2011)	Literature study	M&A performance	Culture clash, autonomy removal, organizational identification	-	Culture clash and organizational identification in the merger has a direct effect on attitudes and behaviours of target management that influence M&A success.
59.	M&A, integration	Weber et al. (2011)	52 Israelian mergers between 2004-2006.	Integration effectiveness	Cultural differences, synergy from similarities, synergy from complementarities, fit of integration approach	-	The fit of the integration approach is positively related to the effectiveness, and mediates the relationship with synergy potential and cultural differences.
60.	M&A, research overview	Welch, Pavicevic, Keil & Laamanen (2020)	202 articles on pre-deal phase of M&A.	Pre-deal phase of M&A	Literature and research (deal initiation, target selection, bidding and negotiation, valuation and financing, announcement and closure)		Most of the existing research on the pre-deal phase relies on a rather high-level, simplified and static conception of the pre-deal phase.
61.	M&A, similarity and complementarity	Yu, Umashankar & Rao (2016)	Acquisition deals between Jan 1988 and June 2008 in pharmaceutical companies in the US	Acquisition choice	R&D pipeline to R&D pipeline similarity, complementarity, pipeline-to-product similarity, complementarity, product-to-product similarity, product-to-product complementarity, product to R&D pipeline similarity, product-to-R&D pipeline complementarity	Target debt to assets ratio, target biotech area, acquirer-target assets ratio, acquirer-target biotech match, acquirer-target alliance history.	Similarity and complementarity are differently regarded by acquirers, based on the resource to be compared. When comparing R&D, acquirers prefer similarity over complementarity. When comparing product portfolios, complementarity over similarity is preferred.

62.	VC	Bapna (2019)	Field experiment with 207 active investors on an online platform	Interest in investing, invested and amount invested, campaign terms and outcomes	Prominent affiliate (signal), product certification (signal), social proof (signal)	Control email sent with standard text without any signals (independent variables)	Product certification and prominent customers, and product certification and social proof are complements and can lead to a higher interest in investing.
63.	VC	Baum & Silverman (2004)	204 biotechnology start-ups in Canada during January 1, 1991 and December 31, 2000.	Financing (received), performance (year-over-year revenue, R&D spending growth, employment growth, patent applications, patents granted)	Alliance capital, intellectual capital, human capital	Startup characteristics, environmental factors.	VCs finance start-ups that have strong technology, but are at risk of failure in the short run, and so are in need of management expertise.
64.	VC	Block et al. (2019)	749 private equity investors in Pitchbook in a conjoint analysis	Attributes: profitability, revenue growth, track record management team, current investors, business model, value-added of product/service, international scalability.	Type of investor	-	Revenue growth is the most important investment criterion, followed by the value-added of product/service, the management team's track record, and profitability. Family offices, growth equity funds and leveraged buyout funds place a higher value on profitability as compared to business angels and VC funds.
65.	VC	Carpentier & Suret (2015)	636 proposals of a Canadian group of 85 members.	Proposal rejection	Risk type, timing in process, entrepreneur experience.	-	Rejection reasons are generally referred to market and execution risk. Angel group members focus more on market and execution risk than agency risk, like venture capitalists. Inexperienced entrepreneurs are rejected for market and product reasons.
66.	VC	Dimov et al. (2007)	108 VC firms between 1997 and 2002	Development stage (1. Seed, 2. Start-up, 3. Other early stages, 4. Expansion, 5. Later/acquisition, 6. Other late stage).	Finance capacity, reputation, status.	Structural holes in a network, team's functional diversity, diversity of prior industry experience, team size, founder tenure, entrepreneurial experience, industry of the investments.	Finance expertise is related to a lower proportion of early-stage investments. The relationship is weaker for firms with a good reputation but stronger for firms with a high status.
67.	VC	Franke et al. (2006)	51 interviews in 26 different VC firms - conjoint analysis	Attributes: age, level of education, field of education, prior job experience, prior VC	Similarity effects	-	VCs favour teams that are like themselves in type of training and professional experience.

				experience in leading teams			
68.	VC	Hall & Hofer (1993)	16 protocol screenings and assessments coming from 4 VC firms.	Investment decisions	Criteria	-	VCs screen and assess business proposals very rapidly, in less than six minutes on screening and 21 on proposal assessment. Key criteria: 1) fit with the venture firm's lending guidelines 2) long-term growth, 3) profitability of industry. VCs attach less value to the entrepreneur/team and the strategy of the venture.
69.	VC	Kaplan & Stromberg (2004)	67 portfolio investments by 11 US VC firms	VC-investment	Contracts	-	VCs' actions are related to the contracts. Agency and hold-up problems are important to contract design and monitoring, but risk sharing is not. Greater VC control is associated with increased management intervention, while greater VC equity incentives are associated with increased value-added support.
70.	VC	Kollmann & Kuckerts (2010)	81 VC investment managers from Germany, Austria, and Switzerland	Progress in the decision process	Evaluation uncertainty in decision criteria	-	VCs over-stress criteria irrelevant to day-to-day business, while under-stressing significant criteria concerning probability and survivability.
71.	VC	Maas et al. (2020)	Interviews with 30 Germany equity investment funds.	Perspective on and supporting innovation	Criteria, methods, and mechanisms	-	The emphasis on innovation of equity investment funds during identification of targets is not echoed in the measures later employed by the fund to support innovation processes. Equity investment funds can be more involved in supervising and managing innovation activities of companies.
72.	VC	MacMillan et al. (1985)	Interviews with 14 VCs in New York	Funding new ventures	Criteria	-	The quality of the entrepreneur determines funding decisions. Five of the top ten most important criteria had to do with the entrepreneur's experience or personality.
73.	VC	MacMillan et al. (1987)	Survey to 67 VCs evaluating ventures.	Successful vs. unsuccessful ventures	Criteria	-	There are two criteria that are predictors of venture success: 1) the extent to which the venture is initially isolated from competition and 2) the degree to which there is market acceptance of the product.

