The Role of the Bidding Process in the Corporate Governance of Bidding Firms: The Case of Abandoned Acquisitions

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Abstract

This thesis is structured around an empirical investigation of the experience of bidding firms in abandoned acquisitions. Existing research suggests that, in certain circumstances, abandoned acquisitions may play a governance role, disciplining bidder managers for proposing acquisitions which reduce shareholder wealth. However, there has been little work analysing how, and in what circumstances, abandoned acquisitions perform this governance role. This research addresses this gap, by investigating the causal mechanisms of abandoned acquisitions and their aftermath.

The thesis develops an innovative, multi-dimensional conceptual framework, blending existing theories of acquisitions and corporate governance. This framework guides the empirical investigation, which uses the causal process tracing (CPT) method, not previously adopted in this field. The work builds cumulatively, to analyse the causal mechanisms, in cases of abandoned acquisitions, involving UK bidding firms.

To enhance the identification of the nature of the impact of abandonment on bidding firms; disciplinary or otherwise, a different conceptualisation of the post-abandonment experience of bidding firms is adopted. The research builds on this, by selecting distinctive cases; firms with disciplinary experiences and firms with non-disciplinary experiences. CPT is employed to analyse primary and secondary data, revealing the causal mechanisms present in these distinctive cases.

As a result, meta-causal mechanisms are proposed. These are particular contingent generalisations, which apply to particular groups of cases. These fine-tune existing theoretical explanations, identifying how, and in what circumstances, variables interact. Disciplinary processes after abandoned acquisitions can be traced to causal mechanisms characterised by strategic uncertainty, raised by information revealed during the bidding process. Conversely, non-disciplinary processes after abandoned acquisitions cannot be traced to the causal mechanisms of abandonment. In these cases, the causal pathology of abandonment is localised. The bidder’s offer price is too low and acquisitions are abandoned to avoid over-paying.

The research implies that more effort should be made to enhance the flow of information in the bidding process. In addition, active monitoring is more nuanced than anticipated. This active monitoring should have a positive effect on acquisition decisions, producing enhanced shareholder wealth.

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Chapter One: Introduction

1. Background and Rationale for the Research

Merger and Acquisition (M & A) activity represents an important aspect of business activity. In all countries, in all industries, mergers and acquisitions represent an important means of industrial reorganisation, ideally producing an increase in economic efficiency, represented by an increase in shareholders wealth. In 2005, the peak of the last wave of activity, assets work $3.4 trillion were acquired around the world.[1] In 2005, firms worth over £53 billion were acquired in the UK.[2] In the UK, with developed stock markets, the exchange of corporate control has been, and remains, one of the most important means of channelling resources to their highest value use. However, whether acquisitions create or destroy value is contentious. Despite the professed gains, many mergers fail to achieve those gains and there are numerous popular examples of merger failures.[3] This is important. Whether acquisition activity creates or destroys value has significant economic consequences, relating to the efficient use of resources. However, despite the vast amount of research devoted to acquisitions, there are still a number of outstanding issues.

One notable gap in the literature on acquisition activity relates to those which are abandoned. There is a scarce literature on abandoned acquisitions and many aspects are under-researched. The analysis of abandoned acquisitions can contribute to the literature on the role of acquisitions in enhancing economic efficiency, by offering a different perspective on the acquisition process and its aftermath. This thesis aims to contribute to this literature, by employing conceptual and empirical innovations to the analysis of abandoned acquisitions. These conceptual and empirical innovations should offer a different perspective on the role of acquisition activity. Therefore, this research will be of interest to academics, policy-makers and practitioners involved in mergers and acquisitions.[4]

The role and impact of mergers and acquisitions involves two broad groups of theories. One group argues that acquisitions are a way of enhancing economic efficiency in the use of resources. Theoretically, this is done in a variety of ways. A merger may realise economies of scale or scope (Bradley et al, 1983), economise

[1] Data from Thomson Reuters.
[2] Calculated using data from the Office of National Statistics.
[3] A high-profile failure referred to is AOL / Time Warner where up to $60 bn was written off after the merger.
[4] Indeed, several of the participants in this research expressed a strong interest in the anticipated findings.

on transaction costs (Coase, 1937) or enhance market power for the firms concerned (Eckbo, 1983).

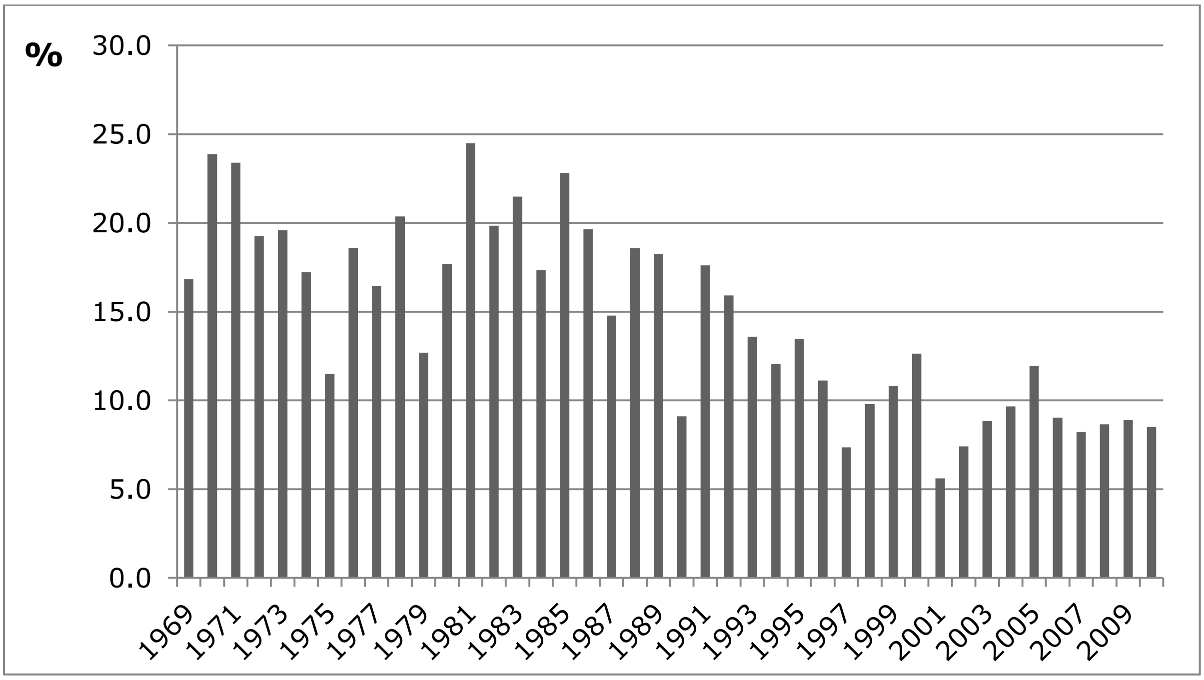
In the UK specifically, a lot of discussion about mergers and acquisitions has taken place in the context of the dispersion of share ownership highlighted by Berle and Means (1932). With the separation of ownership and control inherent in dispersed corporate ownership, principal-agent problems may arise. Principals (shareholders) and managers (agents) may have conflicting objectives. Under conditions of asymmetric information, managers may pursue activities detrimental to shareholder's interests and hide this from shareholders. This means their actions will not be penalised (Jensen and Meckling, 1976). With an increased dispersion of shareholding and limited product market pressure, acquisitions are viewed as a crucial corporate governance mechanism for limiting managerial discretion and ensuring that resources are used in the most efficient way possible (Cosh and Hughes, 2008). Firms with inefficient or self-serving management will suffer reductions in stock market value, making them susceptible to 'disciplinary' acquisitions. After the acquisition, the inefficient or self-serving management is replaced. This threat will provide such managers with an incentive to act in shareholders' interests (Manne, 1965).

> "This optimistic belief in takeover efficiency has led supporters of takeover activity to advocate for an active market for corporate control."
>
> (Wong and O'Sullivan, 2001, p.146)

In contrast, managerial theories propose that acquisitions, rather than providing a solution to the agency problems associated with the separation of ownership and control, are, actually, a manifestation of such problems. Acquisitions are one way in which managers can extend their control over resources. Williamson (1975) developed a model illustrating how managers may have an incentive to prioritise growth objectives over profitability and efficiency. Meanwhile, Jensen (1986) proposes that managers may use excessive acquisitions to expropriate wealth from shareholders. Conversely, managers may embark on an acquisition in the belief that there are acting in shareholders' interests, but through overconfidence, they overestimate the future benefits from this, and hence overpay (Roll, 1986). Hence, a distinction can be drawn between acquisitions which aim to increase efficiency in the use of resources, or acquisitions which further managerial preferences, perhaps destroying value, with the added dynamic of 'managerial hubris' influencing acquisition decisions.

A large volume of literature has analysed the role and impact of acquisitions as a way of distinguishing between these different theories of acquisitions. Chapter two of this thesis provides a review of this literature. However, given the size of the literature base in this area, a comprehensive review is impossible. The chapter will seek to provide an overview of the main findings, the methodological debates and highlight important gaps in current knowledge. Abandoned corporate acquisitions represent a substantial part of acquisition activity. Using data from the Takeover Panel, figure 1.1 illustrates the percentage of acquisitions abandoned in the UK.[1]

Figure 1.1: The Percentage of acquisitions abandoned in the UK between 1969 and 2010



Source: Takeover Panel

The percentage of acquisitions abandoned does not follow the same neat wave pattern observed for completed acquisitions (Cosh and Hughes, 2008). Peaks in abandonments as a percentage of total acquisitions occurred in the early 1970s and again in the 1980s. In recent years, the rate of abandonment has declined significantly. Between 1969 and 1989, the average annual rate was 18.8%. Between 1990 and 2010, the average annual rate of abandonment was 10.5%. This decline may be due to bidding firms becoming wary of launching premature bids due to concerns about the costs of acquisitions (O'Sullivan and Wong, 2005). Indeed, firms devote substantial resources to acquisitions which become deadweight costs in abandonment (Weston et al., 2004). This is further evidenced by a decline in the incidence of hostile bids (bids which do not have the support of the management of the target). Data from the Takeover Panel shows that the

[1] This data represents abandonment after a bid has been made public and an informal offer has been made through an announcement to the stock exchange. Therefore, acquisitions abandoned before this stage are not included. Therefore, this data underestimates the true extent of abandoned acquisitions.

average percentage of hostile bids between 1991 and 2000 was 26%. From 2001-2010 the average percentage was only 12%. More bidding firms try to reach agreement with target managers before launching a bid to minimise bidding costs.

Despite its continued significance, the literature on abandoned acquisitions does not match the richness of the literature on completed acquisitions. The breadth and depth of the study of abandoned acquisitions is limited and infrequent. This scarcity is highlighted in a number of journal articles (see for instance, Wong and O'Sullivan, 2001; and Muehlfeld et al., 2007). Acquisitions are abandoned for a variety of reasons including, inter alia, target management resistance, intervention by competition authorities, rejection of the bid by target shareholders, or voluntary withdrawal on the bidder's part (Wong and O'Sullivan, 2001). However, while these are triggers for abandonment, there are likely to be deeper factors underlying these stated reasons. Indeed, abandoned acquisitions will be driven by similar factors to completed acquisitions. Therefore, the analysis of abandoned acquisitions can provide a distinctive perspective on the role and impact of acquisition activity.

Most previous work on abandoned acquisitions has focused on the role and impact of abandoned acquisitions on target firms (the firm being acquired) as part of a disciplinary governance process (Wong and O'Sullivan, 2001). However, managerial theories suggest that acquisitions may be motivated by the interests of self-serving managers in bidding firms. Indeed, studies show that managers of bidding firms who complete such acquisitions may be disciplined (see Lehn and Zhao, 2006). Abandoned acquisitions are part of this wider activity. Consequently, abandonment may prevent acquisitions reflecting managerial preferences from proceeding. Therefore, such abandoned acquisitions may be part of a disciplinary process in bidding firms. However, this is an aspect of abandoned acquisitions which has not received sufficient attention in the literature. This thesis aims to contribute to the literature on acquisition activity, by addressing this aspect. This aim is stated as follows:

> To investigate the role of the bid process in the corporate governance of bidders in abandoned acquisitions.

Within this aim, the research objectives are:

I. To identify the impact that abandoned bids can have on bidding companies.
II. To investigate the causal mechanisms of abandoned acquisitions.
III. To ascertain, how, and in what circumstances abandoned acquisitions have a disciplinary effect.
IV. To ascertain how, and in what circumstances abandoned acquisitions do not have a disciplinary effect.

2. Regulatory Context in the UK

The institutional and historical context is important to the analysis of acquisitions. The UK is chosen for analysis because it has a developed stock market, an active market for corporate control and all the firms would be governed by a common regulatory regime in both their general business activities and the acquisition process (Officer, 2003). In the UK, it is Public Limited Companies (Plcs) which are most likely to be joint stock companies with dispersed shareholding. Given the focus of this research is abandoned acquisitions in the UK market for corporate control, institutional arrangements surrounding the UK stock market and acquisition process need to be reviewed. These may have a bearing on the nature of any causal processes of abandoned acquisitions and their aftermath. This section of the chapter will provide the background of institutional arrangements relating to acquisitions in the UK.

In 1968, the City Code on Takeovers was created to regulate the process of acquisitions for UK listed companies. The approach underpinning the Takeover Code is that the orderly workings of the market for corporate control are an essential part of the stock market and it should operate freely. The theoretical underpinning is that acquisitions are an important means of allocating resources in a more efficient manner. In this regard, the principal aim of the code is to protect target shareholder's interests:

> "The Code is designed principally to ensure that shareholders in an offeree [target] company are treated fairly and are not denied an opportunity to decide on the merits of a takeover and that shareholders in the offeree company of the same class are afforded equivalent treatment by an offeror [bidder]."
>
> (City Code on Takeovers and Mergers, p.A1)

The above passage highlights concerns about asymmetric information in the acquisition process, which can happen due to the separation of ownership and control. Shareholders should be treated equally in relation to information and the timing of its release. Consequently, the Takeover Panel, the agency which administers the code, must be informed of talks in progress. They then monitor the stock market for signs of the premature release of information and may compel firms to reveal information about potential bids to the stock market (termed rule 2 announcements).

Under the UK Code, target managers can resist a bid, but unlike the USA, the defensive actions which can be taken, are limited. Actions are limited to information announcements through the Regulatory News Service of the London Stock Exchange. This is consistent with the view that impediments to the smooth operation of the acquisition process should be limited and that the final decision regarding acquisitions should lie with the shareholders of target firms.

In 2004, "Put-up or Shut-up" (PUSU) provisions were formalised in the Code. A PUSU announcement obliged bidders to make a bid within a stipulated period or withdraw from an acquisition process (typically twelve months). This stops targets being subject to distracting takeover speculation for a protracted period of time – the 'siege' principle.

In addition to regulations regarding the acquisition process, there has been a succession of corporate governance reforms for UK listed companies. These were consolidated into the first Combined Code on Corporate Governance in 2003 (revised in 2006). There are several important provisions in the context of the separation of ownership and control and the motives for acquisition activity. There is an obligation on shareholders to take a more active role in monitoring the companies they own shares in. There is an onus on the Board of Directors to be more independent (at least 50% of the board should be composed of independent non-executive directors) and active in monitoring the decisions of managers. There should be procedures governing the evaluation of board effectiveness, the appointment of directors and setting executive remuneration. On this latter point, remuneration should be linked clearly to the performance of directors in promoting shareholders' wealth.

The Combined Code and the Takeover Panel do not operate with legal backing, but they are required for stock market listing in London and accepted behaviour. Hence, they dominate the practice of and behaviour surrounding UK acquisitions. Therefore, the analysis of abandoned acquisitions must be conducted with reference to these regulatory arrangements. Throughout the thesis, reference will be made to relevant aspects of this regulatory environment.

3. Structure of the Thesis

This thesis concentrates on the causal mechanisms of abandoned acquisitions and their aftermath, aiming to extend the theoretical understanding of the corporate governance role of abandoned acquisitions in disciplining self-interested managers of bidding firms. In structuring the thesis, the cumulative nature of the research is demonstrated, showing how the innovative, multi-dimensional conceptual framework developed, and new empirical methods employed to the topic, address the aims and objectives of the research. This section of the chapter will describe the structure of the thesis, indicating the role of each part in achieving the aims and objectives of the research and their contribution to knowledge.

In chapter two, it is shown that, while previous research has analysed the impact of abandonment on the subsequent stock market and accounting measures of performance of abandoned bidders, there has been little work on other aspects of the impact of abandonment on bidders, which may provide alternative evidence of post-abandonment discipline. This thesis attempts to make a contribution towards the literature in this area by measuring the impact of abandonment in a novel way. This involves analysing the differential experiences of bidders after abandoned acquisitions across a range of dimensions not previously investigated in a UK context. These dimensions include organisational restructuring, management turnover, asset and financial restructuring and whether bidders subsequently become acquisition targets themselves. These dimensions have been used as evidence of discipline in other contexts. But, these have not been analysed in the context of abandoned acquisitions. Furthermore, the research analyses the interactions involving these dimensions, drawing out sequences of changes after abandonment. An investigation of particular patterns of changes across these dimensions could provide evidence of the nature of post-abandonment discipline. The findings of such an analysis will enhance knowledge of the differential impact of abandonment on bidding firms in abandoned acquisitions.

In addition to investigating the potential disciplinary impact of abandonment on bidding firms, the research is interested in how a bidding process produces abandonment and disciplinary changes subsequently. There is a substantial literature analysing the characteristics of bidders in completed acquisitions. Chapter two demonstrates the scarcity of literature regarding such characteristics in bidding firms in abandoned acquisitions. Theory and empirical evidence suggest such characteristics are important in providing the scope and incentives for managers to pursue bids reflecting their own preferences. Analysing the interaction of these firm characteristics, transaction characteristics and contingent factors in the bidding process can provide some guidance on the mechanisms of information revelation in a bidding process. Differential mechanisms could help explain differences in the impact of abandonment on bidders. Causal mechanisms of abandoned acquisitions may / may not produce a disciplinary impact on bidders. By tracing the interaction of the variables from before the bid, through the bidding process to the aftermath of abandonment, the understanding of the causal mechanisms in abandoned acquisitions will be enhanced, particularly, how, and in what circumstances, abandoned acquisitions play a corporate governance role.

To conduct the research effectively, a fresh approach to the conceptualisation of the acquisition process is proposed. As part of this research, a novel conceptual framework has been developed by blending existing fragmented theoretical concepts effectively. The interaction of the characteristics of bidders, transaction characteristics and contingent factors leading to changes in bidders after abandonment suggests a causal process. This framework encapsulates the causal process in terms of antecedent bidder characteristics, interceding causal mechanisms and outcomes (Steinberg, 2007). The development of this novel conceptual framework is discussed in chapter three.

In order to investigate abandoned acquisitions using the conceptual framework required a methodological approach which could handle the, potentially complex, relations between variables. Causal process tracing (CPT) is useful in identifying interactions between variables in complex causal processes (George and Bennett, 2005). The fieldwork stage of this research represents a novel application of CPT to analysing the causal mechanisms in abandoned acquisitions, in the context of bidding firms. This is the first application of such methods to abandoned acquisitions in a UK context. The innovative application of CPT to abandoned acquisitions is justified and explained in chapters three and four.

The findings from the fieldwork will be presented and discussed in chapters five, six and seven. Chapter five will present and discuss the investigation of the experience of a sample of UK bidding firms after abandoned acquisitions. In itself, this analysis produces exciting findings regarding the differential experience of bidding firms after abandoned acquisitions. Chapters six and seven will present and discuss the investigation of cases of bidding firms using casual process tracing, revealing distinctive causal mechanisms present. Chapter eight is the conclusion, detailing proposed contributions to knowledge, limitations of the research and proposals for further work.

Chapter Two: Literature Review

1. Introduction

The growth, development and death of firms and industries inevitably involves mergers and acquisitions (M&A). Consequently, a substantial amount of research in business, management and economics has been devoted to analysing the field. Several questions dominate research on M&A activity. Firstly, why do acquisitions happen? Secondly, what role do they play in the restructuring of firms and industries? Thirdly, what impact do they have on all of those involved?

This chapter reviews the rich literature on completed acquisitions. It also reviews the more limited literature on abandoned acquisitions highlighting gaps in current knowledge. The chapter proceeds as follows. Section 2 will discuss the theoretical underpinning for merger and acquisition activity. Section 3 will discuss the empirical evidence surrounding the impact of completed acquisitions, in the context of the theoretical underpinning. Section 4 introduces the literature on abandoned acquisitions, discussing the impact of abandonment on bidding firms and target firms, and highlighting the proposed corporate governance role of abandonment for both bidding firms and target firms. Section 5 discusses the empirical evidence reviewing the use of control variables to explain the differential impact of both completed and abandoned acquisitions on both bidders and targets. By doing so, the literature aims to find evidence about the underlying motives of different acquisitions. In addition, analysing control variables in abandoned acquisitions may reveal evidence about the nature of the governance role of abandoned acquisitions. This chapter demonstrates that little is still known about the impact of abandonment on bidding firms, and hence, the nature of the governance role of abandoned acquisitions for such firms. Therefore, section 6 will summarise the gaps in the existing literature base and present the focus of research for this thesis, advancing its original contributions to knowledge.

2. Reasons for Merger and Acquisitions

Why do mergers and acquisitions occur? This question has underpinned the research in this field for the last half-century. The reasons for mergers and acquisitions is classified into two broad categories – 'value-enhancing' reasons, represented by enhanced shareholder wealth and 'value-destroying' reasons driven by managerial preferences, represented by diminished shareholder wealth (Weston et al., 2004). These explanations cover all acquisition behaviour, including abandoned acquisitions, so the analysis of abandoned acquisitions is framed in this context. These different sets of motives predict very different outcomes for post-acquisition outcomes. The analysis is typically framed in the context of shareholder wealth. 'Value-enhancing' theories predict strong beneficial outcomes for the firms concerned, producing an increase in shareholder wealth. 'Value-destroying' explanations predict acquisitions produce poor or indeed negative outcomes for the firms concerned, producing low, or negative returns to shareholders.

'Value-enhancing' reasons for mergers and acquisitions propose improved economic efficiency through the reallocation of resources in the firms concerned. There are a variety of ways through which improved efficiency is achieved. Some research argues that mergers and acquisitions create synergistic benefits through, for instance economies of scale and scope, more effective management and improved production techniques (Bradley et al., 1983). These are more likely in horizontal or vertical mergers between firms. However, even conglomerate mergers may produce synergistic benefits, through for instance, economies in regulatory compliance. Another source of gains specifically derives from the enhanced market power achieved by the elimination of competition through horizontal mergers (Eckbo, 1983; Stillman, 1983). Importantly:

> "The value increase predicted by the synergy theory requires an actual merger, as distinguished from an informational theory that merely relies on the revaluation of assets."
>
> (Bradley et al., p.184)

This means that the consummation of a merger is required for the synergies to be realised, whereas, informational theory argues information revealed during bidding processes may cause increases in value.

Another source of efficiency in M&A derives from Coase (1937). The theory proposes that the organisation of a firm is a trade-off between the specific costs of conducting a transaction using the market and the costs of conducting a transaction within an internal firm hierarchy. Transaction costs involve bounded rationality, incomplete contracting and asymmetric information. Mergers are transactions through which firms can minimise these transaction costs in the conduct of certain activities.

An alternative explanation of why acquisitions can enhance efficiency is based on the reallocation of resources through the discipline of self-serving managers in companies with dispersed share ownership and a separation of ownership and control. Acquisitions are an essential element of the market for corporate control in countries where capital markets are highly liquid. Competing management teams bid to use the resources of firms in the most efficient way possible (Manne, 1965; Alchian and Demetz, 1972). A firm or management team can acquire a poorly-performing firm, replace its management, and reallocate resources to improve the performance of the acquired company. The way this occurs is through hostile 'disciplinary' acquisitions, where acquirers bypass target management and make an offer directly to target shareholders to tend their shares (tender offers). In Manne's view:

> "Only the takeover scheme provides some assurances of competitive efficiency among corporate managers and thereby affords strong protection to the interest of vast numbers of small non-controlling shareholders."
>
> (Manne, 1965, p.113)

Alternatively, motives for mergers and acquisitions can be driven by managerial preferences. Originating in managerial theories of the firm (for instance, Marris, 1964), these theories are, to some extent, related to the separation of ownership and control, but claim a contrasting motive for acquisitions to the disciplinary one described above. In these theories, acquisitions are not a solution to the agency problems which arise out of the separation of ownership and control, but a manifestation of them. Acquisitions are one way through which managers pursue their own preferences in corporate decisions at the expense of their company's shareholders and other groups. Examples of such expropriation include control over more assets and investment spending (Jensen, 1986); higher remuneration (Bliss and Rosen, 2001); shielding against personal risk (Amihun and Lev, 1981); or management entrenchment (Shleifer and Vishny, 1989). Such expropriation by managers may use resources inefficiently, destroying value.

Jensen (1986) proposes a specific model whereby the managers of companies that generate a large amount of free cash flow (cash in excess of that required to fund investments with positive net present values), keep control over these funds by investing in projects that generate negative net present values. One way of doing this is through corporate acquisitions using cash as the means of payment. Jensen identified the tobacco and oil industries as examples of mature industries, with companies generating substantial free cash, yet exhibiting low growth. According to finance theory, this free cash should be returned to shareholders for them to invest in alternative projects producing positive net present values. Instead it is used to further managerial preferences. Similarly, Shleifer and Vishny (1989) suggest that managers will be hesitant in returning cash to shareholders. In their model, acquisitions are a form of 'deadweight' investment through which managers entrench their position in firms.

A final aspect of acquisition theories is managerial hubris (Roll, 1986). Although managers may embark on an acquisition in the belief they are acting in shareholders' interests, Roll (1986) argues that managers of acquiring firms tend to be excessively self-confident and overestimate the future benefits to be derived.

This outcome is more likely in cases with multiple bidders, where the firm which tends to win in competitive is likely to have the highest estimation of future benefits. Consequently, it overpays and suffer the 'winner's curse' – according to auction theory, the winner of competitive bidding is cursed since the highest estimation will, in all likelihood, be an overestimation of expected benefits.

Hence, a distinction can be drawn between acquisitions which increase efficiency in the use of resources, or acquisitions which further managerial preferences, with the added dynamic of managerial hubris influencing acquisition decisions. This distinction underpins the general evaluation of the impact of corporate acquisition activity. Based upon these theories, predictions can be made about post-acquisition outcomes. M&A enhancing value are expected to produce positive outcomes (gains) for both bidders and targets, whereas transactions driven by managerial preferences are anticipated to show, on average, negative outcomes (gains) to bidder firms, due to motives of bidder managers. The hubris theory predicts, on average, that the combined gains from an acquisition will be zero, since the anticipated gains from the transaction will be reflected in the price paid to target shareholders. Table 2.1 summarises the expected outcomes from the different sets of theories.

Table 2.1: Theoretical Predictions of the Pattern of Gains in Acquisitions

Theory	**Combined Gains**	**Gains to Target**	**Gains to Bidder**
Efficiency	Positive	Positive	Positive
Managerial Preferences	Negative	Positive	Negative
Managerial Hubris	Zero	Positive	Negative

3. Impact of Completed Acquisitions

The focus of the majority of studies is the effect of M&A activity on shareholder wealth. This is used as a measure of the value derived from acquisitions. It is anticipated that the impact on shareholder wealth provides an indication of the reasons for acquisition decisions. To do so, studies use either ex-ante performance measures based on either stock market data using event study methodology, or ex post accounting based-measures of operating performance, using pre-bid performance or non-acquiring firms as benchmarks. This section will review the major studies analysing completed acquisitions and the conclusions drawn about the motives for acquisitions. The limitations associated with such approaches are described as well.

3.1 Event Studies

The analysis of the impact of M&A on companies' share prices derives from Manne's (1965) assertion that changes in shareholders' wealth are the appropriate way of measuring the anticipated benefits from acquisitions. The studies typically use 'event study' methodology to analyse the abnormal impact on share prices of M&A before and after announcements, to estimate the anticipated gains from acquisitions. The methodology is based on the assumption of semi-strong form informational efficiency, which states that the abnormal share price returns observed around the time of an acquisition (event window) are an indication of its expected impact on shareholders' wealth (Fama, 1970). Subject to controls for other factors, the extent of abnormal returns should reveal something about the anticipated impact on shareholder wealth.

Results should be interpreted carefully. A variety of event windows are adopted by studies ranging from a few days around the announcement to many years afterwards. In addition, a variety of methods have been developed to estimate the 'benchmark' returns necessary for calculating abnormal returns (see MacKinley, 1997 for a discussion of these approaches). Furthermore, the research is subject to a number of methodological problems. Firstly, some criticism has been directed at the apparent inconsistency of the methodology in assuming semi-strong market efficiency while using historical data to estimate benchmark returns in some approaches (Cosh and Hughes, 1987; Eckbo, 1992). Secondly, in long-run studies, the interpretation of research findings is not straight-forward. Tuch and O'Sullivan (2007) highlight that the tests are really joint tests; (i) whether abnormal returns are zero and (ii) whether the assumed model of estimated returns (eg. market model) is correct. Thirdly, ordinary t-tests require data that are normally distributed. Research has shown long-run share price returns are skewed, so alternative tests have been developed (see Kothari & Warner, 2004). Thirdly, the reliability of long-run event studies may be undermined by thin trading – extended periods when a firm's shares are not traded - and the overlapping of event periods – where a range of company-specific events, including acquisitions may influence a firm's share price. Some studies get around these problems by removing firms suffering from thin trading and firms making multiple bids within the period under consideration. Finally, there is evidence that the time series estimators also tend to be more unstable for individual stocks, which is why many studies now use portfolios of companies (Gregory. 2005). Despite these limitations, event study methodology has been, and remains, the most popular way of studying the impact of M&A activity (Tuch and O'Sullivan, 2007).

Economic efficiency theories, managerial theories and managerial hubris theory make predictions about the abnormal impact of acquisition announcements. All of the economic theories of acquisitions would predict a strongly positive result from acquisitions. After the acquisition, this group of theories anticipates total gains should be positive. Meanwhile, managerial theories propose that, while bidder shareholders will suffer negative returns, target shareholders should enjoy positive abnormal returns. This pattern arises because bidding management share wealth expropriated from bidder shareholders with them, in the form of a higher bid premium. Managerial hubris theory predicts that because of the winner's curse, acquisitions represent zero net present value transactions for bidders. All of the anticipated benefits accrue to target shareholders because of the excessive price paid.

Owing to the large number of empirical studies, as well as the variety of samples and methods adopted, the main findings of a sample of studies have been summarised in tables 2.2 and 2.3. The discussion focuses on using the studies to highlight the main findings and their contributed to the discussion surrounding the role and impact of acquisition activity. Table 2.2 summarises the main findings of short-run studies using daily returns around acquisition announcements. Table 2.3 shows the main findings of long-run studies using monthly returns around acquisition announcements and for up to 5 years afterwards.

Table 2.2 below summaries a sample of research which analysed daily share price returns around the announcement of a bid. Even where combined gains were positive, most of these gains accrue to target shareholders (for example Firth, 1980 or Mulherin and Boone, 2000). Bidder shareholders, at best, break even (for example see Dodd, 1980; Schwert, 1996 and Sudarsanam and Mahate, 2003) and in many cases earn significantly negative abnormal returns (see for example; Walker, 2000; Gupta and Misra, 2004; Savor and Lu, 2009).

Table 2.2: Findings of a Sample of Event studies analysing Returns around Acquisition Announcements – Daily share price returns

Panel A: Studies finding significant returns to Targets			
Study	**Sample Characteristics**	**Event Window**	**Findings**
Firth (1980) UK	642 acquisitions between 1969-1975	0 to +20 days	+28.% for targets -6.3% for bidders
Mulherin & Boone (2000) US	281 acquisitions between 1990-1999	-1 to +1 days	+21.2% abnormal returns to target firms -0.37% returns to bidders
Panel B: Studies finding insignificant returns to Bidders			
Study	**Sample Characteristics**	**Event Window**	**Findings**
Dodd (1980) US	151 acquisitions between 1970-1977	-40 to +40 days	-0.23% insignificant abnormal returns to bidders
Schwert (1996) US	1523 bidders in acquisitions between 1975-1991	0 to +126 days	In cases with only one bidder, bidders have -0.4% insignificant abnormal returns
Sudarsanam & Mahate (2003) UK	519 acquisitions between 1983-1995	+2 to +40 days	+0.14% insignificant abnormal returns to bidders
Panel C: Studies finding significantly negative returns to bidders			
Study	**Sample Characteristics**	**Event Window**	**Findings**
Walker (2000) US	230 mergers 48 tender offers between 1980-1996	-2 to +2 days	-0.84% significant abnormal returns to bidders
Gupta & Misra (2004) US	5726 M&A between 1980-1998	-10 to +10 days	-1.57% significant abnormal returns to bidders in -1 to 0 day period. Returns for the rest of the event window are insignificant
Savor & Lu (2009) US	1773 acquisitions between 1978-2003	0 to 240 days	-7.0% significant abnormal returns to bidders

Alternatively, many studies analyse the long-term effects of acquisitions on shareholder returns. Much of this has been motivated by studies which indicate that acquisitions may have a negative effect on the long-run wealth of shareholders of bidding firms. The studies analyse monthly returns from around the acquisition announcement to between 12 and 60 months afterwards. In general, the studies reveal evidence of poor long run performance for acquirers, in both the UK and US, across a range of acquisition periods, using a variety of methods to calculate benchmark returns. Successful bidders earn insignificant or significantly negative abnormal returns across the studies. Table 2.3 summarises the results according to the length of the event window for a sample of studies.

Table 2.3 Long-term Event Studies

Panel A: 0 to 24 months event window			
Study	**Sample Characteristics**	**Event Window**	**Findings**
Malatesta (1983) US	256 successful acquisitions between 1969-1974	+1 to +6 months	-0.054% significant abnormal returns
Franks & Harris (1989) UK	1048 mergers and acquisitions between 1960-1985	0 to +24 months	-12.6% significant abnormal returns
Limmack (1991) UK	448 mergers and acquisitions between 1977-1986	0 to +24 months	-4.67% significant abnormal returns
Gregory (1997) UK	452 mergers and acquisitions between 1984-1992	+1 to +24 months	-11.82% significant abnormal returns
Panel B: Up to +60 months			
Study	**Sample Characteristics**	**Event Window**	**Findings**
Firth (1980) UK	434 acquisitions between 1969-1975	+3 to +36 months	-4.5% abnormal returns
Sudarsanam & Mahate (2003) UK	519 acquisitions between 1983-1995	+2 to +36 months	-14.76% significant abnormal returns
Moeller, Schlingemann & Stultz (2004) US	12023 mergers and acquisitions between 1980-2001	0 to +36 months	+0.018% insignificant abnormal returns
Panel C: Up to +36 months			
Study	**Sample Characteristics**	**Event Window**	**Findings**
Loughran & Vigh (1997) US	434 mergers and acquisitions between 1970 – 1989	0 to +60 months	-6.5% significant abnormal returns
Gregory (2005) UK	217 acquisitions between 1984 -1992	0 to +60 months	-19.9% significant abnormal returns for period

Across all of the event windows, the studies report significantly negative returns to bidders in their samples (see for example, Limmack, 1991; Gregory, 1997; Sudarsanam and Mahate, 2003 and Gregory, 2005). The Moeller et al. (2004) study is alone in finding insignificant returns to bidders in their sample during the three years after completion.

There are several explanations for the pattern of findings in both short-term and long-term studies. Firstly, bids may be motivated by valid economic reasons, but, on average, bidders overpay, enabling most or all of the expected gains to accrue to target shareholders (the 'winner's curse' suggested by Roll, 1986). This explains the pattern of returns around the announcement of acquisitions and the long-term impact on returns for acquirers. An alternative explanation is that bids are pursued to enhance managers' preferences, producing negative outcomes for shareholders because of the wealth expropriated from them. These studies investigate average returns. They are not able to distinguish between multiple motives present in their large samples. This requires the use of possible control variables to distinguish between motives (discussed in section 5 below).

3.2 Accounting Studies

Some researchers prefer analysing accounting measures of performance because of the methodological concerns regarding event studies and the view that the benefits arising from acquisitions will eventually appear in accounting reports. A number of studies use accounting measures of performance to assess whether post-acquisition performance is improved. Some studies use ex-post accounting measures of operating performance - Return on Equity (ROE), Return on Capital Employed (ROCE), and Return on Assets, (ROA) - to analyse the impact of acquisitions. Other studies use q-ratios (defined as the ratio of the market capitalisation of a company to the book value of its assets) to assess the impact of acquisitions. Typically, studies compare the measures of operating performance against a control group of companies (an industry group or group of non-bidding and target companies) to assess whether performance has changed significantly. Table 2.4 summarises the results according to the outcome measures; panel A summaries earnings-based studies, panel B cash-flow studies.

Table 2.4: Summary of a sample of Accounting Studies of Operating Performance

Panel A: Earnings Based Studies		
Study	**Sample Characteristics**	**Main Findings**
Meeks (1977) UK	233 mergers and acquisitions between 1962-1972	Significantly positive abnormal profits of 0.114% in year of merger. Significantly negative abnormal profits in years +1 to +5.
Dickerson, Gibson and Tsakalotos (1997) UK	2941 mergers and acquisitions between 1948-1977	Non-acquiring firms have significantly higher return on assets compared to acquirers (2.4%).
Carlinn, Linn and Yadav (2002) UK	81 Mergers and acquisitions between 1985-1994	Acquirers had significantly better operating performance than industry benchmarks.
Bild et al. (2006) UK	303 mergers and acquisitions between 1985-1996	Significantly positive return on equity of between 17.24% and 21.5% for years 0 to +3.
Panel B: Cash-Flow Studies		
Study	**Sample Characteristics**	**Main Findings**
Ravenscraft and Scherer (1987) US	62 acquisitions between 1975-1977	No significant difference between the ratio of cash flows/assets for acquirers and industry benchmark.
Healy, Palepu and Ruback (1992) US	50 large acquisitions between 1979-1984	Significantly higher operating cash flow returns for combined firms compared to control group in 5 years after merger.
Ghosh (2001) US	315 mergers and acquisitions between 1981-1995	Significantly higher cash flow returns for combined firms compared to control group in 3 years after merger.
Powell and Stark (2001) UK	Mergers and acquisition between 1985-1993	Significantly higher cash flow returns compared to control group in 3 years after merger.

According to economic theories of M&A, acquisitions should produce superior post-acquisition operating performance compared to the pre-acquisition period. Early studies by Singh (1971) and Utton (1974), analysing the merger wave of the 1960s, found evidence of worse performance after acquisitions. Meeks (1977) found that profitability improved in the year of the acquisition, but decreased in each of the five subsequent years. Dickerson et al. (1997) found that bidders in completed acquisitions exhibited lower rates of return compared to their own performance prior to the acquisition. They also compared the companies to a control group of non-acquirers, finding that the acquirers performed significantly worse. This study also found that multiple bidders exhibited worsening performance with each subsequent bid, suggesting they did not get better with experience. Ravenscraft and Scherer (1987) in their seminal study using US data found that, on average, the profitability of merging firms declined afterwards. However, Healy et al. (1992) investigated the largest 50 acquisitions in the USA between 1979 and 1984, finding that, while the performance of these companies declined relative to the pre-bid period, it was still better than a control group of industry comparators. More recently, Andrade et al. (2001) examined the post-acquisition performance of approximately 2000 acquisitions in the USA between 1973 and 1998, finding that post-acquisition operating performance improves relative to industry benchmarks. The performance was also better than the performance prior to the acquisition. Finally, Bild et al. (2006) report significantly average abnormal returns of equity between 17.24% and 21.5% in the three years after the completion of an acquisition. This suggests acquisition activity enhances performance.

The evidence here is mixed. Some studies find that acquisitions lead to the improved performance of the companies involved, but others find no improved performance. Martynova and Renneboog (2005) suggest that the findings are influenced by the choice of profitability measure. Studies which use earnings based measures tend to show declines in profitability while those based on cash flows tend to show gains in profitability. However, the evidence is not consistent.

In addition, the analysis of accounting information has its own methodological issues. Accounting information is considered less reliable since it can be manipulated by management (Stanton, 1987). Also, a valid measure for the combined performance of the acquirer and target, as the latter is subsumed within the acquirer, is required. This is difficult to ascertain (Powell and Stark, 2005).

Hence, a major issue is the methodological problems which hamper the measurement of underlying performance in acquisitions. Doubts over these empirical results regarding the impact of acquisitions may explain why M&A is still pursued. As Martin Lipton, a practitioner at the forefront of acquisitions for many years, stated in "The Davies Lecture" on 14th September 2006 at York University:

> "…the academic studies are criticised and largely ignored on the grounds that they are mostly based on comparing the stock market value of the acquiring firm to that of its peers or the general index for periods subsequent to the acquisition. The obvious defect in this analysis is lack of information as to how the acquirer would have fared if the acquisition had not taken place."

The methodological problems would suggest that alternative research methods can be used to complement financial and accounting studies. In particular, qualitatively-based case studies, by analysing the acquisition process and the impact of acquisitions differently, could add to the findings of statistically-based studies, producing a fuller understanding of the acquisition process and its impact on the firms involved.

4. Abandoned Acquisitions

A significant number of acquisition bids are abandoned. However, since the basic motivation is not likely to change between the point at which a bid is proposed until it is abandoned, an analysis of abandoned acquisitions can provide a different perspective on the acquisition process, particularly helping analyse the role and impact of mergers and acquisitions to ascertain whether when they are driven by economic reasons or managerial preferences. Acquisitions are abandoned for a variety of reasons including, inter alia, target management resistance, intervention by competition authorities, rejection of the bid by target shareholders, or voluntary withdrawal on the bidder's part (Wong and O'Sullivan, 2001). However, while these are triggers for abandonment, there are likely to be deeper forces producing abandonment.

Research on abandoned acquisitions is limited. The research is rooted in the financial economics literature and focuses on two aspects of the process. One aspect of research analyses the impact of abandonment to ascertain whether the abandonment decision and its aftermath can determine whether managerial or economic-based motives dominated the original acquisition decision. In doing this, the focus of attention has been the role of abandoned acquisitions in the disciplining of target firms, to determine whether the failure of a bid represents a failure to discipline self-serving management (see Wong and O'Sulllivan, 2001). A limited amount of empirical work has investigated the impact of abandonment on bidding firms. This requires further attention. Another aspect which has received a lot of attention is the characteristics which distinguish abandoned acquisitions from completed ones, providing indications on the causes of abandonment. Studies have investigated the characteristics of bidders and targets, transaction characteristics and events in the bidding process, to ascertain what distinguishes abandoned bids from completed ones.

The acquisition process is complicated, so modelling it precisely is extremely difficult (Weston et al., 2004). Real world and conceptual modelling of the bidding process is complex. During the acquisition process:

> "…the two firms, the market and investors continue to receive new information regarding the deal and firm values as the negotiation process unfolds."
>
> (Hotchkiss et al., 2005, p.1)

The release of new information in this period can significantly affect the risks and returns associated with a particular bid and therefore impact on the bid outcome. Two distinct positions regarding abandonment can be proposed. Either abandonment prevents acquisitions reflecting economic efficiency from proceeding, producing negative outcomes. Or, abandonment prevents acquisitions reflecting managerial preferences from proceeding, producing positive outcomes. In this latter case, abandoned acquisitions may form part of a disciplinary process within bidding firms.

4.1 Impact of Abandonment

In investigating abandoned acquisitions, research has analysed the impact of abandonment to ascertain whether the abandonment decision and its aftermath can determine whether managerial or economic-based motives governed the acquisition in the first place, and also, by implication, the abandonment decision. In doing this, the focus of attention has been on whether the failure of a bid is costly in terms of lost benefits to shareholders, either through lost synergies, or, the failure to discipline management (see Wong and O'Sullivan, 2001).

The existing literature evaluates the impact of abandoned acquisitions using the same two perspectives as studies of completed ones. In accounting studies, both the bidders' and targets' performance are compared with the pre-bid performance or the performance of a matched sample of either completed mergers, or non-targets and non-bidders. In event studies, the impact of abandonment is assessed by analysing the post-abandonment share price performance of the companies. However, some studies have analysed wider quantitative and qualitative aspects which have contributed to determining whether abandonment has a governance role. Table 2.5 provides a summary of the main studies in this field. The table is grouped into (A) event studies, (B) accounting studies, and (C) studies of qualitative changes. The discussion will focus on the main findings surrounding the impact of abandoned acquisitions.

Table 2.5: Summary of Empirical Studies of the General Impact of Abandoned Acquisitions

Panel A: Event Studies of Abandoned Acquisitions		
Study	**Sample Characteristics**	**Main Findings**
Firth (1980) UK	434 completed and abandoned acquisitions between 1969-1975	No significant difference in the returns of targets in completed acquisitions compared to targets in abandoned acquisitions Abandoned targets respond through management and other changes
Dodd (1980) US	71 completed and 80 abandoned acquisitions between 1970-1977	When abandonment is initiated by the target, target shares retain their gains. When abandonment is instigated by the bidder, the value of the shares lapse to pre-bid levels.
Pound (1986) US	56 targets of abandoned acquisitions between 1974-1985	Over a two year period, target shareholders 30% worse off than if bid had been successful
Davidson, Dutia & Cheng (1989) US	163 abandoned acquisitions between 1976-1985	Abandoned target shareholders retain abnormal gains if firm receives another bid. Abandoned target shareholders lose abnormal gains if firm does not receive another bid.
Limmack (1991) UK	448 completed and 81 abandoned acquisitions between 1977-1986	Abandoned target shareholders retain abnormal gains for at least two years afterwards.
Chang & Suk (1998) US	279 abandoned mergers between 1982-1990	Abnormal returns to bidders are positive when bidder initiates abandonment. Abnormal returns to bidders are insignificant when target initiates abandonment.
Cole, Fatemi & Vu (2006) US	22O abandoned mergers between 1991-2000	Abnormal returns earned at announcement are only partially reversed at abandonment.
Savor & Lu (2009) US	1773 acquisitions between 1978-2003	Successful bidders earn significantly less negative returns than failed bidders.

Panel B: Accounting Studies

Study	Sample Characteristics	Main Findings
Holl & Pickering (1988) UK	50 abandoned mergers and 50 successful mergers and 33 contested bids between 1965-1975	Failed bidders had higher profits and return on equity than successful bidders afterwards. Failed bidders had lower growth than successful bidders afterwards.
Taffler & Holl (1991) UK	55 abandoned targets, 129 completed targets, 76 bidders	Abandoned targets do not improve their performance in three years following abandonment. Abandoned bidders do not improve their performance in three years following abandonment.
Limmack (1994) UK	98 abandoned targets between 1977-1986	Abandoned targets which retain abnormal gains after abandonment have improved operating performance.

Panel C: Qualitative Changes

Study	Sample Characteristics	Main Findings
Denis (1990) US	49 abandoned targets which make distributions to shareholders between 1980-1987	Target shareholders earn abnormal returns form acquisitions irrespective of outcome. Abandoned targets conduct capital restructuring, strategic changes and changes to voting rights to improve managers' incentives to maximise value.
Agrawal & Walkling (1994) US	182 targets and 169 matched non-targets between 1980 -1986	CEOs are more likely to be replaced in successful targets than abandoned ones. CEOs retained in abandoned targets suffer changes in remuneration negatively correlated with pre-bid excess remuneration.
Franks & Mayer (1996) UK	58 targets of hostile bids and a match sample of non-targets between 1985-1986	Managerial turnover is higher in both targets of completed acquisitions and abandoned targets than in matched sample. Management turnover is higher in abandoned targets.
Denis & Serrano (1996) US	98 targets of abandoned tender offers between 1983-1989	34% of targets experience the replacement of senior managers within two years. Ownership changes more likely to produce management changes and asset restructuring.
Lehn & Zhao (2006) US	714 completed and abandoned acquisitions between 1990-1998	CEOs in bidders are more likely to be replaced if they pursue bids associated with negative abnormal returns around announcement compared to those who abandon bids.

4.2 Impact of Abandonment on Targets

By just focusing on completed acquisitions, the analysis of the post-acquisition gains to targets cannot distinguish between competing economic efficiency theories of acquisitions. However, studies of abandoned acquisitions may be able to distinguish between the different explanations. Acquisitions driven by synergistic gains require a physical consolidation of the assets of the two companies. Hence, those prompted by synergistic gains should experience negative gains around the announcement of abandonment. On the other hand, the informational or disciplinary hypotheses do not require a physical consolidation in order to generate gains. Either new information may be revealed in a bidding process which leads to the revaluation of both companies, or the threatened management may be stimulated into action which improves operating performance. Both views suggest that any gains around the announcement of a bid should be sustained, even if a bid is abandoned (Wong and O'Sullivan, 2001).