74.	VC	Mason & Stark (2004)	Three bankers, three VCFMs and four BAs based in the South of England.	Investment decision	Business plan quality, investment criteria,	-	Bankers prefer the financial aspects of the proposal with little emphasis to market and entrepreneur. Equity investors, VC fund managers and business angels emphasize market and finance issues. Business angels emphasize entrepreneurs more and investor fit considerations.
75.	VC	Muzyka et al. (1996)	Questionnaire: 73 respondents within Europe.	Investment decision	Criteria	-	All five management team criteria (as opposed to management competence criteria) were ranked most important, product-market criteria appeared to be only moderately important, and fund and deal criteria were at the bottom of the rankings.
76.	VC	Norton & Tenenbaum (1993)	Survey to 98 members of the National Venture Capital Association (1990).	Controlling risk	Portfolio strategies (Diversification, information-sharing)	-	Conflicting hypothesis on diversification and networking perspectives are resolved with specialization and information sharing theory. VCs appear to control portfolio risk through specializing, building reputation, and to become important members of information and deal networks.
77.	VC	Petty & Gruber (2011)	Two venture funds, data spanning an 11-year period on deals.	Investment evaluation	Decision making criteria	-	The importance of decision-making criteria varies between the phase of the process. Rejecting a business proposal vary per stage. VC fund related reasons play a role in rejection. Product/service-related criteria are important in proposal rejection. Management team is not an important factor.
78.	VC	Riquelme & Rickards (1992)	6 VCs (conjoint analysis)	VC decision	Characteristics of entrepreneur, product, and market	-	In the first phase, the important criteria appear to be entrepreneur's experience and the existence of a prototype, or unique features of the product. In the evaluation phase, the most important criteria are the previous criteria, product gross profit margin and patent.
79.	VC	Shepherd et al. (2000)	66 Australian VCs representing 47 VC firms (survey)	New venture profitability	Attributes: timing of entry, key success factor stability, lead time, competitive rivalry, educational capability, industry related competence	Scope, entry wedge mimicry	On average, the most important criterion for VCs is industry-related competence. The second is competitive rivalry, timing, and educational capability. The third is

							lead time, key success factor stability and an interaction of timing and lead time.
80.	VC	Shepherd et al. (2003)	66 VCs from Australia	Decision-making capabilities	Experience, consensus	-	Experience is only to a point beneficial to VC decision-making. At low levels of experience, decision-makers face greater information overload. As experience grows, cognitive load and results in improvements do not grow anymore.
81.	VC	Siegel et al. (1988)	52 corporate venture capitalists in the US	Successful results	CVC approach	-	A firm commitment of capital approach is successful in producing ROI and strategic benefit. VCs' criteria related to the entrepreneur appears to take priority over product, market, or financial considerations.
82.	VC	Streletzki & Schulte (2013)	64 ventures funded by German VC firms	High-flyer exit vs. non-high flyer exit.	VC selection criteria (related to company, product, and market)	Industry, exit year	Ventures targeting the business-to-customers market, being located in a metropolitan cluster and close to lead investors, raising VC financing prior to the proof of concept level and having strategic partners raising the first round of VC investment have greater chance of a VC high-flyer exit.
83.	VC	Zacharakis & Shepherd (2005)	41 practicing VCs from Colorado Front Range, Silicon Valley and Boston, US	Likeliness of venture to succeed	Attributes: leadership experience, proprietary technology, market familiarity, start-up record, market size, market growth, number of competitors, competitor strength	-	Interactions between leadership experience and other internal resources, and between leadership experience and environmental munificence, affect VC's decision making. Although VCs always prefer greater general experience in leadership, they value it more highly in large markets, when there are many competitors and when the competitors are relatively weak. Previous start-up experience of the venture's management team may substitute for leadership experience.