Studies using event study methodology have found mixed results. Some research has found that targets in abandoned acquisitions that enjoyed positive abnormal returns after the announcement of a bid lost all of the gains once the bid was abandoned (Pound, 1986). Franks Mayer and Harris (1986) focused on merger proposals rejected by the Monopoly and Mergers Commission (MMC). There, all announcement period gains disappeared after the rejection. This is not surprising since acquisitions rejected on competition grounds are more likely to produce synergistic gains. Abandonment stops the gains being realised. Some studies, both in the UK and US, have found that the abnormal gains to targets around the announcement date did not completely disappear after abandonment (see Firth, 1980; Dodd, 1990; Limmack, 1991; Holl and Kyriazis, 1997). This supports the idea that the abandoned bid led to a revaluation of the target in the light of new information. In order to distinguish further, Dodd (1980) separated his sample into those targets that were subsequently acquired by another bidder and those that remained independent. There was a significant difference in the experience of the two sub-groups. The group of firms subsequently acquired, enjoyed significantly higher abnormal returns after abandonment. This is consistent with the synergy explanation for M&A since the abnormal returns only persisted in cases where a subsequent bid was likely. Indeed, the authors reported that the bidding firms in abandoned bids suffered significant losses, on average, when the targets were subsequently acquired. Davidson et al. (1989) confirm these findings with results that demonstrated share price gains for target firms were sustained as long as they were engaged in subsequent acquisitions, regardless of whether the bidder or target initiated the abandonment. This disputes informational theories and the likelihood that managers may be stimulated to better performance.

Using accounting measures, both Holl and Pickering (1988) and Taffler and Holl (1991), found no improvement in the performance of targets of abandoned acquisitions in the three years afterwards. Meanwhile, Limmack (1994) compared the performance of targets which remained independent with those subsequently acquired, for a period of five years after abandonment. There was no significant difference in the post-abandonment performance of the two groups. In addition, the study reported that the sustained abnormal share price returns in targets were associated with improved operating performance after abandonment. This improved performance was achieved either through better effort by existing managers or through the replacement of under–performing managers. This supports a governance role for the acquisition process through disciplining underperforming managers in targets. Indeed, Jensen and Warner (1988) argue that if acquisitions signal information about the poor performance of managers, internal governance mechanisms should lead to a higher incidence of managerial turnover, even if an acquisition is abandoned.

Studies of other aspects of the impact of abandonment provide some support for such a governance role. Pickering (1983) found that the post-abandonment performance of targets improved as a result of restructuring. Denis (1990) compared the targets of abandoned and completed acquisitions and found that the former group had a higher rate of management turnover than the latter group. In addition, he also found that the target companies in his sample of abandoned acquisitions had a higher propensity to make changes to capital structure, voting rights, strategy and managerial incentives than non-targets. Using UK data, Franks and Mayer (1996) also found targets in abandoned hostile bids, more likely to be disciplinary, had a higher rate of managerial turnover than non-targets. This echoes earlier findings by Firth (1980). In the later study, these managerial changes were associated with higher share price returns suggesting that the removal of managers after abandonment met with shareholders' approval. On the other hand, in the US, Agrawal and Walkling (1994) found the reverse – a CEO was more likely to be replaced in targets of completed compared to abandoned acquisitions. However, they did find that CEOs retained after an abandoned bid, were likely to suffer changes in remuneration negatively correlated to their pre-bid remuneration. This suggests a disciplinary link between the market for corporate control and internal governance mechanisms. In completed acquisitions, managers are disciplined through replacement. In abandoned acquisitions, the findings suggest that target managers are disciplined through ex-post reductions in remuneration.

Hirschleifer and Thakor (1994) and (1998) developed a model that demonstrates the interrelationships between acquisition bids, information revelation and internal corporate governance in targets, in response to bids. In their model, target shareholders delegate the task of monitoring to the board of directors. The market for corporate control provides additional disciplining of both the CEO and the board. The board and potential bidders have different information and this is important to assessing the performance of a CEO. The board aggregates information it possesses with that provided by the bid. A vigilant board may accept a bid based on its own information about the CEO, in conjunction with information provided by a bid. However, a board may reject a bid because it is concerned about being replaced and wants to avoid a change in control. In such circumstances, a bid may be rejected, but the aggregation of information may lead to post-abandonment discipline.

> "…a well-functioning internal control mechanism (the board) does not obviate the need for external control (takeovers)."
>
> (Hirschleifer and Thakor, 1998, p.489)

Denis and Serrano (1996) provide some support for the model as a result of investigating the role of external ownership blocks in changes observed in targets after abandonment. They found that changes in target management following abandonment were associated with unaffiliated investment by external ownership blocks during and after the bidding process. These ownership blocks are also associated with significant asset restructuring in the companies after abandonment. The evidence suggests these shareholding blocks may not want a change in control, but may have information or use information revealed in the bidding process to force disciplinary changes – such blocks have the incentive and ability to do so. This research suggests that, in some circumstances, abandoned 'disciplinary' bids may still have a governance role primarily through its interaction with internal mechanisms, producing changes in target firms afterwards. This substantiates Jensen and Warner's (1988) observations regarding the governance role of the acquisition process. In this context, abandonment may not mean a failure to discipline incumbent management because the acquisition process signals information to target boards / shareholders of the need for remedial action. The sustained share price appreciation observed in some targets may be due to the remedial action taking effect. Those targets which do not take remedial action do not raise their performance subsequently, remaining targets susceptible to future disciplinary bids.

4.3 Impact of Abandonment on Bidders

Many acquisitions may be driven by managerial preferences. If such bids were abandoned, then, the bidding process may have played a governance role, contributing to the discipline of managers. In such circumstances, it would be anticipated that abandonment may have a 'disciplinary' impact on the bidding firms. Empirical work has investigated a variety of variables measuring the impact of abandonment on bidding firms.

Event studies analyse the share price reactions to abandonment. If a bid was driven by managerial preferences, there should be a positive share price response around abandonment or, if a bid was driven by economic efficiency, there should be a negative response. Dodd (1980) found positive abnormal returns for bidding companies around abandonment announcements. Bradley et al. (1983) focus on tender offers, more likely to be disciplinary and found positive abnormal returns for bidding firms around the announcement of abandonment. This suggests shareholders viewed the proposed acquisition negatively and were relieved it was abandoned. In contrast, Bradley (1980) found a negative share price reaction to abandonment among bidding firms. These results indicate that abandonment may either, reveal that the anticipated benefits would not be achieved, or, signals perceived weakness in bidders to investors. Using a different benchmark, Asquith (1983) found no significant difference in the abnormal returns between successful and unsuccessful bidders in the post outcome period. This suggests that the market does not perceive any differential consequences for successful compared to failed bidders, implying bid failures were not viewed negatively. This supports the disciplinary theory where bidders are just agents of change in targets. Meanwhile, Chang and Suk (1998) examined 279 abandoned acquisitions and found support for this argument. When targets initiated abandonment, abnormal returns to bidders were not significantly different from zero. However, when bidders initiated abandonment, the abnormal returns were positive.

A more recent paper by Cole, et al. (2006) investigates the circumstances which produce differential returns to bidders. They found that bids permanently reduce the value of bidders, whether it is abandoned or not. They interpret this as evidence that where shareholders view an acquisition being pursued for managerial preferences, the shareholders, "…punishes management by lowering its valuation of the firm" (p.16). Meanwhile, Savor and Lu (2009) found that, in general, successful bidders tended to exhibit higher abnormal returns around announcement dates compared to failed bidders. Furthermore, they found that the difference in performance was related to the use of equity as a means of payment (see section 5.32 below for a discussion of the means of payment as a control variable).

Alternative studies focus on other aspects of the impact of abandonment on bidding firms, including accounting measures of performance. A seminal work in abandoned acquisitions in the UK is Pickering (1983). He found that bidders' managers' reaction to abandonment was one of relief - integration would have taken more time and effort and management resources would have been stretched. This is consistent with the research on the wealth effects of abandonment. However, while some bidders took no action in response to abandonment, others attempted positive action, engaging in internal changes such as changes in management, methods of production or reviews of products and markets. Interestingly, there were some that were subsequently acquired themselves. This result is consistent with Mitchell and Lehn (1990), who found that bidders who completed acquisitions, perceived to be value-destroying, were the targets of subsequent acquisitions, interpreted by the authors as 'disciplinary'. Pickering's findings suggest that this interpretation could be extended to the bidders, in his sample, who were subsequently acquired. This suggests that the bid process revealed the motives of a bid and this led to disciplinary changes in the companies subsequently. This impact is similar to the experience of some target firms after abandoned acquisitions. This supports the view that abandoned bids may have a governance role on bidders in circumstances where bids are revealed to be pursued to further managerial preferences and not shareholders' interests. Furthermore, Lehn and Zhao (2006) investigate CEO turnover after both completed and abandoned acquisitions. They found that CEOs who complete acquisitions associated with lower returns around announcement face a high probability of being replaced compared to CEOs who cancel acquisitions, anticipated to decrease shareholder wealth. This suggests a disciplinary response to the takeover process indicating that information is revealed by the bidding process leading to changes subsequently. CEOs who complete acquisitions anticipated to destroy value are replaced. Those who respond to the information signal during the bidding process, and abandon bids are more likely to keep their jobs. These findings echo those for target firms (Jensen and Warner, 1988).

Several quantitative studies have been carried out on abandoned acquisitions in the UK during the 1970s and 1980s. Using linear discriminant analysis, Holl and Pickering (1988) compared 50 failed mergers with a matched sample of 50 successful mergers. They also analysed 33 cases of contested bids. The firms which did not merge performed better than those which did. In particular, the failed bidders had significantly higher profits and return on equity than successful bidders, suggesting that abandonment was a greater spur to efficiency than a completed acquisition. Indeed, the successful bidders had a higher growth rate, implying a focus on managerial preferences in those companies. Using a Performance Analysis

Score (PAS) that weighted profitability, working capital liquidity and financial risk in a sample of 55 cases of abandoned bidders in the UK, Taffler and Holl (1991) did not find any improvement in the performance of unsuccessful bidders after abandonment. They suggest this finding is evidence that little discipline is imposed through the acquisition process, which raises performance.

4.4 Summary of Empirical Studies of Abandoned Acquisitions

The findings of this research indicate that abandonment may have an impact on the firms involved. However, the results are conflicting, and so, the consequences of abandoned acquisitions remains a fertile topic for more research, particularly in the context of bidding firms. There is a scarcity of literature regarding the impact of abandonment on bidding firms which is surprising given that many studies indicate that acquisitions are driven by managerial aggrandisement. Research to date has focused attention on the impact of abandonment on the subsequent stock market and accounting measures of performance regarding abandoned bidders, but there has been little work on other aspects regarding the impact of abandonment on bidders. More research is needed. An analysis of the differential experiences of bidders after abandoned acquisitions would enhance our knowledge of the effectiveness of the acquisition market in disciplining self-serving managers following their own preferences. The differential experiences of abandoned bidders in relation to a number of qualitative variables which have been used in other contexts as evidence of discipline, may provide different evidence regarding the effectiveness of the acquisition process in disciplining self-serving managers of bidding companies. These variables include organisational changes (Pickering, 1983), management turnover (Huson et al., 2001; Lehn and Zhao, 2006), asset restructuring, particularly divestments (Haynes et al., 2000; Perry and Shivdasani, 2005) and financial restructuring, especially increased gearing (Stulz, 1990; Barclay and Smith, 1995) and whether bidders become acquisition targets themselves (Mitchell and Lehn, 1990).

5. The Influence of Control Variables on Acquisitions

The relatively inconclusive evidence on the post-acquisition performance of acquisitions has led researchers to investigate other characteristics in an attempt to see whether they can differentiate between different impacts of acquisitions. The literature has focused on a range of control factors to explain the differential impact of completed acquisitions, and so, assess whether acquisitions are pursued for economic or managerial objectives. These control variables include the pre-bid performance of bidders and targets, corporate governance characteristics, transaction characteristics, as well as contingent factors in the bidding process. Such control variables have been used extensively in studies of completed acquisitions to relate post-acquisition performance to these characteristics.

There has been more limited research conducted to analyse the impact of such control variables on abandoned acquisitions. The analysis of abandoned acquisitions in the context of these variables can help to identify the nature of the governance role of abandoned acquisitions. The next section of this chapter will review the literature in these areas in the context of both completed and abandoned acquisitions. The characteristics can be separated into the pre-bid performance of the companies concerned, corporate governance characteristics of bidders and targets, transaction characteristics, as well as contingent factors in the bidding process. Table 2.6 summarises the main studies analysing the influence of control variables in abandoned acquisitions is at the end of this chapter.

5.1 Firm Characteristics

Research in M&A activity has attempted to discriminate between the performance characteristics of bidders and targets in completed and abandoned acquisitions in order to determine whether it has a significant impact on the outcome. This may reveal the underlying motives for the transaction. The studies use similar methodologies to analyse stock market or accounting data and are subject to the criticisms noted in section 2 and 3 above.

5.11 Pre-Bid Performance of Targets

A number of studies have analysed the pre-bid performance of target firms to test whether bids may be 'disciplinary', motivated by the correction of managerial failure in targets. Only the disciplinary theory predicts that target companies should exhibit negative abnormal performance prior to the bid, indicating the poor performance, which requires the better management of resources, to improve performance. The disciplinary explanation makes no predictions about the pre-bid performance of bidding companies, since these companies are viewed as the agents of change. Managerial theories propose nothing about the pre-bid performance of either bidders or targets.

In studies of the pre-bid period, it is only early studies that find evidence of significant under-performance (see Firth, 1979, for the UK and Smiley, 1976, for the USA). However, the majority of subsequent studies have not found evidence of significant underperformance of targets prior to bids, disputing the argument that acquisitions discipline self-serving managers in targets. Notable here is the recent findings reported by Agrawal and Jaffe (2003) of positive abnormal returns in target firms for eight years leading up to a bid.

To get a better understanding of the governance role of acquisitions, a number of studies have investigated a sub-set of acquisitions that are more likely to be driven by the correction of managerial failure. This subset includes bids that are defined as hostile, because there was a direct offer to shareholders to tender their shares to the bidder (tender offers). Of these studies, only the early study by Smiley (1976) reports significant negative performance by targets. Later work, for instance Franks and Mayer (1996), did not observe significantly negative returns in target companies in hostile bids compared to friendly ones during the pre-acquisition period. These results were echoed in the USA where studies by Martin and McConnell (1991), Kini et al. (1996) and Agrawal and Jaffe (2003) did not find any evidence of significantly negative abnormal returns in the pre-bid period. Kennedy and Limmack (1996) differ from the other studies by defining a disciplinary bid as one where the chief executive was replaced up to two years after an acquisition was completed. They found that the pre-bid performances of targets where the chief executives were replaced, were significantly worse than the performances of targets where the chief executive wasn't replaced. This supports a governance role for acquisitions through the removal of poorly performing managers.

The pre-bid performance of targets has also been investigated using accounting measures of performance. Early studies by Kuehn (1975) and Cosh et al. (1980) suggest that targets may have lower pre-bid performance compared to non-targets. This is supported by recent evidence by Dickerson et al. (2002) in a sample of UK targets from the 1990s. However, other early studies found that acquisition targets actually exhibit a greater return on assets compared to non-targets (see Meeks, 1977, for the UK and Herman and Lowenstein, 1988, for the USA), suggesting that acquisitions play a weak governance role. A recent comprehensive study by Agrawal and Jaffe (2003) compared the pre-bid performance of targets with a control group matched by industry, size and performance. In their overall sample, there is no evidence of significant underperformance by acquisition targets. In acquisitions more likely to be disciplinary, both Franks and Mayer (1996) and O'Sullivan and Wong (1999) compared the performance of targets in hostile bids with friendly ones and find no systematic evidence of underperformance. In their study, Agrawal and Jaffe (2003) investigated a number of definitions of discipline (tender offer, management resistance, multiple bidders), finding no evidence of systematic underperformance in any of these sub-categories, compared to their control group. The studies that examine Tobin's q provide mixed evidence of a disciplinary motive for acquisitions. Hasbrouck (1985) found that, on average, targets in corporate acquisitions have lower q-ratios than non-targets, suggesting underperformance in the former group. In contrast, Lang, et al. (1989) found that q-ratios in their sample were not significantly lower in hostile compared to friendly targets in the year prior to the bid, disputing the predictions of the disciplinary theory.

There is a dearth of studies that investigate these sub-groups in the contact of abandoned acquisitions. This is surprising since there are studies that have done useful work on other aspects of acquisitions for such a sub-group and extending such analysis to post-abandonment accounting performance may reveal more information about the motives of acquisition activity.

Using event study methodology, a number of studies have tested the disciplinary theory of acquisitions by analysing the pre-bid performance of abandoned targets. No consistent evidence can be drawn. Some studies found evidence of significant underperformance in target firms in the pre-bid period (Kummer & Hoffmeiser, 1978; Limmack, 1991). However Asquith (1983), using US data, found worse performance in targets of completed acquisitions compared to abandoned ones, implying those bids were more likely to have been driven by disciplinary motives. A number of other investigations have analysed operating performance to assess the pre-bid performance of targets in abandoned acquisitions, producing similarly inconsistent results. Using linear discriminant analysis across a range of performance measures, Holl and Pickering (1988) found significantly superior performance in the pre-bid performance of targets of completed acquisitions compared to targets of abandoned ones. Using a Performance Analysis Score (PAS) that weighted profitability, liquidity and financial risk in the companies concerned, Taffler and Holl (1991) analysed an extended pre-bid period, finding no significant differences between targets of completed acquisitions compared to targets of abandoned ones. Focusing on hostile bids, which are more likely to be disciplinary, Franks and Mayer (1996), using q-ratios, found targets in completed acquisitions exhibited poorer pre-bid performance than targets in abandoned ones. However, Sudarsanam (1995), using a similar outcome measure, found no significant differences between completed and abandoned targets. O'Sullivan and Wong (1999), using return on capital employed, had similar results. These results suggest that abandoned acquisitions cannot be distinguished from completed acquisitions using target performance as a control variable.

5.12 Pre-bid Performance of Bidders

An interesting issue is whether bidders in abandoned acquisitions exhibit poorer pre-bid performance compared to their successful counterparts. This may reveal information about the motives for a bid. In his case study analysis Pickering (1983) found that the bidding companies were drawn from a broad spectrum, some fast growing with a high stock market rating, while others were in difficulty, exhibiting slow growth and fluctuating earnings. In their linear discriminant analysis of the same companies, Holl and Pickering (1988) found that, on average, the abandoned bidding companies were more profitable than companies which successfully completed acquisitions, but were smaller, less liquid, with lower levels of gearing and growth. This suggests that liquidity and not profitability may be the key factor in completing acquisitions, supporting theories of managerial preferences, particularly Jensen's free cash flow theory. The study concluded that the findings indicate that managers of both completed and abandoned bidders are motivated by growth rather than profitability. The extent of liquidity can influence the means of payment, which studies have shown to be an important factor in abandonment (see section 5.32 below for a detailed discussion of the role of the means of payment in the acquisition process). Meanwhile, Taffler and Holl (1991) support this observation by reporting that abandoned bidders had weaker pre-bid performance compared to not only successful bidders, but also their targets. Analysing stock market data, both Limmack (1991) for the UK, and Dodd and Ruback (1977) for the US, found no evidence to differentiate the pre-bid performance of successful and unsuccessful bidders. These results indicate that successful acquirers are those with higher levels of free cash flow, not higher profitability, implying that many bids may be motivated by managerial preferences and not an improved allocation of resources in firms. This is consistent with the findings of Holl and Pickering (1988).

Comparing the pre-bid performance of bidder and target firms may reveal something about the motives behind bids. If the average performance of targets is superior to bidders, it may demonstrate the extent to which the bidding process prevents the completion of bids detrimental to shareholders' interests. Holl and Pickering (1988) found over a range of operating measures that abandoned bidders were weaker than their targets, and indeed successful bidders. This suggests the bidders needed the acquisition more than the targets. Taffler and Holl (1991) support this observation by reporting that abandoned bidders in their sample were weaker than their targets. The unsuccessful bidders were less profitable, had lower levels of liquidity and greater financial risk compared to their targets. The study found no such differences in the bidders and targets of completed acquisitions. These results may indicate a governance role for the bidding process in preventing the completion of acquisitions by weak bidders. More research on the pre-bid performance of bidders in abandoned acquisitions is necessary. More could be learned about the role of abandoned acquisitions in disciplining underperforming managers, by differentiating the pre-bid performance of bidders which experience 'disciplinary' outcomes after abandonment from those which don't.

5.2 Ownership Characteristics, Corporate Governance and Acquisitions

Corporate governance mechanisms are intended to overcome agency problems and ensure that managers act in the interests of shareholders. Internal governance mechanisms relate to board composition, ownership structure and incentives (Fama and Jensen, 1983). As noted in chapter one, since the early 1990s there has been a great effort to improve the governance structures of UK and US companies which may suffer problems associated with the separation of ownership and control. Disciplinary theories propose that acquisitions are a substitute for weak internal mechanisms and hence the targets of acquisitions should exhibit weak internal governance mechanisms in the period before the bid announcement (Fama, 1980). Bidders, in contrast, should be well-governed.

In contrast, since empirical studies reveal acquisitions may be a manifestation of managerial preferences in bidding companies, it would be interesting to analyse the corporate governance attributes of bidding companies. An examination of the corporate governance characteristics of the bidders in acquisitions may provide evidence of the opportunity and motivation of bidding managers to pursue managerial aggrandisement (O'Sullivan and Wong, 1998).

5.3 Targets

5.31 Board Size and Composition

The size of a company's board can have an impact on the discretion of managers in decision-making. The hypothesis proposes that smaller boards allow greater discretion because senior executives may be able to control decision-making better. Hence, acquisition targets should be more likely to have smaller boards than non-targets. O'Sullivan and Wong (1998) investigated whether the size of a company's board was a significant issue in acquisitions and found no support for such a hypothesis.

In addition to the size of a company's board, it is argued that its composition may provide indications about the extent of discretion senior managers have - the lower the proportion of non-executive directors (NEDs) on a board, the greater the discretion of its executive directors. Hence, if acquisitions play a governance role then there should be a lower proportion of NEDs on the board of targets of acquisition bids compared to non-targets.

A number of studies have found that companies with a lower proportion of non-executive directors on the board were more likely to be the subject of acquisition bids, suggesting that these bids were likely to be a disciplinary substitute for poor board monitoring (Agrawal and Knoeber, 1996; Weir, 1997 and Kini et al., 2004). However O'Sullivan and Wong (1998), who compared the corporate governance characteristics of a sample of targets with non-targets, found that the proportion of NEDs on a company's board was not a significant determinant of receiving an acquisition bid. Similarly, Weir et al. (2002) did not find any relationship between the composition of a board of directors and the pre-bid performance of a sample of targets, disputing the proposed disciplinary link. As a result, it is disputed that board structure is a critical indicator of governance determining whether a company will become a target for a disciplinary acquisition.

The quality of the monitoring provided by NEDs is another aspect that has been considered by the literature. In the managerial labour market, higher quality executive directors will be valued more highly and offered more additional directorships on the boards of other firms. Hence, the number of additional directorships can be a proxy for the quality of NEDs. However, the more additional directorships that NEDs have, the lower the attention they can provide to each monitoring role (Core et al., 1999). Shivdasani (1993) found a negative relationship between the number of additional directorships and the probability of being acquired. The nature of the additional directorships held could be an important issue that quantitative studies ignore. If a NED is chief executive of another company, then, this may require a lot of attention. However, if the NED has numerous other non-executive positions, then these may distract them greatly.

A number of studies have analysed the size and composition of the boards of target firms, to assess whether these characteristics had any effect on the outcome of bids – completed or abandoned. The findings are contradictory. O'Sullivan and Wong (1998) found no evidence of such an influence, while Kini et al. (2004) did. In the context of target management reaction, O'Sullivan and Wong (1998) report that hostile targets were more likely to have larger boards and a higher proportion of

NEDs, compared to boards of friendly targets. For the US, Cotter et al. (1997) found the same result. This can be interpreted as independent boards resisting bids in order to increase the price paid, but not to the extent that bids are abandoned. This could explain why event studies find that most of the gains in acquisitions accrue to target shareholders. However, more recent research by Bange and Mazzeo (2004) found that independent boards in targets are associated with lower premiums, but also reduce the likelihood of completion. This suggests independent directors may oppose bids because they feel they are not in target shareholders' interests.

5.32 Ownership Characteristics

For target firms, the disciplinary theory proposes that acquisitions are an efficient external corporate governance mechanism, because of the perceived dispersed ownership characteristics of joint stock companies in Anglo-American markets. Hence, the presence of external ownership blocks may enhance monitoring as such shareholders will have a better incentive to monitor managers and prevent actions in pursuit of managerial preferences (Jarrell and Poulsen, 1987). Indeed, several UK studies found that the presence of large external block-holders had a positive impact on performance in their sample, negating the necessity for disciplinary acquisitions (see for example Weir et al., 1992). Kini et al. (2004) found that companies with low external ownership blocks were more likely to be the subject of disciplinary acquisitions. This supports the view of acquisitions as an external discipline, in circumstances where internal monitoring is poor. In contrast, Shivdasani (1993) found that independent external shareholders increased the probability of acquisition. Davis and Stout (1992) investigated institutional shareholders specifically, reporting that their presence in ownership structures did not affect the probability of being acquired. This is consistent with Weir (1997), who found no evidence that large external shareholders monitor effectively.

The ownership structures of both bidders and targets should influence the outcome of a bid and may provide guidance on the nature of governance provided by the bidding process. If external blocks exert an influence in target companies, it would be more likely that bids founded on sound economic motives will succeed compared to bids driven by managerial preferences (Wong and O'Sullivan, 2001). Indeed, the presence of significant external ownership blocks may be more likely to facilitate an acquisition, particularly if they are going to benefit significantly. However, O'Sullivan and Wong (1998) found no significant difference in the level of external ownership blocks in targets of completed and abandoned bids, suggesting the presence of external ownership blocks does not influence the outcome. The senior managers of firms with external ownership blocks are less likely to resist a bid.

5.33 Managerial Shareholdings

There has been a significant amount of discussion in the literature on the incentives provided to managers by the extent of shares they hold. The greater the proportion of shares held by managers, the more the interests of shareholders and managers should converge (Jensen and Meckling, 1976). In contrast, the lower the proportion of shares held by managers, the greater the incentive for discretionary behaviour. Mikkelson and Partch (1989) found that target firms in their sample had significantly lower managerial shareholdings compared to non-targets. Numerous studies show this pattern in hostile bids, suggesting that acquisitions substitute for weaker internal incentives through managerial shareholdings (Walkling and Long, 1984; Shivdasani, 1993; Agrawal and Knoeber, 1996; O'Sullivan and Wong, 1999; Kini et al., 2004).

In reacting to a bid, target managers have a trade-off to consider. They gain from the shares they hold, but lose remuneration, power and security through post-acquisition replacement. In target firms, the proportion of share held by managers will influence their reaction to bids and hence the bid outcome. The more shares they hold, the more likely they are to favour a bid. The empirical evidence suggests that this is indeed the case (Raad and Ryan, 1995; Holl and Kyriazis, 1997; O'Sullivan and Wong, 1998). This suggests that hostile acquisitions are associated with low managerial shareholding. Hence, this implies that there are cases where disciplinary bids should take place, but are deterred by the proportion of managerial shareholdings in the target. This could be an explanation for the decline in hostility in bidding observed in the UK (see chapter one) – bidder management want to reach agreement with targets before pursuing a bid.

5.4 Bidders

As an abandoned bid may play a governance role in bidders, preventing bids furthering managerial preferences being completed, an analysis of the governance characteristics of completed bidders may reveal information about the scope and incentives for managers to pursue self-aggrandisement. The analysis of these characteristics in abandoned bidders may enable the discrimination of cases where abandoned acquisitions play a governance role from situations where they don't.

5.41 Board Structure

Independent boards are effective in preventing bad corporate decisions. This has been found in the context of a variety of corporate decisions – the replacement of CEOs following poor performance (Huson et al., 2001), and divestments following poor performance (Perry and Shivdasani, 2005). In the context of acquisitions, the analysis of the composition of the boards of bidding companies in acquisitions may reveal the extent of discretion management may have to follow their own preferences. Byrd and Hickman (1992) found that bidders in their sample with more independent boards produce greater returns around announcements compared to less independent boards. The interpretation of this evidence is that better monitoring by independent directors on boards leads to acquisitions which enhance shareholders' wealth. Indeed, in his case study analysis, Pickering (1983) reported that interviewees revealed that unexpected disagreements between board members represented reasons for abandonment. This indicates that board monitoring may prevent value-destroying acquisitions reflecting managerial preferences. Paul (2007) analysed the influence of board composition in abandonment decisions. She found that independent boards were more likely to respond to significantly negative share price by abandoning bids, suggesting the share price reaction to a bid may reveal information about the motives for a bid but also indicate the role of boards in imposing discipline during the bidding process by forcing abandonment. Interestingly, this study did not investigate whether there was any further discipline after abandonment and whether board independence was important in that. It would enhance our knowledge of the nature of the disciplinary governance role of abandoned acquisitions by investigating the disciplinary experience of bidders, if any, after abandonment.

5.42 Ownership

For bidders, the presence of external ownership blocks may enhance monitoring since these shareholders will have a better incentive to monitor managers and prevent value-damaging acquisitions (Shliefer and Vishny, 1986). Gaspar, et al. (2005) found that institutional investors with short term investment horizons were associated with lower abnormal returns around bids and worse post-acquisition performance. This suggests that companies with short-term institutional investors will have weaker bargaining, enabling greater discretion by managers. On the other hand, Chen at al. (2007) found that long-term ownership blocks (longer than one year) were positively associated with post-acquisition performance, suggesting active monitoring by these groups, promoting value-enhancing acquisitions.

While a substantial body of research has investigated the role of ownership blocks in targets of abandoned bids, there is a dearth of research investigating the role such ownership blocks play in abandonment and afterwards. Investigating differences in the extent of ownership across bidding firms in abandoned acquisitions would extend knowledge of the governance safeguards provided by blocks. In addition, looking at the relationship between ownership blocks and disciplinary changes in bidders after abandonment would enable more to be learned about the nature of discipline imposed by abandoned acquisitions.

5.43 Managerial Shareholdings

As managerial theories of acquisitions suggest that managers use acquisitions to further their own preferences, it would be interesting to assess the managerial shareholdings of bidding companies in acquisitions, to investigate whether this has an impact on their acquisition strategies. Companies with substantial managerial share ownership would be more likely to pursue acquisition strategies that produce economic gains and enhance shareholder wealth. Wright et al. (2002), suggest that increased share ownership is an effective way of ensuring that managers pursue value-enhancing acquisitions. Anderson et al. (2004) found a negative relationship between managerial share ownership and premiums paid in their sample of bank acquisitions, suggesting that bidding managers with substantial stakes are more likely to avoid hubris. In support of this, Cornett et al. (2003) report a significantly positive association between managerial share ownership in bidders and excess returns to bidder shareholders.

While studies of completed acquisitions have found that the corporate governance characteristics of bidders may influence the bidding process, there is a scarcity of research in this area in relation to bidding companies in abandoned acquisitions. An exception is Chang and Suk (1998) who investigated the returns to bidding companies in abandoned acquisitions and considered the information that may be conveyed by the extent of managerial share ownership. This was found to have an insignificant impact on bidder returns, suggesting it doesn’t influence the bidding process. The lack of research means that additional work is required analysing the role of managerial incentives in the abandonment decision.

5.5 Summary of Ownership and Governance Characteristics

The literature in this area is imbalanced. There is a significant body of literature which studies the corporate governance characteristics of targets of abandoned acquisitions. However, there is little work investigating the role of the board composition, ownership structure and managerial shareholding in unsuccessful bidders. There is a need for this research, given the scope for managerial discretion in the pursuit of acquisitions. The corporate governance literature shows that these characteristics have an influence on major corporate decisions. Denis and Serrano (1996) have investigated aspects of this in targets of abandoned acquisitions. More research in this area in relation to bidding firms is necessary to further understand the role of corporate governance characteristics in abandonment decisions. Of particular interest is the differential influence these characteristics have across bidders during abandoned acquisitions. In addition, their influence on the differential experience of bidders after abandonment would extend knowledge of the nature of the disciplinary impact, if any, of abandonment on bidding management.

5.6 Transaction Characteristics

Transaction characteristics represent another set of control variables used by the literature to differentiate between different transactions in acquisition activity. In addition, some transaction characteristics are important in determining whether a bid is abandoned or not. Research in this area has concentrated on several characteristics: target management resistance, the means of payment, the industrial relatedness of the two firms and the extent of the bid premium offered. The following sections discuss the main findings for each of these characteristics.

5.61 Managerial Resistance

The reaction of target management can reveal important information that can affect the outcome of a bid. In recommended or friendly bids, negotiations are likely to have taken place before the formal announcement and resistance will not be an issue. Both groups will work to encourage the target shareholders to accept a bid. However, in the case of hostile bids, resistance will have a big impact on the acquisition process and the eventual outcome.

The acquisitions literature interprets target resistance in two ways. Either managers act in shareholders' interest or act to entrench their own position at the expense of shareholders' interests. In the former scenario, Wong and O'Sullivan (2001) state that target management resistance may set off an auctioning process by soliciting bids from other companies, with the aim of extracting a higher price for their company. This may mean that a target may eventually recommend a bid it initially rejected. On the other hand, target managers may pursue strategies in shareholders' interests to defeat a bid pursued for the managerial preferences of bidder managers. This may involve soliciting 'white knight' bids. In either case, such strategies lead to competitive bidding between rival interests. This may have a considerable impact on the bidding process (see section 5.41 below). If target management resist, to entrench their own position, this may stop a bid being completed, preventing gains in performance which would have benefitted shareholders.

Holl and Kyriazis (1996) report that the probability of a hostile bid succeeding was 0.609, compared to 0.958 for a friendly bid. O'Sullivan and Wong (1998) report that 47% of hostile bids in their sample were unsuccessful, compared to only 6% of friendly bids. A recent study of the newspaper sector in the US, Muelhlfeld et al. (2007) found that managerial resistance had a significant impact on the outcome of bids in their sample of abandoned mergers. In a recent study, Branch et al. (2008) found that target resistance was a significant determinant of acquisition success.

In resistance, a number of strategies can be adopted. In the US, the variety of defensive measures available is much greater than in the UK. These include 'golden parachutes', 'poison pills' and 'greenmail'. Golden parachutes are substantial payments to senior managers in the event they are replaced. Poison pills are assets deliberately purchased by target managers to reduce the value of the target firm. These defences increase the costs attached to a bid reducing the potential return for the bidder. Greenmail is a defence where target managers use the firm's cash is used to buy the firms' own shares from the bidder. This defence wastes target resources in a bid to entrench managers' positions. In the UK, *The City Code on Acquisitions and Mergers* places restrictions on the extent of defensive measures used by targets in the UK. Sudarsanam (1995) highlights the two most popular defensive tools as profit reports (59% of cases) and promises of increased dividends (45%). Such information revelation during the acquisition process can overcome any perceived information asymmetries regarding the value of the target. However, evidence suggests that such information has no influence on the outcome of a bid (Sudarsanam, 1995; Brennan, 1999). Cooke et al. (1998: P.136) summarise the position well:

> "…the characteristics of defence documents…do not materially affect the outcome of a hostile bid. This is consistent with a view that the defence is undertaken not to correct mis-pricing of the target's stock by providing additional information to shareholders to remain independent, but rather to drive up the purchase consideration and increase shareholders' wealth".

This is consistent with the aims of the Takeover Panel. Target shareholders should receive a 'fair' price for their firm. The evidence on the impact of resistance is mixed. Some studies suggest that managerial resistance has a negative impact on target shareholders wealth (Dodd, 1980; Malatesta & Walkling, 1988), while others indicate that resistance may have a positive impact on target shareholders' wealth (Franks & Mayer, 1996; Holl & Kyriazis, 1997). Indeed, Holl & Kyriazis (1997) found that the benefit of managerial resistance persevere for at least two years after the outcome (whether completed or abandoned). The results imply that managerial resistance enhances the performance of targets. However, resistance increases the cost to bidders and makes bids susceptible to the winner's curse. Indeed, avoiding overpaying may be one reason why acquisitions are abandoned by bidders. However, the evidence is mixed. Early studies show significant abnormal returns to bidders in completed acquisitions (Bradley et al., 1983). More recent evidence looking at short-term returns (Walker, 2000) or long-term returns (Loughran and Vigh, 1997; Sudarsanam & Mahate, 2006) did not find that bidders in hostile acquisitions earn significantly higher abnormal returns than bidders in friendly acquisitions. If resistance is a deterrent then many acquisitions which are pursued for sound economic reasons may not be consummated. In response to this, many bidders try to avoid hostility and the evidence from the Takeover Panel, revealed in chapter one, indicate that the incidence of hostile bids in the most recent wave of acquisition activity was almost half the incidence in previous waves.

5.62 Means of Payment

The characteristics of a bid, particularly the means of payment – cash, shares, debt, or any combination - may provide evidence on whether bids are motivated by shareholder's interests or managerial preferences. However, the choice of the means of payment is a complicated one.

The concept of the winner's curse suggested by Roll (1986) is, to some extent, the result of asymmetric information. In addition to overconfidence, bidders may overpay due to uncertainties about the value of the target (Myers and Majluf, 1984; Hanson, 1987). Therefore, if a bidder is uncertain about the returns from a bid, they may tend to offer equity as the means of payment. This internalises the asymmetric information associated with the value of targets, since target shareholders will burden some of the potential valuation uncertainty. Conversely, where there is greater certainty about the outcome from a bid, cash may be used. Rai and Forsyth (2002) find that hostile bidders were more likely to use equity, suggesting concern about the higher premium required to gain control of a target. These results have been interpreted as cash bids being motivated by economic rationales and equity bids motivated by managerial preferences. Issues regarding misvaluations and acquisition activity are explained differently by Shleifer and Vishny (2003). They propose that overvalued firms use equity as a means of payment in order to acquire assets at a discount. In their market-timing model, the use of equity benefits bidders' shareholders at the expense of target shareholders.

Stultz (1988) investigates the issue of the means of payment in the context of corporate control. His findings suggest bidders with more diffuse share ownership will use equity financing. One the other hand, if there are significant ownership blocks held in the target, cash financing may be used to avoid diminishing the bidder's shareholders control (Chang et al., 2009). This is particularly the case with growing firms which rely on debt financing to maintain managements' control. Cash transactions tend to require the use of debt financing and this can have a disciplining effect on managers (Stultz, 1990; Harris and Raviv, 1990). However, debt financing raises issues of financial distress and this can also influence the financing decision (Gadhaum et al., 2003). Alternatively, a cash bid may be evidence of significant free cash on the part of the bidder, and a sign that a bid is likely to be driven by managerial preferences rather than economic reasons (Jensen, 1986).

Empirical studies using stock market data find that cash acquisitions produce lower negative abnormal returns around announcement for acquirers compared to equity acquisitions (Travlos, 1987; Andrade, et al., 2001). This disputes Jensen's free cash flow hypothesis, but supports the view that cash suggests greater certainty in the outcome for both bidder and target shareholders, or induces greater discipline on bidding managers, through the use of debt. On the other hand, the announcement of an equity-financed bid may be interpreted as a signal of overvalued equity, leading to a downward correction. Using accounting measures of performance, Ghosh (2001) found a significant link between cash acquisitions and post-acquisition improvements in cash flow while equity acquisitions are associated with reductions in cash flow afterwards. These ex-post findings reinforce the view that cash acquisitions produce more positive outcomes.

The means of payment can play an important role in determining whether a bid will be successful or not. Empirical evidence suggests that cash bids are more likely to be successful (see for example Muehlfeld et al. 2007). This may be because target shareholders prefer the certainty associated with cash. The use of equity produces ambiguity in determining the outcome for target shareholders. In addition, the means of payment can play a role in determining whether managers are resistant or not. Equity tends to elicit greater resistance. For instance, Sudarsanam (1995) found that equity reduces the likelihood that targets of hostile bids will be successfully acquired. Target shareholders must trade-off the tax benefits of equity with the liquidity and risk-minimising benefits of cash (Faccio and Masulis, 2005). This means they may prefer cash to equity as the means of payment in transactions. However, this is an aspect of abandoned acquisitions which requires further investigation.

The means of payment may reveal information about the motives of abandoned bidders, and hence signal the need for discipline. However, Chang and Suk (1998) found that it did not have a significant impact on bidders' returns in abandonment disputing the informational content. Meanwhile, Cole et al. (2006) found that cash bidders earned significant abnormal returns around the abandonment, while non-cash bidders did not. This positive response to the abandonment of cash bids supports Jensen's view that such bids are more likely to be driven by managerial preferences. This suggests an information signal for the means of payment as part of corporate governance. More recently, Savor and Lu (2009) using event study methods, found that unsuccessful equity bidders endure significantly negative returns compared to unsuccessful cash bidders. Indeed,

> "…bid failure is not costly for shareholders of cash bidders" (p.1065).

They suggest these findings support the view that overvalued firms use acquisitions to acquire assets at a discount. These conflicting explanations suggest this is an area which requires further investigation.

Finally, Maloney, et al.(1990) and Barclay and Smith (1995) propose that debt has incentive effects that influence managerial decisions. Firms which are highly geared are more likely to make value-enhancing acquisitions. Therefore, there should be a negative relationship between bidder returns and gearing ratios at the time of abandonment. In their study this was found to be insignificant, suggesting no role for gearing in disciplining managers. However, there are few studies in this area, so there would be great benefit from additional investigation.

5.63 Industrial Relatedness

The issue of relatedness between bidders and targets derives from Rumelt (1982). Higher degrees of relatedness are largely associated with better post-acquisition performance (Peltier, 2004), supporting efficiency from economies of scale (horizontal mergers) and scope (vertical mergers), as important motives for such acquisitions. Related acquisitions may also produce benefits of corporate control since it is more difficult to assess the performance of managers in diversified ownership structures. Unrelated acquisitions will not produce the same level of synergistic benefits – at best related to finance, administration and governance.

Indeed, unrelated acquisitions may be part of excessive acquisitions by bidder managers pursuing higher growth at the expense of better performance (Jensen, 1986). A number of studies identify industrial relatedness as a significant factor in post-acquisition performance. Related acquisitions tend to elicit higher abnormal returns than unrelated acquisitions (Gregory, 1997; Maquieira et al., 1998), anticipating positive gains for shareholders, based on the analysis above. However, the concept of a 'diversification discount' has been the subject of much debate recently. For example, Campa and Kedia (2002) argue that firms tend to diversify because of poor performance in existing saturated markets, not that diversification causes poor performance. Burch et al. (2004) found that fewer growth opportunities and higher concentration in an industry provides incentives for the restructuring and reorientation of companies, sometimes involving diversification.

In relation to abandoned bids, Muehlfeld et al. (2007) argue that the degree of relatedness may have an influence on the bid outcome. If the companies concerned are unrelated, and so, less familiar with one another, it may increase the potential costs associated with an acquisition. This may make abandonment more likely. On the other hand, such mergers are less likely to attract the attention of regulators, reducing the probability of abandonment for that reason. On the other hand, horizontal mergers involving firms from the same industry may be subjected to closer regulatory scrutiny, raising the probability of abandonment due to competition implications. In relation to the governance role of abandoned acquisitions, unrelated bids may be a sign of excessive acquisitiveness by bidder managers (Jensen, 1986). Hence, it may be argued that governance mechanisms, within bidders, may force the abandonment of such bids. However, Muehlfeld et al. (2007), in their study of newspaper M&A in the 1980s and 1990s, did not find this to be a significant determinant of bid outcome. The information contained in this characteristic is an area requiring further investigation. Of particular interest is the relationship between the degree of industrial relatedness and post-abandonment changes in bidders. This characteristic may reveal information about the motives of managers in making bids, which, through corporate governance in the bidding process leads to abandonment.

5.64 Bid Premium

The higher the bid premium, the more likely target shareholders will accept a bid and the greater the likelihood of a bid being successful. Holl and Kyriazis (1996) find support for this hypothesis in their general sample of all acquisitions. However, in a sub-sample of hostile acquisitions more likely to be disciplinary, there is no such distinction. Franks and Mayer (1996) also explore the impact of the bid premium on the bid outcome. They distinguished two scenarios. Firstly, bids where there was management resistance, but the bids ultimately succeeded, and secondly, bids where there was management resistance, but the bids failed. They found significantly higher premiums paid in the former case. Therefore, once again there is a link between target management resistance and other factors. Hence, the evidence suggests that the reaction of target management has an important bearing on the outcome, through its interaction with other factors. The interaction of different factors may have an important bearing on the outcome of acquisitions, yet it is not clearly understood. Most studies shy away from modelling the dynamics of the bidding process, because of the complexities involved. However, such research is necessary in order to enhance our knowledge of the dynamics of the acquisition process. The next section discusses the limited research on the bidding process.

5.7 Bidding Process

Assuming underlying economic motives for acquisitions, both bidders and targets want to gain from transactions. A number of factors have an influence on the bidding process which influences the progress and outcome, creating the potential for great complexity.

5.71 Valuation and Offer Price

From a shareholder perspective, bidders want to complete positive NPV acquisitions, but may be concerned about the winner's curse. The temptation is to systematically undercut the anticipated value of the target. However, such actions may make failure more likely. In addition, another way of avoiding the winner's curse is to offer equity (see section 5.32 above). By doing so, the asymmetric information associated with the value of the target is internalised. However, studies show that equity bids are more likely to fail compared to cash ones (Muehlfeld et al. 2007). Indeed, this possibility may deter the use of equity as a means of payment. The complex interaction between these variables during the bidding process needs to be analysed more.

5.72 Rival Bids

Officer (2003) points out that a formal bid by a company can reveal information to the market about the availability of the target's assets which may elicit rival bids. Competitive bidding tends to increase the returns to target shareholders at the expense of bidders' shareholders (See Schwert, 1996, for example). Indeed, as discussed in section 5.31, target management may elicit rival bids to try and raise the offer price. This can lead to the abandonment of one of the bids if a higher price is offered by a rival bidder. This is particularly the case if the rival bid provides certainty by using cash as the means of payment. Again, this shows a complex interaction between variables. Chang and Suk (1998) investigated the impact of the number of bidders on abandoned bidder returns when they made their announcement and found it was not significant.

Holl and Pickering (1988) found that, on average, unsuccessful bidders were more profitable than their successful counterparts, but less liquid and with lower levels of gearing. This supports the assertion repeated at several points in this chapter that cash bids, derived from superior liquidity, are more likely to be successful. This suggests the failed bidder's abandonment decision was taken with their shareholders' interests in mind. Indeed, Kummer and Steger (2008) propose that such abandonment can be explained as avoiding the winner's curse, especially when rivals are paying high premiums. Hence, the presence of rival bidders can play an important role in abandoned acquisitions. Its interaction with other contingent variables can have important implications for an acquisition process. However, the complexity of the interactions between actual and potential bidders and targets has deterred analysis. However, such analysis would be valuable in extending our knowledge of the bidding process.

5.73 Competition Issues

The Office of Fair Trading (OFT) reviews the competition implications of a potential bid in the UK. The decision to refer or not refer a bid to the Competition Commission can reveal important information about whether a bid will succeed or be abandoned. If a formal inquiry is announced, then the transaction costs associated with a bid escalates (Arnold and Parker, 2007). In order to avoid these transaction costs, bidders may respond to the referral of their bid to the competition authorities by voluntarily abandoning it. Forbes (1994) found that this was particularly the case for those bidders which experienced share price declines at announcement. He concluded that such bids were most likely to produce the lowest returns, and so, managerially motivated. Therefore, it would be worth investigating whether referral, and subsequent abandonment, has a disciplinary impact. Little work has been done analysing the impact of competition issues after abandonment. This requires further investigation to assess whether referrals to the competition authorities have an influence on the differential experiences of bidders after abandonment.

5.74 Summary of the Bidding Process

There are a number of factors which can influence the course of a bidding process. This section has reviewed several. It is demonstrated that these factors have a crucial bearing on decision-making in the bidding process. However, it has been shown that these factors may interact, in potentially complex ways, to influence the course of a bidding process and its aftermath. In addition, their influence is related, to some extent, to the transaction characteristics of particular bids. It is not clearly understood how, and in what circumstances, these characteristics and factors interact during a bidding process. This is a gap in the literature which needs to be addressed if more is to be learned about the governance role of abandoned acquisitions.

6. Conclusion and Proposals for Contribution to Knowledge

This chapter has reviewed the theory and empirical evidence surrounding corporate mergers and acquisition activity. In section 2, the motives for acquisition activity are discussed. The motives fall into two categories; motives which anticipate better performance and enhanced value as a result of acquisitions and motives which anticipate poorer performance, reducing value. Empirical work in this field is dominated by either event studies of share price returns or accounting studies of operating performance. In these studies, a large number of firm characteristics, transaction characteristics and contingent factors in the bidding process have been used as control instruments to distinguish differing impacts of acquisitions across companies in an effort to test the different theories. However, there are some major methodological issues with these techniques. Alternative research strategies would provide a different way of analysing acquisitions and add to our knowledge of acquisitions by answering questions in a way which event studies or accounting studies cannot.