Appendix C. Interview guide

Table 12.
Interview guide

Interviewee: ____

Date: ____

Type of interviewee: E/S (e = expert; s = scholar)

Theme	**Purpose of question**	**Questions**
Introduction	Inform the interviewee about the goals of this interview and to get permission for recording the interview.	Introducing myself: I am Evy Siemerink, currently a master student at the University of Twente in Business Administration. I am specializing in innovation, entrepreneurship and strategy and for my master thesis I am conducting research into M&A target selection. The goal of this interview is to look more general into target selection criteria, rules, red flags, and green flags of targets. - Is it correct that you have been informed about the interview? - Do you have any questions before we start the interview? I will ask some questions about best practice in M&A and about your experience with rules that I have found in the literature. You can quit the interview at any moment. This interview will solely be used for my research and will be transcribed for research purposes. If preferred, this interview can be anonymized. - Do I have your permission to record the interview? - Do you want to stay anonymous? After the interview, I will send you the transcript. Record permission: _______________
Background questions	Background of interviewee and responsibilities	Can you introduce yourself? What is your job title?

		Can you describe your work experience?
Target selection	Find out whether the interviewee is involved in the target selection process.	How are you involved in target selection? Do you make use of target selection criteria?
Simple rules	Assessing how-to-rules	How do you carry out the target selection process? What heuristics do you use during the target selection process?
	Assessing boundary rules	Which boundaries do you give the ideal target up front so that you are able to choose the best target? What are the most important conditions that you include that a target has to comply with? (e.g. customers, geography, technology).
	Assessing priority rules	Do you use any heuristics to prioritize one target over another? When is one target better than the other?
	Assessing timing rules	Do you use any heuristics when it comes to the timing of the target selection process? How long does it take to screen a target?
	Assessing exit rules	When do you decide to pull out of an opportunity? When does a target become a 'no'?
	General	How many rules, or criteria, or heuristics, do you use in this process?
Management & team	Assess what is seen as important from a practical perspective.	What heuristics do you use for screening the target on the management and team?
Financial capital	Assess what is seen as important from a practical perspective.	What heuristics do you use for screening the target on the financial aspects?
Product and industry	Assess what is seen as important from a practical perspective.	What heuristics do you use for screening the target on the product/service? What heuristics do you use for screening the target on the industry?

Synergy	Assess what is seen as important from a practical perspective.	What heuristics do you use for screening the target on synergy potential?
Culture	Assess what is seen as important from a practical perspective.	What heuristics do you use for screening the target on the culture/cultural fit?
Integration	Assess what is seen as important from a practical perspective.	What heuristics do you use for screening the target on the need for integration?
Size and experience	Assess what is seen as important from a practical perspective.	What heuristics do you use for screening the target on the firm size? How do you assess the importance of experience in M&A for a buyer?
List of rules	Assess if there is a match or whether there are discrepancies between theory and practice.	Based on the literature on M&A target selection and VC criteria, we have found the following rules: Do you agree with these rules? Is that in line with your experience? **R1a**: The management team should have sufficient industry or leadership experience. **R1b**: Start-up experience can substitute for general leadership experience of the management. **R1c**: In competitive environments, leadership experience is important. **R2**: Retention of the management team and key personnel is essential for post-acquisition performance. **R3**: Employees of the target firm should have enough capabilities (e.g. managerial talent, business competence, technological capabilities, market knowledge, effective HRM policies) that can effectively contribute to synergy realization. **R4**: A company should have sufficient year-on-year revenue growth. **R5**: A company should give a high pay-out in 5-10 years, or a good ROI. **R6**: The existence of an exit is crucial and there should be one present.

R7a: The product or service should provide for and sustain a competitive market position, or should be protected.
R7b: If a startup is acquired, then it is important that patents and good alliances are in place.
R8: The value-added of the product/service should be high: the improvements in cost-reduction or service quality should represent significant improvements to the acquiring firm's products/services.
R9: Environmental hostility negatively affects M&A performance. Prevent buying from very hostile environments.
R10: The target firm should have a good number of prominent customers, which could indicate market acceptance.

R11: The target firm and acquiring firm should preferably overlap in either industry, product, market, strategy, or technology or some combination of them.
R12a: The target firm must have complementary resources that generate both explicit and implicit synergies.
R12b: The target firm should be able to leverage complementary capabilities, or enhance the acquiring firm's competencies.
R13: Market complementarity can only be pursued if the acquiring firm has experience with integrating and managing a target firm located outside of their traditional market.
R14: There must be enough strategic fit (product strategy or complementing the overall strategy) between the target and acquiring firm, especially if the acquirer has a diffuse business portfolio.

R15: Organizational culture similarity significantly contributes to M&A performance. Greater differences in organizational culture lead to lower performance. The organizational culture differences should be low.

R16: More integration is a preferred approach to integration. Managers should be wary of selecting the right approach based on the level of cultural differences and the synergy potential.

	R17: The acquiring firm should choose to take over a smaller firm, but the firm should have a resource base that is able to provide for synergies. **R18**: The acquiring firm should be aware of their own position: are they desperate to grow? *Don't shop when you're hungry.*
Wrap-up	That was the last question. Thank you very much for your cooperation. Once again, I will only use this interview for research purposes. The recording, interview transcript and your contact details will be anonymized. You can contact me at any moment if you have any questions. Do you have any questions left, or do you want to add something? Thank you for your cooperation. End recording.
Recording time:	
Transcript:	