Abandoned acquisitions provide a different perspective on the acquisition process. In section 4, it is demonstrated that theoretical conceptions and empirical evidence suggest that the bidding process between announcement and completion is an important element in determining economic efficiency in the allocation of resources (Muehlfeld et al., 2007). The majority of studies which analyse the bidding process and its aftermath have focused on the disciplinary role of abandoned acquisitions on target firms. They suggest that in some situations where abandonment was initiated by targets, information was revealed by a bid about the targets' management which produced management changes, strategic changes, financial restructuring afterwards. These tended to improve performance. Researchers point to this as evidence of the market for corporate control, interacting with internal governance mechanisms, being effective in disciplining self-serving managers, by removing them or forcing them to improve performance.

However, abandoned acquisitions may also have a governance role in disciplining managers in bidding firms for pursuing bids which further their own preferences. Section 4 demonstrated that research investigating the impact of abandonment on bidders is more limited. While research has analysed the impact of abandonment on the subsequent stock market and accounting measures of performance regarding abandoned bidders, there has been little work on other aspects regarding the impact of abandonment on bidders. An analysis of the differential experiences of bidders after abandoned acquisitions should enhance our knowledge of the effectiveness of the acquisition process in disciplining self-serving managers following their own preferences. Differences across abandoned bidders in relation to qualitative issues such as organisational restructuring, management turnover, asset and financial restructuring and whether bidders become acquisition targets themselves may provide different evidence regarding the effectiveness of the acquisition process in disciplining self-serving managers of bidding companies. The findings of such an analysis would make a valuable contribution to our knowledge of the impact of corporate acquisition activity on the firms concerned.

In addition, it would extend knowledge of abandoned acquisitions if more evidence was collected on the underlying mechanisms of the bidding process itself. This chapter has shown that the literature on target firms asserts that post-abandonment changes in those companies involves the interaction of firm characteristics, transaction characteristics and contingent factors in the bidding process (see Jensen, 1986; Hirschleifer and Thakor, 1994 & 1998; Denis and Serrano, 1996), interacting in situations where poorly performing managers are disciplined and abandonment plays a governance role in targets.

This analysis can be extended to bidding firms. Section 4 proposed that abandoned acquisitions may play a governance role in bidders too. However, this review has shown that research in this area is limited. Throughout section 5, this review has demonstrated the scarcity of literature regarding the board characteristics, ownership characteristics and managerial shareholding of bidders in abandoned acquisitions. Since these characteristics are important in providing the scope and incentives for managers to pursue bids reflecting their own preferences, this is an important gap in the literature. More importantly, analysing the interaction of these characteristics of bidders, transaction characteristics and contingent factors in the bidding process can provide some guidance on the mechanisms of information revelation in a bidding process and identify the nature of the processes responsible for differences in the impact of abandonment on bidders – processes which lead to a disciplinary impact where abandoned acquisitions play a governance role, and processes which do not have a disciplinary impact and abandoned acquisitions do not play a governance role. By tracing the interaction of these variables through to the impact of abandonment, our understanding of the corporate governance role of the acquisition process for bidders will be enhanced. This contribution to knowledge will be the focus of research in this thesis. The conceptual innovations developed, and empirical innovations applied in this research, are discussed in the next two chapters.

Table 2.6 Summary of Empirical Evidence of Abandoned Acquisitions using Control Variables

Panel A: Pre-bid Performance of Targets and Bidders	
Study	**Main Findings**
Limmack (1991) UK 529 bidders and 552 targets between 1977-1986	Targets of abandoned bids exhibited significant negative abnormal returns. Bidders in abandoned acquisitions exhibited insignificantly negative abnormal returns. The performance was not significantly different from bidders in completed acquisitions.
Holl and Pickering (1988) UK 50 abandoned mergers and 50 successful mergers and 33 contested bids between 1965-1975	Targets of abandoned bids had significantly worse pre-bid performance than targets of completed bids. Abandoned bidders had weaker pre-bid performance compared to successful bidders and their targets.
Taffler and Holl (1991) UK 129 targets of completed acquisitions, 55 abandoned targets and 76 bidders between 1977-81.	Unsuccessful bidders were less profitable, less liquid and had higher financial risk compared to their targets.

Panel B: Determinants of Abandonment	
Study	**Main Findings**
O'Sullivan and Wong (1998) UK 269 targets of completed bids and 62 targets of abandoned bids between 1989-1995	Target board size and composition did not have a significant influence on abandonment Presence of external ownership blocks in targets had no significant influence on outcome. Target management shareholdings had a significant influence on outcome.
Kini, Kracow and Mian (2004) 279 targets of successful tender offers between 1979-1998	Targets with smaller, more independent boards were more likely to be acquired. Targets with lower external ownership blocks were more likely to be acquired. Targets with higher managerial shareholding were more likely to be acquired.
Holl and Kyriazis (1996) UK 238 bids (133 friendly and 105 hostile) 177 completed and 60 abandoned	Target management resistance had a significant impact on outcome. The higher the bid premium, the more likely a bid was successful.
Muelhfeld et al. (2007) US 2632 completed and 983 abandoned bids related to the newspaper sector between 1981-2000	Target management resistance had a significant impact on outcome. Cash bids are more likely to be successful. Industrial relatedness had no significant impact on outcome.
Sudarsanam (1995) UK 238 hostile acquisitions between 1983-1989	The use of equity financing reduces the likelihood of a successful acquisition.

Panel C: Differential Effects of Control Variables on the Impact of Abandonment	
Study	**Main Findings**
Franks, Mayer & Harris (1986) 86 mergers referred to M.M.C. between 1963-1985 UK	MMC rejection has a negative impact on returns to target shareholders. MMC rejection has no significant impact on returns to bidder shareholders.
Holl & Kyriasis (1997) 238 bids between 1980-1989 UK	Abandoned target shareholders in hostile bids retain abnormal gains for at least two years afterwards.
Chang and Suk (1998) US 279 abandoned mergers between 1982-1990	Managerial share ownership had an insignificant impact on the returns to bidders after abandonment. The means of payment had no significant impact of the returns to bidders around the announcement of abandonment. The number of rival bidders was not significant in determining variations in bidder returns at abandonment.
Cole et al. (2006) US 220 abandoned mergers between 1991-2000	Cash bidders earned significantly positive abnormal returns around abandonment Non-cash bidders did not.
Savur and Lu (2009) US 1773 acquisitions between 1978-2003	Cash bidders did not earn significant abnormal returns after abandonment. Equity bidders did suffer significantly negative abnormal returns after abandonment.

Chapter Three: The Governance Role of Abandoned Acquisitions: A Novel Conceptual Framework

1. Introduction

Abandoned acquisitions may play a corporate governance role for acquiring firms. In certain circumstances, abandonment may lead to the disciplining of managers in bidding firms for attempting acquisitions, which further their own preferences such as control over resources, prestige and growth. However, as the literature review demonstrated, the evidence regarding the impact of abandonment on bidding firms is limited. There are periodic attempts to identify the causes of abandonment (for example Muehlfeld et al., 2007), or analyse the differential impact on share prices of bidding firm's characteristics and transaction characteristics, to determine the influence these have on the response of investors in bidding firms to abandonment (Cole et al., 2006). However, much is still not known. Unlike target firms, there has been no systematic attempt to analyse the governance role of acquisitions for bidding firms. Some studies suggest such an influence (see for example Lehn and Zhao, 2006). An investigation of the experience of bidding companies during abandoned acquisitions, and afterwards, would enhance knowledge of the situations where abandoned acquisitions have a governance role, compared to situations where abandoned acquisitions do not have a governance role. This research aims to make an original contribution to the literature on abandoned acquisitions, by investigating both the nature and scope of the impact of abandonment and the underlying mechanisms of abandonment in these different situations.

The existing literature leaves several important research questions unanswered. While research has analysed the impact of abandonment on bidding firms through subsequent stock market and accounting measures of performance, there has been little work studying different aspects of impact which may provide guidance on post-abandonment discipline. An analysis of some of these qualitative changes in target firms, consistent with discipline, has been conducted (see for example, Denis & Serrano, 1996). However, the differential experiences of bidders after abandoned acquisitions in relation to appropriate organisational changes, management turnover, asset and financial restructuring, and whether bidders become acquisition targets themselves, have not been documented for bidding firms in abandoned acquisitions (Wong and O'Sullivan, 2001). A systematic analysis of such changes in bidders should enhance our knowledge of the how abandoned acquisitions play a governance role in disciplining self-serving managers following their own preferences. Consequently, the following research questions can be formalised:

What changes happen in bidding firms after an abandoned acquisition?

Are these changes consistent with discipline?

Answering these questions will enable the research to distinguish between bidders which experience discipline after abandonment from those which do not experience discipline. This should help reveal information about the anticipated impact of different abandoned acquisitions, distinguishing abandoned acquisitions which have a governance role from those which do not.

In addition to answering the above questions regarding the impact of abandonment, the research intends to extend knowledge of the acquisition process itself, and particularly its governance role, by analysing the underlying mechanisms of abandonment. For target firms, the literature asserts that the governance role of abandoned acquisitions involves the interaction of certain firm characteristics, transaction characteristics and contingent factors in the bidding process to produce the post-abandonment discipline of under-performing managers (Hirschleifer and Thakor, 1994 & 1998). It may be anticipated that the governance role of abandoned acquisitions for bidding firms would involve the interaction of similar groups of variables. However, knowledge of the interaction of such characteristics in bidding firms, in abandoned acquisitions, is relatively sparse. Consequently, this research aims to contribute to the literature by addressing a further set of research questions:

What is the nature of the underlying mechanisms in abandoned acquisitions which produced post-abandonment discipline of bidders' managers?

What is the nature of the underlying mechanisms in abandoned acquisitions which did not produce post-abandonment discipline of bidders' managers?

To what extent are the mechanisms different?

To do this effectively, a new approach to the analysis of the acquisition process has been adopted. The interaction of the characteristics of bidders, transaction characteristics and contingent factors, leading to changes in bidders after abandonment, suggests a causal process. In such a process, this research proposes that the phenomenon of abandoned acquisitions can be framed in terms of antecedent characteristics, interceding characteristics and outcomes (Steinberg, 2007). To analyse the causal processes in abandoned acquisitions, the underlying mechanisms present in abandoned acquisitions need to be identified. This requires a fresh approach to the analysis of abandoned acquisitions. This fresh approach involves two stages. Firstly, the research develops of a novel, multi-dimensional conceptual framework, reflecting the nature of the causal processes which define the distinctive underlying mechanisms in abandoned acquisitions. The framework must encapsulate the relevant bidding firm characteristics, transaction characteristics, contingent factors in the bidding process and outcomes of abandonment. Secondly, the research uses appropriate research methods to investigate the research questions and the conceptual framework in a valid way. In such a framework, the analysis of abandoned acquisitions requires the use of causal process tracing (CPT) to reveal, in a detailed, fine-grained manner, the different underlying mechanisms responsible for any differences in the experiences of bidders after abandonment. These conceptual and empirical innovations in the analysis of abandoned acquisitions will enhance understanding of its corporate governance role, particularly for bidding firms.

This chapter discusses the development of the novel conceptual framework. The next chapter discusses the innovative application of causal process tracing in the conduct of fieldwork within the context of the conceptual framework. Both the novel conceptual framework and the application of causal process tracing represent aspects of the original contribution that this research makes to knowledge.

This chapter proceeds as follows. Section 2 describes the development of the conceptual framework which supports the research effort. This proposes the interactions of variables suggested by different strands of existing literature - the interaction of variables in the causal processes of cases where abandoned acquisitions may play a governance role compared to cases where abandonment does not play a governance role. Section 3 explains how the disparate elements interact in different causal mechanisms, producing different anticipated outcomes after abandonment. Section 4 is the summary and conclusion.

2. Development of the Novel Conceptual Framework

Answering the research questions specified in section 1 involves analysing the causal processes in abandoned acquisitions. This guided the development of the conceptual framework and the use of causal process tracing (CPT). Bennett and Ellman (2006) point to the use of CPT methods as a valid and useful tool for the analysis of complex causations. While CPT has been used in a variety of social sciences for theory development, it can be used deductively to test and refine existing theory (Miles and Huberman, 1994). Given the extensive literature for corporate acquisitions and corporate governance, it is appropriate to use a hypothetic- deductive approach to advance the novel conceptual framework for the research (Popper, 1968). Hence, a 'theory first' approach is adopted to develop the novel conceptual framework. This is embedded within this existing theoretical and empirical literature explaining abandoned acquisitions.

However, while the existing theoretical and empirical literature on target firms in abandoned acquisitions has suggested that certain characteristics of the firm, transaction characteristics and contingent factors in the bidding process play a role in abandonment and its aftermath, the analysis is fragmented. The literature either focuses on firm characteristics in the context of agency theory (Jensen, 1986), or, information revelation in the bidding process (Hirschleifer & Thakor, 1994 & 1998), or disciplinary changes in firms after abandonment (Denis & Serrano, 1996). There has been limited work drawing these elements together in the case of bidding firms. This involves investigating how firm characteristics, transaction characteristics and contingent factors in the bidding process interact, producing abandonment and disciplinary changes in bidders afterwards. These interactions may be complex. During the acquisition process,

> "…the two firms, the market and investors continue to receive new information regarding the deal and firm values as the negotiation process unfolds."
>
> (Hotchkiss et al., 2005, p.1)

Such complexities have dissuaded significant work in the area (Weston et al., 2004). However, such work is necessary to enhance our understanding of the governance role of abandoned acquisitions for bidding firms. It requires the different approach proposed by this research.

Therefore, the research makes an original contribution to knowledge by developing a framework which characterises the acquisition process in a fresh way, capturing the complexities of the interaction of bidding firm characteristics, transaction characteristics and contingent factors. Therefore, this research characterises the acquisition process and its aftermath as a multifaceted causal network, with antecedent variables interacting with interceding variables in complex ways to produce abandonment and impact bidders afterwards. This should reveal the different causal mechanisms which produce different outcomes after abandoned acquisitions. In some cases, the interaction may represent a governance mechanism whereby the impact is disciplinary. In other cases, the interaction will not represent a governance mechanism and the impact will not be disciplinary. By answering the research questions this research aim to identify differentiated meta-causal mechanisms and outcomes (Miles and Huberman, 1994).

This is a mechanism-based explanation for changes in bidders after abandonment. The mechanisms are real, though not necessarily material. The real but intangible nature of some mechanisms means they cannot be identified by direct observation. Their presence and action is therefore inferred. The mechanisms are also context dependent – dependent on configurations of antecedent variables. In some contexts the mechanisms have profound impacts, while in other contexts they are dormant (Richards, 2009).

In order to address the research questions, there is a need to investigate how different characteristics and variables interact to produce abandonment, and how they provide guidance on subsequent changes in bidders. It includes three distinct groups of variables proposed by different elements of the literature, but drawn together to express the causal process through which abandonment takes place and determine its impact on the bidder. These groups are:

- Antecedent bidder characteristics: (Characteristics of the bidding firm at the time of the abandoned bid): This is the context in which an abandoned bid takes place. If these characteristics are configured in a certain way, these provide the necessary scope and discretion for bids driven by managerial preferences. Hence, these characteristics may provide information about the anticipated gains from an acquisition and whether abandonment fulfils a governance role (Jensen, 1986; O'Sullivan and Wong, 1998; Kini, et al., 2004; Gregory, 2005; Wright et al, 2002; Perry and Shivdasani, 2005; Paul, 2007).
- Interceding variables: (Transaction characteristics and contingent factors in the bidding process): These interceding variables reveal mechanisms by which abandonment occurs. If these interceding variables are configured with the antecedent characteristics in a particular way to produce abandonment, they may be evidence of a governance role for abandoned acquisitions. However, if the configuration is different, it suggests a particular abandoned acquisition does not have a governance role (Hirschleifer and Thakor, 1994, Holl and Kyriazis, 1996; Officer, 2003; Arnold and Parker, 2007; Branch et al., 2008; Kummer and Steger, 2008).

- Outcome variables (Changes in bidders after abandonment). Some of the changes in bidders can be characterised as 'disciplinary', and so, is the outcome of a causal process which fulfils a governance role. Other changes after abandonment will not be consistent with discipline so will be the outcome of a causal process which does not have a governance role. Indeed, if there is no impact this suggests abandonment does not have a governance role in those circumstances (Pickering, 1983; Mitchell and Lehn, 1990; Denis and Serrano, 1996; Barclay and Smith, 1995; Franks and Mayer, 1996; Haynes et al., 2000; Huson et al., 2001; Perry and Shivdasani, 2005; Lehn and Zhao, 2006).

Each of variables in these groups are discussed in the following sections. They will then be drawn together to propose a set of relationships between the variables whereby an abandoned acquisition may play a governance role – a 'typological' framework (Miles and Huberman, 1994).

2.1 Outcomes: New Perspectives on the Differential Experiences of Bidders after Abandonment

The first stage in the development of the causal processes involving abandoned acquisitions is establishing the outcome variables (Miles and Huberman, 1994). These outcome variables are (i) changes in bidders after abandonment which can be characterised as disciplinary and (ii) changes in bidders after abandonment which cannot be characterised as disciplinary. There are several areas where changes in bidders can happen after abandonment which the literature interprets as discipline - the extent of governance changes in bidders after abandonment such as the replacement of senior managers, whether bidders are subsequently acquired, whether there is substantial asset / financial restructuring coupled with changes in strategy could suggest that the acquisition process operates as a corporate governance mechanism. The absence of these changes suggests no disciplinary outcome of abandonment.

2.11 Dimensions of Change in Bidders after Abandonment

Firstly, Pickering (1983) highlighted strategic changes in some of the bidding firms in his sample. Such strategic changes can be interpreted as disciplinary, especially if it is associated with other disciplinary changes. Secondly, the acquisition of ownership blocks after abandonment may be a disciplinary response to information revealed during the bidding process (Denis and Serrano, 1996). It is anticipated that the acquisition of ownership blocks may be associated with other changes after abandonment, since these ownership blocks will try to force changes in the firm.

Thirdly, several studies point to management changes as a disciplinary governance response in targets of abandoned bids (Franks and Mayer, 1996; Kennedy and Limmack, 1996; Huson et al, 2001). The same discipline could be imposed on the management of bidding firms in certain situations. The replacement of senior managers after abandonment may be the outcome of a causal process where an abandoned acquisition performs a governance role. If senior managers are not replaced, then, it is less likely that the abandoned acquisition had a disciplinary impact.

Fourthly, Mitchell and Lehn (1990) found that bidders in many acquisitions with poor post-acquisition performance were themselves, subsequently acquired. This could be extended to bidders which propose bids driven by managerial preferences likely to have a detrimental effect on shareholders' returns. A subsequent acquisition or indeed bid for the company may be a disciplinary response to a causal process where an abandoned acquisition performs a governance role.

Fifthly, studies show bidding companies engage in significant disposals of assets as shareholders force the divestment of poorly performing assets acquired by managers (Haynes et al., 2000). Such asset restructuring could be the disciplinary outcome of a causal process where abandonment plays a governance role (Perry and Shivdasani, 2005). In contrast, either asset acquisitions, or the absence of significant asset restructuring after abandonment, are not consistent with discipline. It would be anticipated that such outcomes would not be the result of abandoned acquisitions performing a governance role. Alternative causal mechanism in these abandoned acquisitions would be present.

Sixthly, Barclay and Smith (1995) propose financial restructuring as part of a disciplinary response to managers pursuing investments which conflict with shareholders' interests. Increased gearing can be used to commit managers to significant interest payments and reduce the extent of available free cash flow to be misused by managers. Such financial restructuring could be part of a disciplinary reaction to abandonment and evidence of a governance role preventing a bid reflecting managerial preferences being completed. The absence of such restructuring suggests the abandoned acquisition does not perform a governance role.

Table 3.1 documents dimensions of change after abandonment with their reference from the literature.

Table 3.1: Dimensions of Change in Bidders after Abandonment

Changes after Abandonment	**Reference**
Strategic Changes	Pickering (1983)
Management Changes	Franks and Mayer (1996), Kennedy and Limmack, (1996), Lehn and Zhao (2006)
Acquisition	Mitchell and Lehn (1990), Lehn and Zhao (2006)
Asset Disposals	Haynes et al. (2000), Perry and Shivdasani, (2005)
Increased Gearing	Jensen (1986), Barclay and Smith (1995)

These are examples of changes that can arise in bidders after abandonment, but this list isn’t exhaustive and there may be a range of other changes in bidders after abandonment. The conceptual framework and the nature of the research design enable these changes to be identified and analysed.

2.12 Multiple Dimensions of Change: Disciplinary Governance Processes after Abandonment

The existing literature focuses on the changes described above as evidence of discipline. It is anticipated that the bidding firms will experience significant changes along multiple dimensions. Therefore, in this conceptual framework it is proposed that the analysis should not focus on these changes independently. In order to further differentiate bidders after abandonment in order to clarify the disciplinary impact of abandoned acquisitions, particular sequences of changes after abandonment must be identified. These derive directly from the conceptualisation of abandoned acquisitions as a disciplinary causal process. The identification of particular sequences can provide further evidence, enabling the research to better distinguish a disciplinary process after abandonment from one which is non-disciplinary. Hence, potential sequences of changes in bidders along the dimensions of change are developed. This reflects anticipated disciplinary processes after abandonment, enhancing the separation of cases.

The different sequences proposed are displayed in Figures 3.1 to 3.4. The use of diagrams is a way of illustrating the presence of a disciplinary process. This represents the outcomes phase of the wider causal processes demonstrating a governance role for abandoned acquisitions (George & Bennett, 2005). These sequences suggest that certain changes after abandonment are triggers to a disciplinary sequence after abandonment, while others changes are the outcome of the disciplinary sequence.

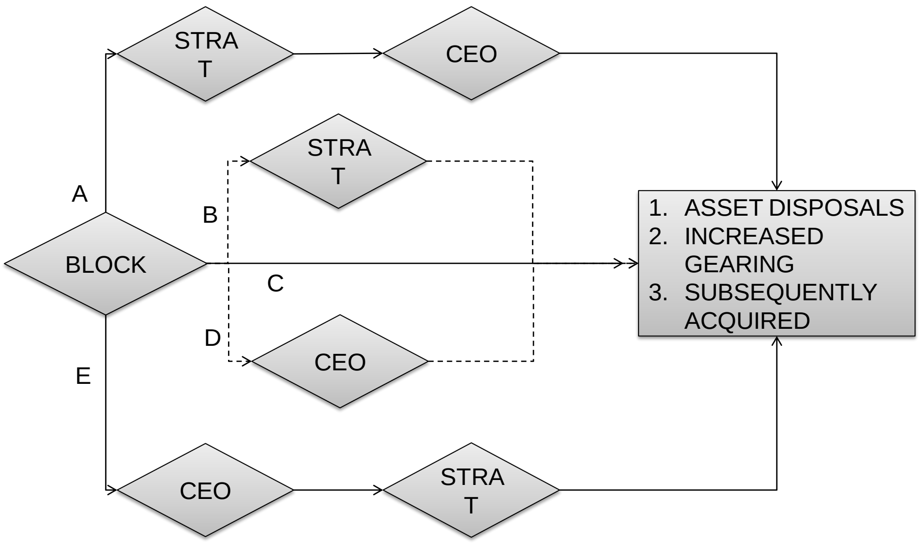
In this conceptual framework, it is proposed the acquisition of ownership blocks, changes in senior management and announced changes in strategy, are not disciplinary outcomes. These changes can be triggers to a disciplinary process if they are followed by significant changes in the bidder through anticipated asset disposals, increased gearing and/or subsequent acquisition of the bidding firm. Asset disposals, increased gearing and subsequent acquisition of the bidder are significant disciplinary outcomes of the governance process which can be triggered by these initial changes or happen independently. The anticipated post-abandonment disciplinary sequences are explained below.

2.13 Acquisition of Ownership Blocks after Abandonment

Derived from Denis and Serrano (1996) the acquisition of ownership blocks after abandonment may be a disciplinary response to information revealed during the bidding process. In this framework, it is proposed that the ownership block triggers a disciplinary process encompassing several possible sequences. Five different disciplinary sequences can be delineated. These sequences are labelled A-E in figure 3.1 and described below.

- Sequence A: The acquisition of an ownership block leads to a change in strategy and the replacement of the CEO. This leads to substantial asset disposals, and/or increased gearing, or subsequent acquisition.
- Sequence B: The acquisition of an ownership block leads to a change in strategy. This leads to substantial asset disposals, and/or increased gearing, or subsequent acquisition.
- Sequence C: The acquisition of an ownership block leads directly to substantial asset disposals, and/or increased gearing, or subsequent acquisition.
- Sequence D: The acquisition of an ownership block leads to the replacement of the CEO. This leads to substantial asset disposals, and/or increased gearing, or subsequent acquisition.
- Sequence E: The acquisition of an ownership block leads to the replacement of the CEO and a change in strategy. This leads to substantial asset disposals, and/or increased gearing, or subsequent acquisition.

Figure 3.1: Disciplinary Sequences after Abandonment with Acquisition of Ownership Blocks as the Trigger



Key To Figures	
BLOCK	Significant ownership blocks acquired
CEO	Replacement of CEO
STRAT	Announced Changes in Strategy

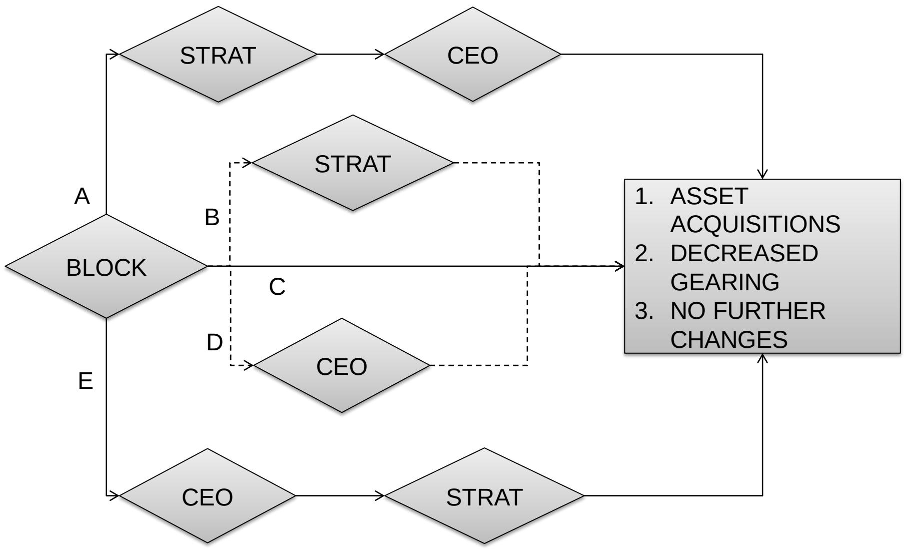
However, five further sequences can be delineated which are consistent with a non-disciplinary outcome after abandonment. These are labelled A-E in figure 3.2 and described below:

- Sequence A: The acquisition of an ownership block leads to a change in strategy and the replacement of the CEO. This leads to substantial asset acquisitions, and/or decreased gearing, or no further changes.
- Sequence B: The acquisition of an ownership block leads to a change in strategy. This leads to substantial asset acquisitions, and/or decreased gearing, or no further changes.
- Sequence C: The acquisition of an ownership block leads directly to substantial asset acquisitions, and/or decreased gearing, or no further changes.
- Sequence D: The acquisition of an ownership block leads to the replacement of the CEO. This leads to substantial asset acquisitions, and/or decreased gearing, or no further changes.

- Sequence E: The acquisition of an ownership block leads to the replacement of the CEO and a change in strategy. This leads to substantial asset acquisitions, and/or decreased gearing, or no further changes.

The presence of such sequences after abandonment suggests no disciplinary outcome and no governance role for abandoned acquisitions.

Figure 3.2: Non-disciplinary sequence after Abandonment with Acquisition of Ownership Blocks as a trigger



2.14 Replacement of Chief Executive Officer (CEO) after Abandonment

The majority of studies view the replacement of a CEO as a disciplinary outcome. However, a CEO can be replaced for a number of reasons, and so, in itself may not be evidence of discipline. It is proposed in this framework, if the replacement is part of a disciplinary process, it should trigger further changes in the firm consistent with a disciplinary outcome. A number of sequences can be proposed.

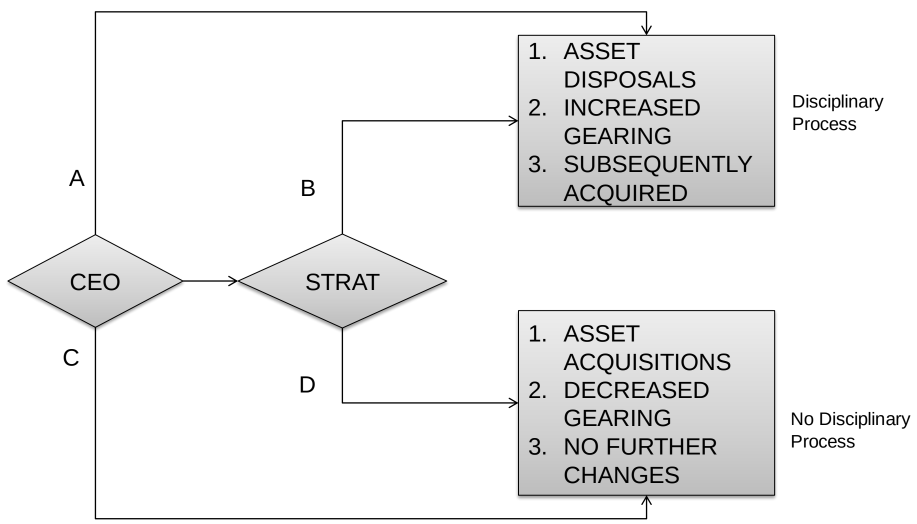
- Sequence A: The replacement of a CEO leads directly to substantial asset disposals, and/or increased gearing, or subsequent acquisition.
- Sequence B: The replacement of a CEO leads to a change in strategy. This prompts substantial asset disposals, and/or increased gearing, or subsequent acquisition.

Additionally, two further sequences can be delineated which are not consistent with a disciplinary outcome after abandonment. These are described below:

- Sequence C: The replacement of a CEO leads directly to substantial asset acquisitions, and/or decreased gearing, or no further changes.
- Sequence D: The replacement of a CEO leads to a change in strategy. This prompts substantial asset acquisitions, and/or decreased gearing, or no further changes.

The presence of such sequences after abandonment suggests no disciplinary outcome and no governance role. These proposed governance sequences (A-D) are illustrated in Figure 3.3.

Figure 3.3: Sequences of Changes after Abandonment with Replacement of the CEO as the trigger



2.15 Announced Changes in Strategy after Abandonment

An announced change in strategy may be evidence of the start of a disciplinary process. If so, it should initiate a causal process which leads to further disciplinary changes in the firm. A number of sequences can be proposed.

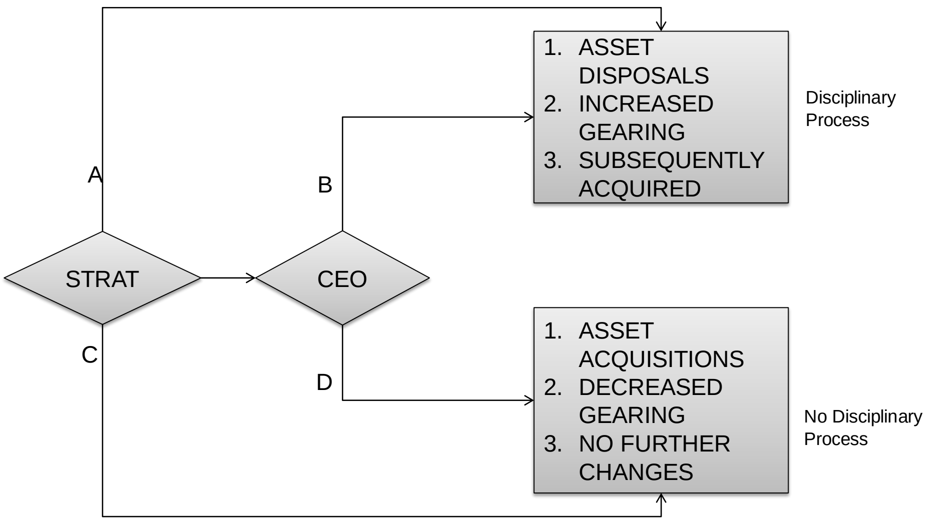
- Sequence A: An announced change in strategy prompts substantial asset disposals, and/or increased gearing, or subsequent acquisition.
- Sequence B: An announced change in strategy leads to the replacement of a CEO. This prompts substantial asset disposals, and/or increased gearing, or subsequent acquisition.

Furthermore, two further sequences can be delineated which are not consistent with a disciplinary outcome after abandonment. These are explained next.

- Sequence C: An announced change in strategy prompts substantial asset acquisitions, and/or decreased gearing, or no further changes.
- Sequence D: An announced change in strategy leads to the replacement of a CEO. This prompts substantial asset acquisitions, and/or decreased gearing, or no further changes.

The presence of such sequences after abandonment suggests no disciplinary outcome and no governance role. These sequences (A-D) are illustrated in figure 3.4.

Figure 3.4: Sequences of Changes after Abandonment with an Announced Change in Strategy as the Trigger



2.16 Summary

This section has proposed different sequences of changes after abandonment which produce disciplinary outcomes, and the proposed sequences of changes which produce non-disciplinary outcomes. By framing the systematic analysis of the differential experience of bidding firms after abandoned acquisitions in this way, the research can answer the first set of research questions. This is a fresh perspective, enabling research to distinguish between bidding firms which experience discipline from those which do not experience discipline after abandoned acquisitions.

2.2 Antecedent Characteristics of the Bidder

Differences in the characteristics of abandoned bidders may identify where abandoned bids play a governance role for some bidders and not for others. If an abandoned bidding process has a governance role and leads to disciplinary changes afterwards, then the literature suggests bidders involved in such a process may demonstrate distinctly different characteristics compared to those who do not endure disciplinary changes after abandonment. Some research highlights that the managers of older firms with low growth opportunities, yet substantial free cash flow, will have an incentive to excessively invest this cash to extend their control over resources, rather than return it to shareholders (Jensen, 1986; Gregory, 2005). Acquisitions are one way of doing this. Hence, age, profitability, growth and the extent of free cash can be important antecedent characteristics providing the scope for acquisitions driven by managerial preferences. These are included in the framework as antecedent variables.

In addition, differences in bidders' corporate governance characteristics may help explain the nature of the governance role exerted by abandoned acquisitions. Certain corporate governance characteristics present at the time of a bid can reveal information about the extent of monitoring of a company's management and the scope for opportunistic behaviour by managers through, for instance, excessive acquisitions. In this context, weak internal monitoring by the Board of Directors and weak external monitoring by shareholders can provide greater scope for managers pursuing self-aggrandisement at the expense of shareholders' interests. In addition, if weak incentives are in place to encourage managers to pursue shareholders' interests, then they may pursue bids reflecting their own interests (Wong and O'Sullivan, 2001). Hence, monitoring and incentives can be important characteristics revealing whether or not abandoned acquisitions are driven by managerial preferences. Hence, these are included in the framework as antecedent variables. Table 3.2 highlights anticipated bidder characteristics and some theoretical and empirical references.

Table 3.2: Antecedent Characteristics of Bidders

Bidder Characteristics	**Reference**
Age	Jensen (1986)
Free cash flow	Jensen (1986), Gregory (2005)
Performance	Holl and Pickering (1988), Taffler and Holl (1991)
Monitoring of Directors	O'Sullivan and Wong (1998), Sudarsanam (1995), Bange and Mazzeo (2004), Paul (2007)
Incentives provided to Executive Directors	O'Sullivan and Wong (1999), Wright et al. (2002), Kini, Kracaw and Mian (2004)

2.3 Interceding Variables

2.31 Transaction Characteristics

Further to the pattern of antecedent characteristics, bidders with distinctly different antecedent characteristics should produce acquisition transactions with very different characteristics. These reveal the anticipated gains from acquisitions, distinguishing situations where abandonment play a governance role from situations where it doesn't. However, the information revealed by transaction characteristics in abandoned acquisitions may be complex. Different configurations of bid characteristics may suggest different causal processes in abandonment and the conceptual framework needed to incorporate this. These transaction characteristics and theoretical references are summarised in table 3.3.

Table 3.3: Transaction Characteristics

Bid Characteristic	**Reference**
Industrial Relatedness	Jensen (1986) Muehlfeld et al. (2007)
Means of Payment	Jensen, (1986) Myers and Majluf (1984) Hansen (1987) Travlos, (1987) Schleifer & Vishny (2003)
Bid Premium	Roll (1986) Holl and Kyriazis (1996)

The industrial relatedness of the two firms in an acquisition may reveal something about the underlying motives and the need for post-abandonment discipline. Acquisitions between two firms with a high degree of industrial relatedness are more likely to be driven by synergies, not managerial self-aggrandisement. Abandonment in such cases should not be part of a governance process producing post-abandonment discipline. Indeed, such cases may be more likely to fall foul of the competition authorities, producing abandonment (Muehlfeld et al., 2007). On the other hand, Jensen (1986) proposes that unrelated bids may be evidence of the growth motives of managers through excessive diversification. Thus, the more unrelated the relationship between the activities of the bidder, the more likely the causal process producing abandonment will have a governance role, producing post-abandonment discipline.

The literature suggests that the means of payment may reveal information about the underlying motives for a bid. Hence, it may reveal something about the nature of the governance role exercised through abandoned acquisitions. Studies show that equity bids are more likely to be abandoned than cash bids because target shareholders prefer receiving spendable cash. A positive interpretation regarding the use of cash is that bidders have greater certainty about the post-acquisition gains from an acquisition (Travlos, 1987). On the other hand, Myers and Majluf (1984) suggest the use of equity may suggest uncertainty about the returns from a bid and a desire by bidders to share the uncertainty with target shareholders. Another group of studies suggest that bidders may use overvalued equity to get control of assets cheaply (Hanson, 1987); Shleifer and Vishny, 2003). None of these views suggest the use of equity as the means of payment is driven by managerial preferences. However, cash bids may be a sign of excess free cash being used by managers to extend resources under their control (Jensen, 1986). Alternatively, cash may be used by bidders to avoid issuing shares and expose themselves to increased monitoring by investors (Myers, 1984). Either way, in this framework, if configured with appropriately configured antecedent and interceding variables, the increased use of cash is more likely to be part of a disciplinary causal process.

Studies show that the level of the bid premium offered may reveal something about the anticipated gains from a bid and may indicate the reasons for post-abandonment discipline in bidding firms. Studies show that the lower the premium offered by bidders, the more likely that bids will be abandoned. However, similar to the means of payment, the decision regarding the premium offered is complex. Bids motivated by shareholder interest will try to pay as low a premium as possible to enable greater post-abandonment gains to be secured from the transaction.

Conversely, either managerial preferences or managerial hubris may produce higher premiums, making a bid more likely to succeed. Therefore, if such bids are abandoned, the more likely the causal process producing abandonment will have a governance role, resulting in post-abandonment discipline (Holl and Kyriasis, 1996).

2.32 Contingent Factors in the Bidding Process

The next group of interceding variables is contingent factors in the bidding process. The release of new information during the bidding process can significantly affect the risk and returns associated with a particular bid and therefore impact on the bid outcome (Hotchkiss et al. (2005). Implicitly, the nature of the information released can also influence the response of firms to abandonment.

Negative information may be revealed about the motives of management, and the proposed outcomes of a bid (Hirschleifer and Thakor, 1994 & 1998; Paul, 2007). Negative information about a bidder may be revealed by the target management as a part of defence. The proposition is that negative information, configured with appropriate bidder and transaction characteristics may reveal information that a bid reflects managers' and not shareholders' interests. This may be consolidated with information within firms, causing disciplinary changes after abandonment.

Evidence suggests that target management resistance is an important factor in abandonment. However, the reaction of target management to a bid is a difficult issue to interpret. Two distinct reasons can be advanced for resistance by target management. Firstly, target managers may be acting in shareholders' interests. If this is the case, it can be done either to elicit a higher offer from the bidder, or to deter a bid which is being pursued for bidder managers' preferences. In the former case, a link can be drawn between managerial resistance, the means of payment and the extent of the premium offered. In either situation, the target may look for a 'white knight'. Secondly, target management resistance is motivated by the entrenchment of their position in the firm. In such cases, the abandoned bid is likely to be part of a disciplinary process for targets, not bidders.

Commercial information may be revealed about the bidding firm during the course of the bid process. However, negative commercial information can be revealed as part of the normal course of business and have an impact on a bid, especially an equity bid, when the information may lead to a decrease in the share price. This does not reveal information about the underlying motives for bids, but may reveal information about poorly performing managers, which may lead to post-abandonment discipline (Savor and Lu, 2009).

There is a possibility that regulators are concerned about the competition aspects of a bid. If a bid is referred to the competition authorities, many bidders choose to abandon a bid because the cost of negotiating a bid through competition regulations may be prohibitively expensive. The attention of competition authorities is more likely to be drawn to related bids, pursued for synergistic gains. Hence, bids abandoned because of referral to the competition authorities are less likely to be part of a causal process, providing a governance role (Arnold and Parker, 2007).

Rival bids emerge in a lot of acquisitions processes and can play a role in abandonment. A rival bid could be part of a white knight strategy adopted as a takeover defence, or evidence that the target's assets are sought after. Losing out to a rival bid could be a signal that the bidder is poorly managed or weak financially. Consequently, the bidder is unable to match a rival bid. On the other hand, a bidder may not respond to a higher bid by raising the price offered because they feel the target's assets are not worth it. Therefore, they avoid the 'winner's curse', suggesting a lack of hubris among such managers (Kummer and Steger, 2008). In either case, it is unlikely that the presence of a rival bid would indicate whether an abandoned acquisition is more likely to be part of a causal process providing a governance role. Table 3.4 summarises the contingent characteristics in the bidding process and their theoretical reference.

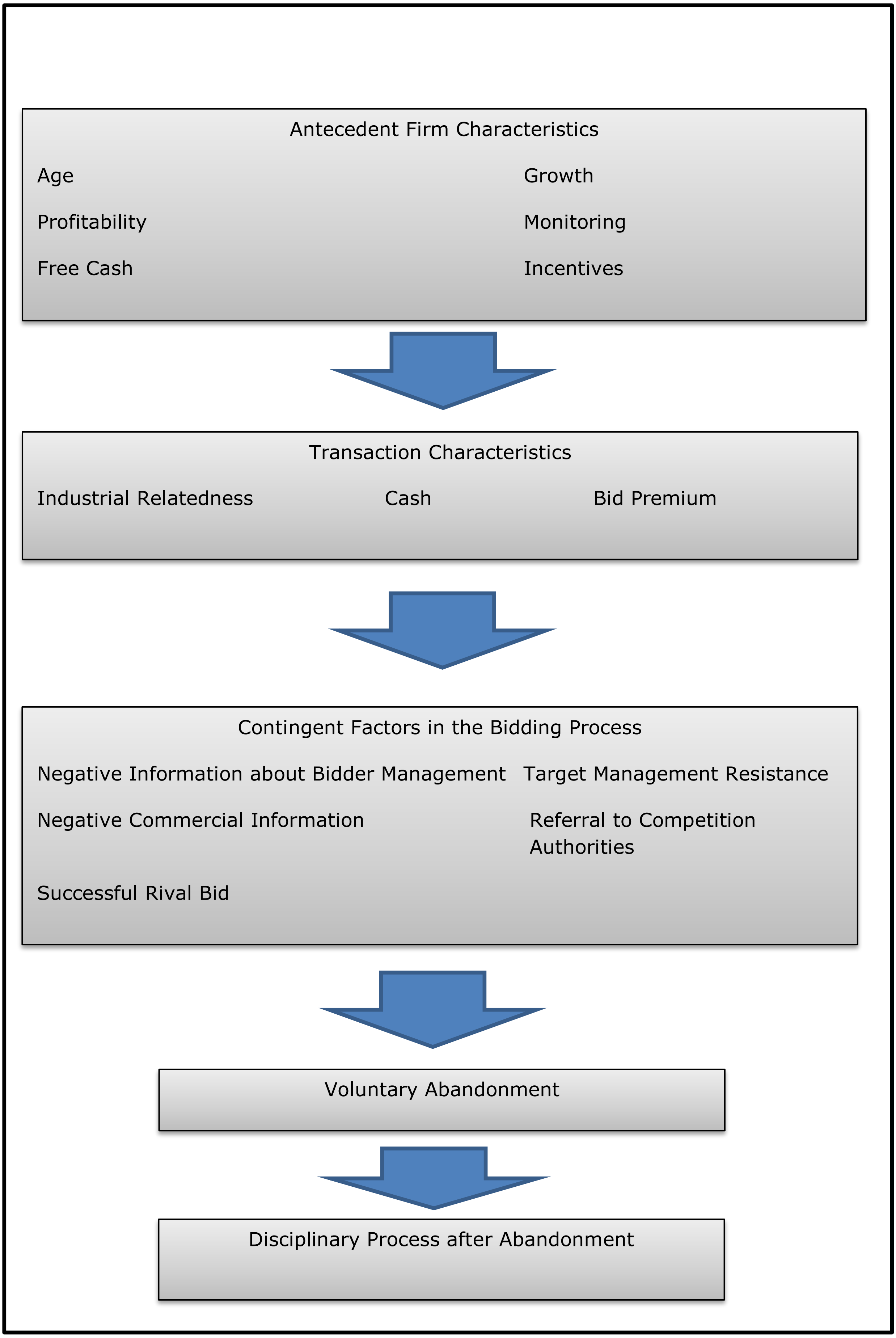
Table 3.4: Contingent Factors in the Bidding Process

Characteristic of the Bidding Process	**Theoretical Reference**
Target Management Resistance	Franks and Mayer (1996) Holl and Kyriazis (1997)
Commercial Information	Denis and Serrano (1996) Savor and Lu (2009)
Information on Management	Hirschleifer and Thakor (1994), (1998) Paul (2007)
Referral to Competition Authorities	Arnold and Parker (2007)
Emergence of a Rival Bidder	Officer (2003) Kummer and Steger(2008)

2.4 Summary of Novel Conceptual Framework

From the preceding discussion, the anticipated elements and their proposed influence on the causal mechanisms of abandoned acquisitions, is shown in figure 3.5. Interactions between antecedent variables and interceding variables, coupled with associated outcomes, suggest some sort of causal process in abandoned acquisitions (George and Bennett, 2005). If the antecedent variables and interceding variables are configured in a particular way, producing disciplinary outcomes after abandonment, this will reveal the underlying mechanisms of the causal process by which abandoned acquisitions play a governance role. If the antecedent variables are configured with the interceding variables differently, producing outcomes after abandonment which are not disciplinary, this will reveal the underlying mechanisms of the causal process by which abandoned acquisitions do not play a governance role. In the latter scenarios, it is expected that the underlying causal mechanisms are different.

Figure 3.5: A Novel Conceptual Framework for Analysis of Governance Role of Abandoned Acquisitions



3. A Disciplinary Pathology: Abandoned Acquisitions as part of a Disciplinary Causal Mechanism

As the research is conducted in the context of causal process tracing, George and Bennett (2005) suggest the use of a typological theory. This is a set of contextualised relationships between variables that form a particular causal mechanism. They define a typological theory as one that:

> "…specifies independent variables, delineates them into categories for which the research will measure the cases and their outcomes, and provides the hypotheses on how these variables operate individually, but also contingent generalisations on how and under what conditions they behave in specified conjunctions or configurations to produce effects on specified dependent variables." (p.235)

By blending existing theoretical and empirical propositions in an original way, the conceptual framework can propose such a typological theory. Certain configurations of characteristics and contingent factors within abandoned acquisitions interact to cause abandonment, triggering disciplinary changes in the bidding company after abandonment. This proposed causal mechanism is termed the 'disciplinary pathology'. This is derived from theory, and so, carries causal weight (Miles and Huberman, 1994).

CPT proposes the use of a causal network narrative to describe the anticipated mechanism of the proposed pathology (Miles & Huberman, 1994). In this case, the disciplinary pathology. This conforms to the definition quoted above, explaining the operation of variables individually, but also, how, and in what conditions, variables operate in configurations, to produce abandonment. The terminology highlighted by Steinberg (2007) is used to characterise the nature of relationships between variables. This terminology is explained in chapter 4. A typological disciplinary causal network would involve 'nested' causal chain from increased age to higher profits to substantial free cash. A related causal path will run from increased maturity of assets producing low growth opportunities. These 'related' causal paths create the antecedent conditions for acquisitions fulfilling managerial preferences. In the proposed disciplinary pathology these characteristics are 'compounded' by weak corporate governance characteristics - weak monitoring and weak incentives within the firm – providing the opportunity for a transaction reflecting managerial preferences. A nested causal path runs from these antecedent characteristics to certain transaction characteristics –decreased industrial relatedness, cash financing, with higher premiums. The causal network proposes that these characteristics reveal negative information during the bidding process about the intentions of the management which leads to voluntary abandonment. This produces a disciplinary process after abandonment.

It is common to use diagrammatic representation of the causal process called a 'causal network diagram' (Richards, 2009). This is a map of the configuration of antecedent variables, interceding variables, and outcomes relating to the disciplinary pathology. This is illustrated in figure 3.6.

In the fieldwork stage, the proposed preliminary disciplinary causal pathology was tested against empirical events and characteristics revealed in the cases of abandoned bids investigated. It is hoped the fieldwork can highlight the key factors present, how they operate individually, but also together. This can characterise the nature of governance demonstrated in the cases investigated. In addition, in cases without disciplinary outcomes, the anticipated causal processes will be different. In the fieldwork stage, alternate causal mechanisms in abandoned acquisitions can be proposed within the context of the broader conceptual framework.

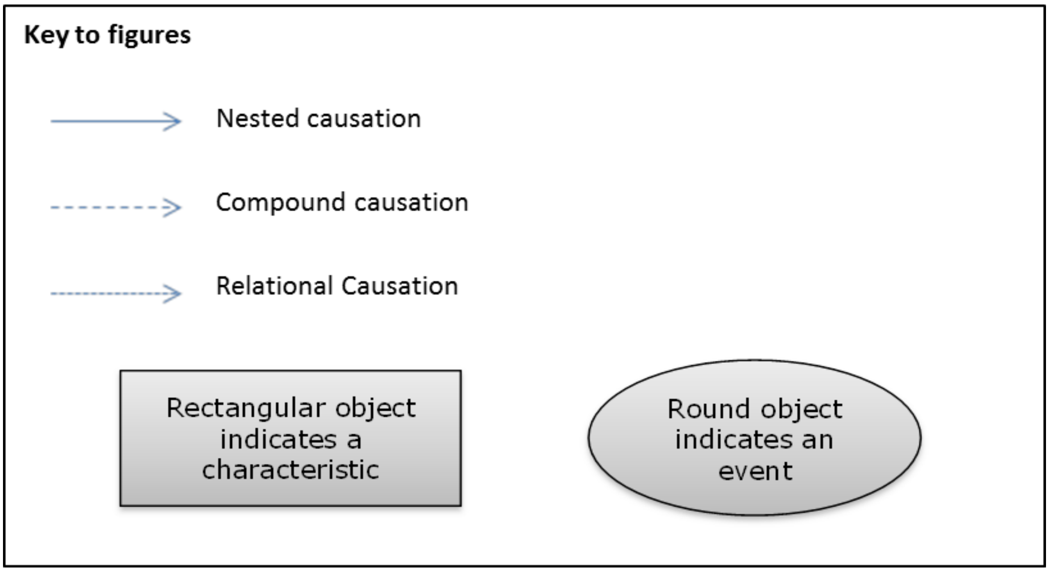
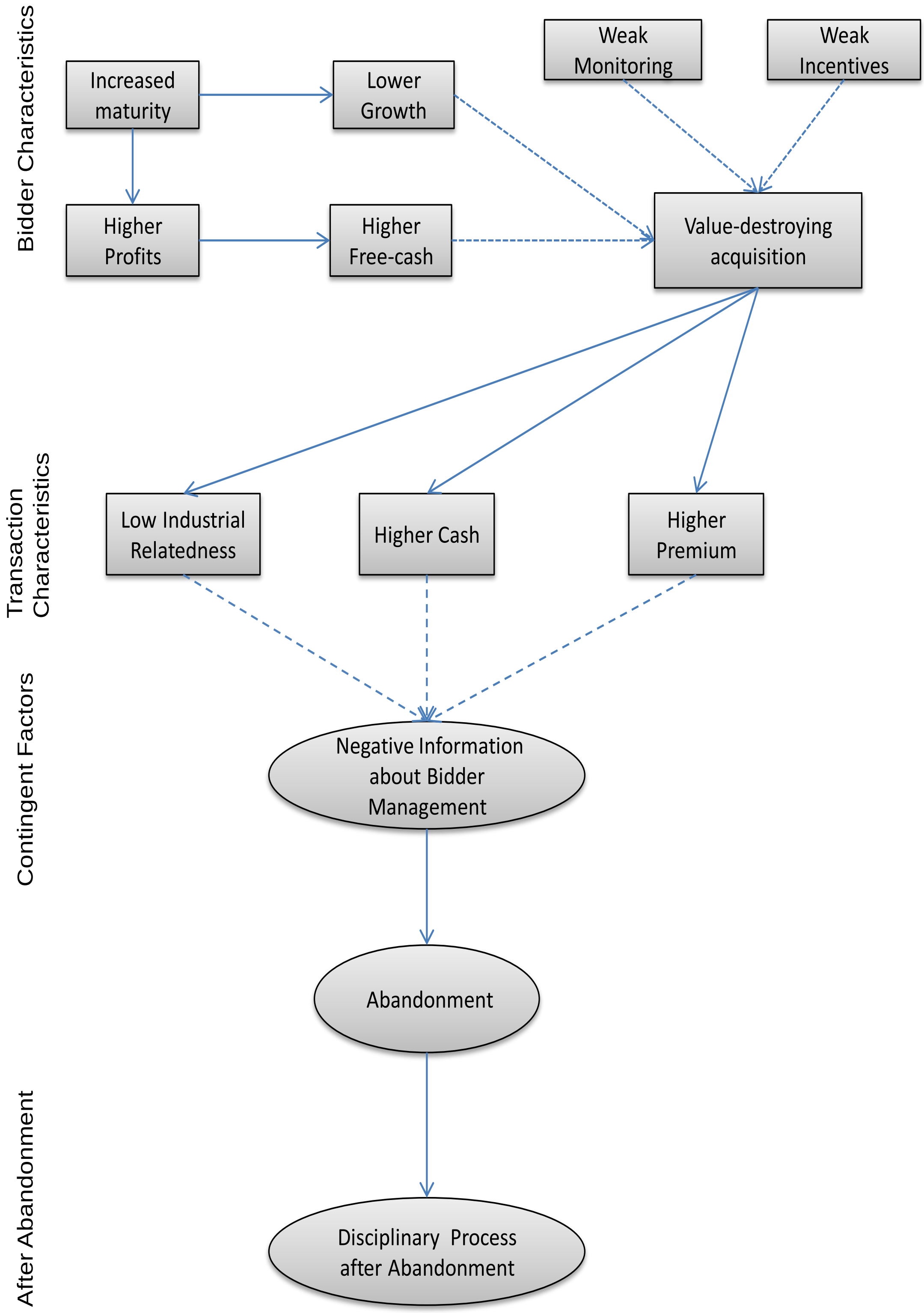


Figure 3.6 Proposed Disciplinary Causal Network



4. Summary and Conclusion

This chapter has outlined the research questions which this thesis is attempting to answer. Given the nature of the research questions, the research makes an original contribution to knowledge by applying causal process tracing to the abandoned acquisition process and its aftermath. As part of this, a novel conceptual framework is developed. This blends existing theoretical conceptions of bidder characteristics, information revelation in the bidding process and disciplinary changes after abandonment in an innovative way.

Within the conceptual framework, a typological disciplinary causal mechanism is proposed – a disciplinary pathology. The inclusion of alternative antecedent characteristics and different interceding variables enable alternative causal networks to be explored, and alternate causal processes of abandoned acquisitions identified. This would extend knowledge of the impact of abandonment on bidding companies. The preliminary disciplinary causal mechanism is tested in the fieldwork stage and amended and refined as it is tested against empirical events and characteristics revealed in the cases of abandoned bids investigated. This is needed to not only test the typological disciplinary governance process and refine it if necessary, but also identify alternate causal processes which produced different outcomes.

The research questions and the nature of the conceptual framework that have been developed, have implications for the research methods to be adopted – the use of case studies and the innovative application of causal process tracing to abandoned acquisitions. These research methods will be outlined in the following chapter.

Chapter Four: The Pioneering Application of Causal Process Tracing to Abandoned Acquisitions

1. Introduction

Echoing Arthur (1994), the novel conceptual framework characterises the acquisition process as a messy and complicated interaction of antecedent firm characteristics, interceding transaction characteristics and contingent factors. These interactions determine the outcome and the impact on bidders afterwards. Therefore, this study offers a contribution to previous work through the analysis of the bidding process, from before the bid, through the bid process to abandonment, and the impact, if any, of that abandonment on the bidding companies subsequently. By doing so, this study intends to more critically understand the role of the takeover process, if any, in the corporate governance of bidding companies.
Therefore, the aim of the research is:

> To investigate the role of the bid process in the corporate governance of bidders in abandoned acquisitions.

The research objectives are:

I. To identify the impact that abandoned bids can have on bidding companies.
II. To investigate the causal mechanisms of abandoned acquisitions.
III. To ascertain, how, and in what circumstances abandoned acquisitions have a disciplinary effect.
IV. To ascertain how, and in what circumstances abandoned acquisitions do not have a disciplinary effect.

In order to fully address the aim and objectives of the research, and answer the resulting research questions, a different approach to the analysis of the acquisition process is adopted. This requires a deeper, denser analysis of the acquisition process. The majority of existing studies involve large samples of acquisitions / abandoned acquisitions and focus on inferences drawn from significant statistical associations between variables. The characterisation of the abandoned acquisition process and its aftermath adopted in this study's novel conceptual framework is an attempt to complement these studies. These studies have demonstrated a range of possible associations between variables which influence abandonment and its aftermath. The fresh conceptual framework developed as part of this research draws several different strands of literature together to derive a multifaceted causal network, where many elements interact, in potentially complex ways, to produce abandonment, and cause changes in bidders subsequently. The analysis of this rich interaction in causal processes requires an appropriate research strategy and methods. Comparative case study analysis offers the richness in explanation required to address the research questions in the context of the conceptual framework (George and Bennett, 2005). This approach will complement statistical studies to provide a deeper, denser understanding of abandoned acquisitions and their aftermath.

Bryman (2004) defines a case study as the detailed and intensive analysis of a single case. In this study, the case is defined as the bidding firm. Furthermore, Bryman (2004) highlights that research should focus on a particular aspect of a case. In this research, this aspect is the role of abandoned acquisitions in the corporate governance of bidding firms. Within this, a combination of within-case and cross-case analysis enables the deep, dense analysis of causal explanations required to explain why certain acquisitions are abandoned and why abandonment may affect bidding firms afterwards (George and Bennett, 2005).

Within the case study strategy, a research method which could handle this framework is adopted - Causal Process Tracing (CPT). CPT is a research method which has emerged to analyse causal mechanisms to a depth unattainable by purely statistical techniques (Steinberg, 2007). CPT has not been applied to the analysis of acquisitions and the acquisition process. Yet, as Weston et al. (2004) point out, the bidding processes in acquisitions can be complex, requiring such an approach. Therefore, this thesis involves the novel application of CPT methods to the investigation of abandoned acquisitions. CPT enables this research to analyse the complexity of the interaction of firm characteristics, transaction characteristics and contingent factors in the bidding process which produces different outcomes in bidders after abandonment. It is appreciated that given the complexity of the acquisition process, it will be impossible to capture all of the possible interactions between the various characteristics and events. However, using CPT will enable the work to focus on those characteristics and factors, grounded in theory, which are revealed to be important. By doing so, it will enable the research to explore and identify classes of causal mechanisms by which abandoned acquisitions produce different outcomes. The typological network illustrates the anticipated configuration of variables in a certain types of causal mechanism. In this context, process tracing can be used deductively. However, it can also identify, inductively, the interactions which are revealed to be important in cases of a specified type. Consequently, theory can be progressed (Miles and Huberman, 1994).

The method requires two stages of fieldwork. Cumulatively, the analysis helps answer the series of research questions outlined in chapter 3 and adds to our knowledge of the impact of abandonment on bidding firms and abandoned acquisition processes. Firstly, in order to add to our knowledge regarding the experience of bidding firms after abandonment, an analysis of anticipated disciplinary outcomes after abandonment is conducted. This analysis enables the research to distinguish cases on the basis of theory – cases whose experience is consistent with discipline (most-likely cases) and cases whose experience is not consistent with discipline (least-likely cases). The analysis of least-likely cases is particularly useful for extending theoretical understanding, by offering a counterfactual perspective (Richards, 2009). This separation of cases frames the second stage of the fieldwork (Miles and Huberman, 1994).

As the novel conceptual framework proposes, the acquisition process demonstrates complex inter-relationships between factors. At the second stage, a selection of most-likely and least likely cases are analysed using CPT. CPT is used to analyse the interaction of firm characteristics, transaction characteristics and contingent factors in the bidding process to identify the underlying mechanisms present. Hence, the research can contribute to knowledge by identifying the conditions under which specified outcomes occur and the causal mechanisms through which they occur. From this, contingent generalisations may be proposed. These are particular meta-causal mechanisms – pathologies - which apply to particular groups of cases, yet allow for specific processes and interactions to differ from case to case.

The chapter proceeds as follows. Section 2 discusses the identification of abandoned acquisitions in the UK and case selection. Section 3 discusses the rationale for causal process tracing. Section 4 explains stage one of the fieldwork; the delineation of cases according to outcome of abandonment. Section 5 explains the methods adopted for stage two of the fieldwork; the data collection and analysis as part of the causal process tracing. Section 6 is the summary and conclusion.

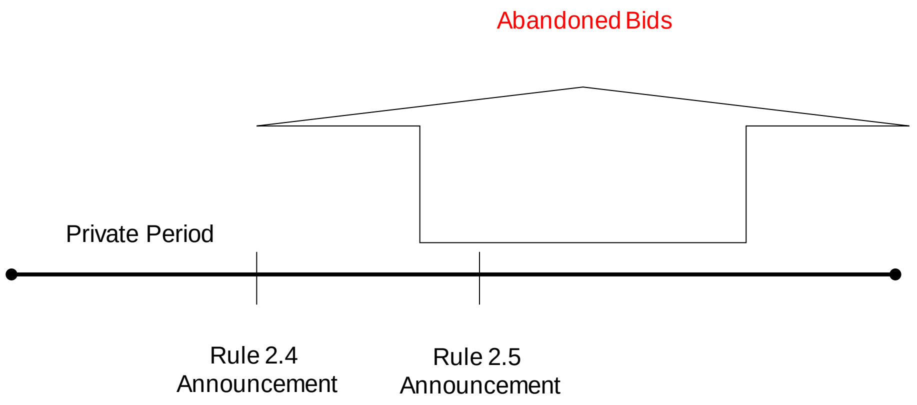
2. Identification of Abandoned Acquisitions and Case Selection

The theoretical underpinning for this research is the governance role of abandoned acquisitions. This determines the nature of the cases selected for analysis (Miles and Huberman, 1994). In developed capitalist economies, agency theory proposes joint stock companies, with dispersed share ownership, are most likely to have the weak monitoring and incentives, which enables the discretion for managers to pursue bids furthering their own interests (Jensen, 1986). The UK is chosen for analysis because it has a developed stock market, an active market for corporate control and all the companies in the sample would be governed by a common regulatory regime in both their general business activities and the acquisition process (Officer, 2003). In the UK, it is Public Limited Companies (Plcs) which are most likely to be the type of firms, with dispersed shareholding, where abandoned acquisitions are most likely to play a governance role, preventing bids furthering the interests of managers. Therefore, abandoned acquisitions involving UK Plcs as bidding firms are chosen for analysis.

The cases are sourced from the Takeover Panel – the institution which, under the auspices of the London Stock Exchange, regulates bids for UK registered companies (see chapter 1 for a discussion of the role of the Takeover Panel). Each working day, the takeover panel publishes a 'disclosure table' showing the offerees (target firms) and offerors (bidding firms), when revealed, of acquisitions currently in progress. While the focus of the takeover panel regulation is bids for UK registered companies, information on bidders is also recorded. This is of great use for this study. This source of bidders is useful due to the consistency in the collection of data adopted by the Panel. In the early stages of the research, a variety of sources was considered, but this led to problems identifying the stage to which a bid had progressed; mere rumours, informal talks, an informal bid or a formal bid. It is anticipated there is a great difference between the consequences of abandonment when companies are merely in talks and when a formal bid has been made. The use of the disclosure table, while restricting the number of potential takeovers to those with UK Plcs as targets, produces consistency in the nature of the abandoned bids, which is important for the validity of this research.

Under the Code, the public phase of an acquisition starts when a target (offeree) enters an 'offer period' – this reveals that the company is subject to a bid. The identity of the bidder may not be revealed at this stage to allow negotiations to progress. However, if information is revealed, the Panel may force a bidding firm to make a 'Rule 2.4' announcement - revealing the intention to make an offer. A bidder is not committed to making a formal offer, and may withdraw their bid at this stage without sanction (termed a 'withdrawal'). However, once a bidder makes a 'Rule 2.5' announcement, it must publish the terms of their bid and post offer documents within 28 days (Takeover Code, 2011). Once documents are posted it is difficult for a bidder to voluntarily pull out of a bid. An abandonment at this stage (termed a 'lapse') normally means that the target firm' shareholders have rejected a bid. However, other changes in material circumstances, such as referral to the competition authorities, can also cause a bid to lapse. Hence, the term 'abandonment' means, either the bidders withdraw their bids or, allow their bids to lapse. These events were identified through a relevant announcement through the London Stock Exchange's Regulatory News Service (RNS). Figure 4.1 illustrates the time-line of an abandoned bidding process.

Figure 4.1 Bid Process and Abandonment



Cases of UK Plcs in abandoned acquisitions were selected between 1999 and 2005. It was not possible to retrieve sufficient data for cases before 1999 and, 2005 was the last possible year to allow sufficient time to elapse for observing the impact, if any, of abandonment. According to the Takeover Panel's annual report a total of 90 lapsed bids and 23 withdrawn bids for UK Plcs occurred in this period. However, these bids included a variety of bidders, including UK Plcs, but also UK private limited companies and foreign bidders. As the focus of this research is the governance role of abandoned acquisitions in UK Plcs, this reduced the number of potential bids to 60 during this period. Due to data availability, and the fact that a number of companies were responsible for multiple abandoned bids, the number of bidding companies which can be analysed is 31. Despite this small absolute size, the group of cases represent approximately 50% of the abandoned bids involving UK Plcs during the period.

3. Causal Process Tracing

The majority of previous research in this field has involved large-n statistical analysis, identifying significant causal relationships between variables. This research seeks to complement these studies by investigating some the relationships identified by these statistical studies in more detail. The aim of the research is to produce a more refined understanding of abandoned acquisitions from before the bid, through the bidding process, to after abandonment. Consequently, the proposed novel conceptual framework characterises the acquisition process as a complex causal mechanism, involving antecedent firm characteristics, interacting with interceding variables relating to transaction characteristics, and contingent factors in the bidding process to produce differential outcomes after abandonment. Using this framework, the comparative analysis of a small number of cases can provide a depth and richness to the identification of causal mechanisms in phenomena like abandoned acquisitions (Bennett and Ellman, 2006).

Causal process tracing (CPT), a qualitative analytical protocol, is appropriate in this context. CPT is a systematic way to envisaging economic causation within controlled case-study comparisons. Whereas large-n statistical analysis makes causal inferences from dependent to independent variables, analysing covariance between variables to determine which are significant. CPT is useful in this context because it builds on the statistical associations identified by large-n studies, conducting a fine-grained analysis of the nature and scale of the interactions between these variables in a small number of case studies. This multidimensional, fine-grained analysis of causal mechanisms enables the potentially complex interplay between many factors to be investigated in the way anticipated by the novel conceptual framework. Statistical analysis would not draw out this complex interplay.

CPT is useful because it can incorporate theory-driven expectations – a deductive approach to analysis. This is appropriate given the rich, yet fragmented literature, on corporate acquisitions (see chapter two). This 'theory-first' approach is adopted in the development of the typological 'disciplinary pathology'. The causal network blends the existing fragmented literature in an innovative fashion to illustrate and explain the causal mechanism. Chapter three explains this tentative causal network through which abandoned acquisitions may play a governance role. The deductive nature of the research helps the identification of key themes within the dataset. Early conceptualisation in framing the research questions, samples, and codes for variables and events, enhances the powers of inference and gives the typological network a chance of working out (Miles and Huberman, 1994).

Typological theorising within the context of the conceptual framework develops the anticipated configuration of variables in certain types of cases. Each observable step in the causal path of an abandoned acquisition, and its aftermath, is analysed by reference to the conceptual framework and the typological disciplinary pathology derived from the framework. The iteration between theory and data, and between within-case and cross-case comparisons, is a key advantage of using typological theorising. However, typological theorising is susceptible to erroneous inferences if relevant variables are omitted. Rigorous within-case analysis used in conjunction with cross-case analysis can enhance the measurement of independent variables which reduces the risks of mistaken inferences (Bennett and Ellman, 2006). This research utilises such analysis (see section 5 of this chapter for a description of the analytical protocol for within-case and cross-case comparisons).

There is a strong basis for a causal process, if it can establish an uninterrupted causal path linking causes to outcomes at the appropriate level specified by theory. However, the predictions or expectations must be present. George and Bennett (2005: p.30) point out,

> "…if even one step in the hypothesised causal process in a particular case is not as predicted, then the historical explanation needs to be modified."

Evidence that a single intervening variable in the causal process is contrary to expectations, strongly disputes the hypothesis. Then, the inferential and explanatory value of the hypothesised causal mechanism is diminished.

Process tracing is useful in this context. It can help identify, inductively, the interactions which took place in cases. This is best done in the context of comparative case studies where a deeper, more nuanced analysis can explore interactions between existing variables and new variables which may have been left out of the initial framework but, which appear to be important in a specific abandoned acquisition process. The analysis of distinctly different cases can enable this. Firstly, most-likely cases can be identified where, with reference to theory, abandoned acquisitions are anticipated to play a governance role, evidenced by changes afterwards consistent with discipline. Secondly, least-likely cases can be identified where, with reference to theory, outcomes of abandonment suggest the process of abandoned acquisitions did not play a governance role (Yin, 2003; Richards, 2009).

Thus, the research can test the configurations of variables in the proposed typological disciplinary causal network, but also revise and refine it in the light of empirical observations. The nature of the interactions in the most-likely cases can be assessed. This enables the research to make further contributions to knowledge by proposing a tentative causal network illustrating the conditions under which disciplinary outcomes occur and the causal mechanisms through which they occur. However, in addition, in cases where the outcomes are not consistent with discipline, the research can propose alternative causal mechanisms where abandoned acquisitions may not play a governance role. This is the approach adopted in this work. From this, contingent generalisations may be proposed. These are particular meta-causal mechanisms which apply to particular groups of cases, yet allow for specific processes and interactions to differ from case to case.

Pierson (2004) emphasises that the CPT method is particularly useful where specific patterns of timing and sequence matter. This suggests that there is a linear, temporal sequence of events to a particular outcome, which Boone and Mulherin (2007) infer is important in a bidding process. However, the acquisition process may not be so linear. Blatter and Blume (2008) point to ideas about causal configurations. Here temporal sequences are not as important. Instead, intense links and/or complex interactions between various causal factors are important. There can be interaction effects between factors. Their co-existence may accelerate or moderate their impact on a causal process. In addition, the contingent factors may only work in specific contexts. Finally, a first casual factor may be a necessary pre-condition for the activation of a second at a later stage. This could be the case in an abandoned acquisition process where certain contingent factors interact, not necessarily in a uniform, neat temporal fashion, to produce a particular outcome, in this case, changes in bidders after abandonment. Several types of causal relationships are delineated in the literature:

- Nested causation: One characteristic is a necessary, but insufficient precondition for another variable (eg. high profitability produces high free cash flow).

- Compound causation: Two characteristics are both necessary for a subsequent variable, but are not necessary conditions for one another. Together, they amplify each other's effects on a subsequent characteristic (free cash flow and weak monitoring provide the scope and discretion for value-destroying bids).

- Relational causation: The relationship between two characteristics produces a causal effect on subsequent characteristics (managerial resistance and low offer price may produce a rival bid).

(Steinberg, 2007)

Acquisitions that involve similar causal configurations can result in very different outcomes – multi-finality. On the other hand, acquisitions which involve different causal configurations can produce similar outcomes – equi-finality. There may be contingent characteristics or factors which are critical junctures in the bidding process that could have large consequences. These contingent events may reveal information about companies which can be used by shareholders and analysts to make judgements on the management of these companies which produces abandonment and disciplinary changes subsequently (Bennett and Ellman, 2006).

Another problem is that there may be more than one hypothesised causal mechanism consistent with any given set of evidence. In such cases, it may be difficult to discern which explanation is accurate or, whether the alternative explanations are complementary. Rigorous theorising should enable some explanations to be omitted, and therefore, enable analysis to draw inferences for a causal process. This includes the identification of all potentially relevant theoretical variables and hypotheses, and rigorous analysis of the same type of events, to observe repeated patterns of causal mechanisms.

The fieldwork is broken down into two stages. The starting point for the conceptual framework, and consequently the starting point for the empirical work of the research, is the experience of bidders after abandonment. This contributes to knowledge about the differential impact of abandonment on bidding firms. In addition, the results of this analysis are used to select cases based on the dependent variable – the outcomes after abandonment (George and Bennett, 2005). This selection is theory-driven, arising from the literature on the governance role of acquisitions. Therefore, the first stage of the fieldwork is a qualitative data analysis of the outcome of abandonment on 31 abandoned bids and bidders using secondary data. These findings are used to distinguish two groups of companies; (i) most-likely cases involving firms which endure a disciplinary process and; (ii) counter-factual, least-likely cases involving firms who do not endure a disciplinary process after abandonment (Richards, 2009).

At the second stage, the outcomes from Stage 1 are used to select a small number of cases with different outcomes of abandonment. This stage involved analysing both primary and secondary data using CPT to explore in detail the underlying mechanisms in the different cases to make tentative propositions about the nature of the governance role of abandoned acquisitions (George and Bennett, 2005). The final stage of the analysis is to develop different causal mechanisms to explain the different outcomes. This is done using causal network diagrams of the anticipated causal configurations / mechanisms (Miles and Huberman, 1994).

4. Stage 1: Experience of Bidders after Abandoned Acquisitions

This stage of the fieldwork enables the research to address the following research questions stated in chapter 3.

- What changes happen in bidding firms after an abandoned acquisition?
- Are these changes consistent with discipline?
- Are these changes not consistent with discipline?

Answering these questions will enable the research to distinguish between bidders which experience discipline after abandonment from those which do not experience discipline.

4.1 Data Collection and Coding of Variables

Analysis of the firms involves cross-case comparisons. The first stage in the analysis is distinguishing the bidding firms according to outcome variables. Selecting on the dependent variable – the dimensions of change in bidders after abandonment was a useful way of classifying the firms according to corporate governance (Bennett and Ellman, 2006). These outcome variables are (i) changes in bidders after abandonment which could be characterised as disciplinary and (ii) changes in bidders after abandonment which could not be characterised as disciplinary. In the conceptual framework several patterns of quantitative and qualitative changes in bidders after abandonment are characterised as discipline.

Operational measures which could be valid measures of these changes were developed. These could be either quantitative or qualitative in nature. This requires some structure to the collection of data. This stage of the research focuses on secondary, documentary sources. There are three types of documents used. For each case, data is collected for the three year period before and three year period after the abandoned bid. This enables sufficient lead time before to analyse the context of an abandoned bid and sufficient time afterwards, to analyse the impact of abandonment on bidders. The sources of secondary data are:

I. Company Reports from 3 years before to 3 years after the abandoned bid (sourced from company websites or databases such as FAME)
II. Press / Trade Journal Reports from UK Publications (sourced from the NexisUK Database)
III. Company announcements made through the Regulatory News Service (RNS) of the London Stock Exchange (sourced from the NexisUK Database)

All of these sources are in the public domain and in relation to sources I and III in particular, there are accepted principles and practices underpinning the production of such documents. Hence, they can be utilised effectively in such research (Glaser and Strauss, 1967; Yin, 2003). However, given the nature of the sample in this research, it is anticipated there will be heterogeneity across such sources (Bryman, 2004). The authors in each organisation are different and, given the variation in the size and importance of companies, the extent of secondary documentation available is different. Thus, while the documents may be authentic and meaningful, there may be a concern as to whether they are credible and representative. Therefore, one of the reasons for using a variety of secondary sources is to enable their interrogation and examination in as broad a context as possible, to mitigate possible problems relating to credibility and representativeness (Bryman, 2004).

Templates are used to collect quantitative and qualitative data for each group of characteristics and factors which reflected the scale and nature of each element as described in the conceptual framework. These templates went through a number of drafts and refinements, using feedback from supervisors, conference presentations and research seminars to make sure they were both representative and valid measures of the conceptualisation of post-abandonment discipline (King, 1998). These templates formed the basis for the coding of the data shown in appendix 2.

4.2 Data Analysis

Within-case analysis involves classifying the bidding firms according to whether there is, or is not, a disciplinary process after abandonment. This is taken forward and used to guide the investigation of the abandoned bidding process. To do this several data-reduction methods are adopted.

Firstly, the dependent variable - the changes in bidders after abandonment - is divided into its component parts and analysed separately. Secondly, cases are ordered in relation to the operational measures of the proposed changes illustrated in table 4.1, using measures of significance based on established theoretical and empirical conceptualisation. By adopting this methodological trail, the robustness of the research in differentiating cases according to the dependent variable is retained (Miles and Huberman, 1994).

Boundaries are used to determine the significance of the different dimensions of change in the bidders after abandonment. Some of the measures were binary in nature and the binary classification adopted in determining significance is consistent with this. Significant strategic changes within two years of abandonment are identified through consistent phrases in secondary data sources. Significant management changes are revealed by replacement of the chief executive within two years of abandonment. The acquisition of more than 5% of a firm's share capital within one year of abandonment is defined as a significant ownership block. A company is defined as subject to an acquisition if there is a successful bid within three years of their own abandoned bid.

Other measures are continuous and the binary classification determining significance is based on the statistical distribution of the values of the operational variables across the cases. Firms are deemed to have made significant asset disposals if their real value of net acquisitions (disposals) is in the lowest quartile for the distribution of this operational variable across the cases. In addition, a policy of asset sales is also evidenced by the analysis of company reports and regulatory news announcements. Firms are deemed to have made significant increases in gearing if their change in gearing ratio compared to the pre-bid period is in the top quartile for the distribution of the operational variable across the cases. This is consistent with the approach to classification taken by Paul (2007). These relative determinants of significance are appropriate because the focus of the research is differentiating the experiences of the bidding firms in abandoned acquisitions. Table 4.1 summarises the operational measures and their determinant of significance for each of the dimensions of change after abandonment.

Table 4.1 Operational Measures of Changes in Bidders after Abandonment and measure of significance

Change	Operational Measures	Determinant of Significance
Significant Strategic Changes	Evidence of announced changes in strategy within two years Codes used for secondary data: 'strategic review' 'new direction', 'reorientation' 'shareholder activism'	Binary Classification Yes –significant No – not significant
Significant Management Changes	Replacement of the chief executive within two years of abandonment	Binary Classification Yes –significant No – not significant
Significant Asset Restructuring	Total real value of Net Acquisitions (Disposals) as a percentage of total assets within three years of abandonment	Binary Classification Yes: If case is in first quartile of distribution for samples bidders shows discipline through a high level of disposals No: If in second, third or fourth quartiles.
Ownership Changes	Shareholder blocks (>5%) acquired within three years of abandonment	Binary Classification Yes –significant No – not significant
Subsequent Acquisition	Successful bid for Company within 3 years of abandoned bid	Binary Classification Yes –significant No – not significant
Financial Restructuring	Average of gearing ratio in 3 years after bid compared to the average level 3 years before the bid.	Binary Classification Yes: If case is in fourth quartile of distribution for the cases of bidders, shows evidence of discipline through the bonding associated with increased debt. No: If case is in first, second or third quartiles.

4.3 Disciplinary Sequences after Abandonment

In order to distinguish companies fully according to disciplinary sequences after abandonment, causal process tracing is used to identify the sequence of changes that happened in each bidder after abandonment. It is anticipated that some changes may be disciplinary triggers for subsequent anticipated outcomes if a disciplinary process occurred. Chapter 3 discusses the development of several possible time-ordered disciplinary sequences based around the acquisition of ownership blocks, and/or management changes, and/or strategic changes. From this it can be discerned which disciplinary triggers (ownership changes, management changes or strategy changes), are important contingent factors ('predictors' in Miles and Huberman parlance) on a case-by-case basis. It is hypothesised that these changes are not disciplinary outcomes in themselves. Instead, these changes are part of a disciplinary sequence arising from the abandoned acquisition, if they lead to appropriate significant asset disposals, and/or increased gearing, or subsequent acquisition as final outcomes. Conversely, these changes are not part of a disciplinary process if they do not produce significant asset disposals, and/or increased gearing, or subsequent acquisition as final outcomes. In addition, this can mean no further significant changes, affecting bidders, after these triggers.

4.4 Outcome Sequences

To conduct within-case analysis, the timings of changes in the bidders after abandonment are found from company reports and regulatory news announcements as part of the secondary data collection. A time ordered display like that proposed by Miles and Huberman (1994) is developed based around figures 3.1-3.4 shown in chapter 3. The time-ordered displays were trialled and tested through feedback from written work and presentations at workshops and conferences. Consequently, a visual representation of the sequence of changes for each bidder after abandonment is derived. These represent the outcome fragment of the extended causal network for each case.

Then, cross-case analysis is conducted. This is done by categorising the companies according to the final changes after abandonment to discover which companies have common outcomes. These companies are grouped together to compare their sequences of changes after abandonment. This enables the identification of the replication of sequences, if any, across cases; and particularly, to distinguish the significance of certain contingent factors, in triggering different types of sequences after abandonment. Some of these sequences are classed as 'disciplinary' – producing final outcomes after abandonment consistent with those proposed in the conceptual framework. Other sequences are classed as 'non-disciplinary' – producing final outcomes after abandonment not consistent with post-abandonment discipline. Hence, firms are separated according to these differential outcome sequences (Yin, 2003). This analysis will add to knowledge about the experience of bidders after abandonment. The findings of this analysis are discussed in Chapter 5.

5. Stage 2: Derivation of Causal Pathologies in Abandoned Acquisitions

The next stage of analysis is to trace the causal mechanisms of the cases to analyse whether these provide any guidance on subsequent changes in the bidding companies. The findings of the analysis at stage 1 are used as a basis for categorising the firms. Cases which demonstrated sequences of significant changes after abandonment which, according to theory, are consistent with 'disciplinary' governance processes are categorised as 'most-likely' cases. In these cases, it is proposed that the causal mechanisms of abandoned acquisitions played a governance role, producing discipline afterwards. On the other hand, cases which demonstrated sequences of changes after abandonment which, according to theory, are not consistent with 'disciplinary' processes are categorised as 'least-likely' cases. In these cases, it is proposed that the causal mechanisms are different, producing no discipline afterwards. (Yin, 2003; Richards, 2009).

The choice of cases with different outcomes enables a deeper analysis of the nature of the different causal mechanisms of abandoned acquisitions. Firstly, analysing both most-likely and counterfactual least-likely cases enables the research to identify whether their causal mechanisms are different. This is a test of the typological causal network proposed in the conceptual framework. If there is no difference in the causal mechanisms of most-likely compared to most-likely cases, this casts doubt on the disciplinary impact of abandoned acquisitions. However, if differences in the causal mechanisms, the research can propose tentative configurations of characteristics and contingent factors necessary for particular outcomes. For most-likely cases, the typological causal network could be refined in the light of evidence (Miles and Huberman, 1994). For least-likely cases, the research can propose alternative causal mechanisms. This would provide a deeper, denser understanding of the causal mechanisms of abandoned acquisitions, showing if, and, how they perform a governance role, producing disciplinary outcomes.. This represents one of the contributions of this research (Yin, 2003).

The strongest means of drawing inferences from case studies is the use of a combination of within-case and cross-case comparisons. These are useful even when there are only a few cases (George and Bennett, 2005). Therefore, this is the approach adopted here.

5.1 Data Collection

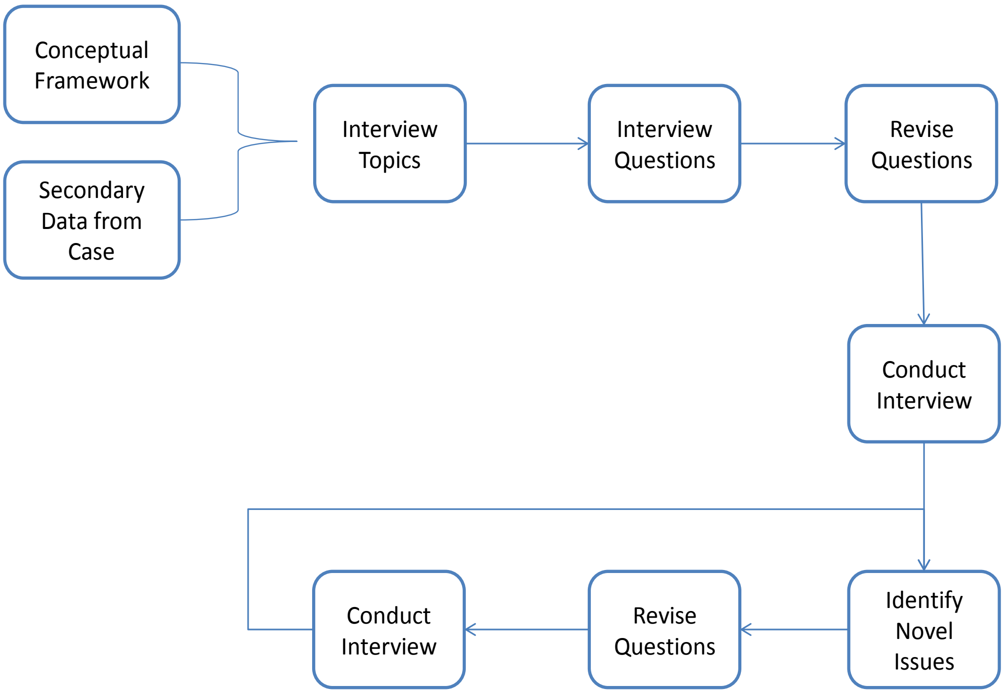
For this stage of the fieldwork, both secondary documentary evidence and primary data are collected. The sources of secondary documentary evidence are the same as stage 1 (for a discussion of methodological issues surrounding this data see section 4.1 above). The source of primary data involved semi-structured interviews with important decision-makers in the selected cases. The intention is to interview the executive directors from both bidding companies and target companies. These individuals would provide a rich, detailed and unique perspective triangulating with the documentary evidence in contributing to understanding the corporate governance role of an abandoned acquisition process. This enables deeper, contextualised causal process mechanisms to be identified and analysed.

In addition, several approaches have been adopted to enhance the validity of the research. The first has been to interview individuals from a wider range of perspectives of the bidding process. These include corporate lawyers and advisors in the bidding process and UK regulators. These contextual interviews were conducted after the interviews with the directors of the bidding companies, enabling the issues raised in the earlier interviews to be presented to these 'knowledgeable participants' in the acquisition process (Beardsworth and Keil, 1992). The choice of a variety of decision-makers in the bidding process enables diverse perspectives to be included, providing further triangulation of evidence. This enhances the credibility and representativeness of the analysis (Guba and Lincoln, 1994). The second approach is to ensure the casual process tracing analytical techniques is appropriate for the case-study research (George and Bennett, 2005).

5.2 Triangulating Primary and Secondary Data

Given the nature of the research questions and the analytical protocol adopted, a semi-structured interview protocol is the appropriate approach to take. The hypothetico-deductive approach to the research requires focus in data collection which is best provided by some structure to interviews. In addition, the analysis of the cases involved cross-case comparisons. This requires some structure to the collection of data, but allows openness in responses, which 'elite' interviewees such as the executive directors of Plcs may anticipate (Aberbach and Rockman, 2002). Therefore, semi-structured interviews enhanced the reliability of the analysis, by making the comparison of data across interviews easier. The process of formulating questions proposed by Bryman (2004) was adopted. This is shown in figure 4.2.

Figure 4.2 Framework for formulating and conducting semi-structured interviews



Source: Bryman (2004)

Two sources guide the general interview topics. In order to address the specific research questions relating to abandoned acquisitions, the conceptual framework guide the general characteristics and factors to be discussed. The first stage of analysis helps set the context of each interview, depending on whether the case is classified as having disciplinary outcomes or non-disciplinary outcomes. In addition, in order to triangulate the primary data with specific evidence from secondary sources, the latter sources are analysed first. This highlights particular topics which can form the structure for each interview. These topics and issues for discussion are distilled into questions guided by the criteria suggested by Kvala (1996). Once the first interview was conducted, the flexibility of a semi-structured approach enables novel issues raised during the interview to be picked up immediately through supplementary questions. In addition, the issues raised in the early interviews helps revise the topics and questions for later interviews, so that the lines of thought identified by the earlier interviewees can be presented to later interviewees. This is particularly useful in the contextual interviews with analysts and regulators conducted late in the cycle of interviews where such lines of thought enhance the relevance of the data collected.

During the fieldwork, all of the interviews were conducted by the researcher to ensure consistency and all were recorded verbatim using audio equipment. As soon as possible after an interview, a reflection on the interview was conducted. Full transcription was conducted shortly after the interview. This was done by the researcher, because even though it was time-consuming, it was thought that the process of transcription would trigger memories from the interview which would be useful for the coding and analysis of the data. In addition, the recording and full transcription of the interviews adds to the robustness of the research in several ways:

- Helps correct natural limitations of memory
- Enables more thorough examination of the evidence
- Enables repeated examination
- Enables public scrutiny which avoids bias.

(Bryman, 2004)

5.3 Approaching Potential Interviewees

Research was carried out to identify relevant executive directors in the bidders and targets of selected cases. These executives are senior board members who would have been deeply involved in decision-making before, during and after the bidding process. Given the period of time that had elapsed between the abandoned bid and the time of the interview, many had moved on. This was particularly the case for target companies which had been acquired subsequent to the abandoned bid. This made the task of finding current contact details for potential interviewees more difficult. Fortunately, the FAME database is a useful source of information about directors' current directorships. However, even this contained out-of-date or incomplete information for some individuals. This made it impossible to trace some directors.

Contact with potential interviewees in selected cases was through email where possible or alternatively through a letter. The format of the email/letter had a standard format (reproduced in appendix 1). The letter stated the background to the research, the details of the case and the issues to be raised in the interview, including why the director's perspective would be valuable. The interviews were to be conducted within the ethical guidelines surrounding the conduct of research in the Nottingham Business School. As a result, a statement of these ethical guidelines was included in the email. In some cases, an email was sufficient to make contact and gain agreement. However, in some cases it was sufficient to receive a rejection. If no response was received, the email / letter was followed up by a telephone call(s) either directly to the potential interviewee, or their office.

Of ten requests made for interviews with target directors, no responses were received. Of ten requests made for interviews with bidding directors, eight responses were received. Consequently, four directors of bidding firms, at executive level were interviewed. In addition, contextual interviews with two corporate lawyers and one regulator were also conducted.

This was a great outcome, given that such elite individuals are busy and may have concerns about confidentiality relating to such important, strategic decisions, such as acquisitions. Hence, to be able to interview these individuals for an extended period provides fruitful, relevant and unique perspectives on abandoned acquisitions, enhancing the validity of the research.

5.4 Data Analysis Protocol

5.41 Within-Case Analysis

The use of quantitative and qualitative data analysis of secondary sources also enables the establishing of a relevant interview structure that facilitates coding prior to interviews. In addition, the interviews are coded in the same way as the secondary data to ensure the frequency of key phrases/terms are noted and to thematically reduce the data (King, 1998). This enhances the validity of the findings. The process of coding and analysis is discussed in detail below.

5.42 Process of Coding for Primary and Secondary Data

From the conceptual framework, codes are established in relation to the firm characteristics, transaction characteristics and contingent factors in the bidding process prior to the fieldwork. Both the primary and secondary data for each case are interrogated with reference to the codes. Relevant information and phrases in the documents are identified, coded and allocated to particular characteristics and factors across the three categories. This enables the cases to be rated for each characteristic and contingent factor in relation to theory.

Consistent with Bryman (2004), an iterative process is adopted to complete the coding process. Semi-open coding is used because, while the extensive theory and evidence of acquisitions has proposed characteristics and factors which may reveal information about the nature of the governance role provided by abandoned acquisitions, new codes can be developed which better portray the role of characteristics or factors in causal mechanisms. In addition, codes in relation to new characteristics or factors are developed when data suggest these are important aspects of the causal mechanism in a case.

Coding is started early in the data collection process. This means ‘active’ reading of documents before the interviews to help frame the structure of the interviews, enabling a better triangulation of evidence. In addition, interviews are transcribed at an early stage (completed within several days of the interview). This facilitates the coding of documents and allocating information and phrases to characteristics or factors. Then, the documents and interview transcripts are read again to revise and clarify the significance, frequency and context of data and phrases, to thematically reduce the data. By continually referencing the data to underlying conceptual ideas, the research focuses the thematic reduction of data, enhancing the validity of the findings (Miles and Huberman, 1994). In addition, new codes for characteristics and indeed characteristics, not included, which arise in the analysis of early cases can be developed and used to interrogate data from all of the cases. This means returning to previous cases and analysing data in the context of new data and codes. The codes established for each category of characteristics and contingent factors are discussed below.

5.43 Bidder Characteristics

From the conceptual framework, it is proposed the characteristics of bidders in the period before, and at the time of an abandoned bid can reveal information about the nature of governance in a company. In addition to quantitative operational variables established for earlier stages of the fieldwork, coding was established for qualitative aspects of firm characteristics.

The typological causal network proposes that companies which were being disciplined after abandonment for proposing acquisitions pursuing managerial preferences should be ‘mature’, have ‘weak’ monitoring, ‘weak’ incentives, ‘high’ profits, ‘high’ free cash flow, ‘’low’ growth and acquisitiveness. Hence, these form the basis for codes in the analysis of the qualitative secondary and primary data to categorise companies in relation to these characteristics.

However, additionally, analysis of some cases revealed that information about the behaviour and motivations of the directors of bidding companies can be provided by their strategy in the pre-bid period. The nature of the strategy could provide evidence about the rationale for a bid and provide some guidance on the firm’s subsequent activities. Hence, this is incorporated as an additional bidder characteristic. Table 4.2 illustrates the codes for bidder characteristics.

Table 4.2 Codes used for Bidder Characteristics

Contingent Characteristic	Codes
Age	'young' 'mature'
Board Monitoring	'strong' 'weak'
Ownership Structure	'concentrated' 'dispersed' 'Non-institutional' 'institutional' 'blocks'
Managerial Incentives	'weak' 'strong'
Acquisitiveness	'acquisitiveness' Author's calculation of real value of net acquisitions in three years prior to the abandoned bid
Strategy	'acquisitiveness' 'growth' Author's calculation of real value of net capital and financial investment expenditure in three years prior to the abandoned bid
Performance	'profitable' 'not profitable' 'free cash' Author's calculation of average level of free cash in three years prior to the abandoned bid 'low growth'

5.44 Transaction Characteristics

From the conceptual framework, it is anticipated there are several bid characteristics which can reveal information, which impacts on the course of a bid, and its outcome. The typological 'disciplinary' causal network proposes that companies disciplined after abandonment for proposing acquisitions against shareholder's interests should be making 'unrelated', 'conglomerate', 'diversifying' bids, pursuing excessive diversification. These should be financed using 'cash'. On the other hand, a bid may be in a 'related' sector with 'synergy' or 'consolidation' as the stated rationale. As a result, these codes are also used to sort the data. In addition, preliminary analysis of the primary and secondary data revealed other codes in relation to transaction characteristics which were considered important in the cases analysed. These were 'managerial inefficiency' and 'opportunism'. Hence, this expanded the codes included for analysis in relation to this characteristic.

In addition to the issue of cash as a means of payment, theory and empirical evidence suggest that 'uncertainty' relating to the use of 'equity' can have an important bearing on whether a bid is abandoned or not. Again, preliminary analysis of the primary and secondary data revealed other codes in relation to bid characteristics which were considered important in the cases analysed. These were issues surrounding 'excessive debt' and the use of 'share power' as an aspect of decisions around the means of payment. Hence, this expanded the codes included for analysis of this transaction characteristic.

Preliminary analysis of primary and secondary data showed the conditions attached to a bid may reveal important information. Many bids have 'standard' conditions, notably the acceptance condition, but, the inclusion of 'non-standard' conditions may reveal information. Table 4.3 shows the codes used for each transaction characteristic and the sources of evidence.

Table 4.3 Codes used for Transaction Characteristics

Bid Characteristic	**Codes**
Bid Rationale	'synergy', 'consolidation', 'related' 'unrelated', 'conglomerate', 'diversification' 'managerial inefficiency' 'opportunism'
Means of Payment	'cash' 'debt' 'equity' 'share power' 'uncertainty'
Merger or Acquisition	'recommended' 'not recommended'
Conditions	'standard' 'non-standard'

5.45 Contingent Factors in the Bidding Process

From the conceptual framework, there are a number of contingent factors which theory suggests are important in an abandoned bidding process. They may have an important role to play in the underlying mechanisms governing the subsequent impact of abandonment.

The typological disciplinary network proposes that 'negative information' about the motives of bidder's management will be the critical contingent factor causing abandonment. It is proposed this will lead to a significant disciplinary process in bidders after abandonment.

However, theory and empirical evidence propose a number of other contingent factors which may be important in abandonment. Therefore, codes are derived for these possible contingent factors to assess their importance in the causal process of an abandonment acquisition. The value of a bid and the means of payment can be critical contingent factors in abandonment. Hence, codes are adopted to assess the scale and nature of these factors in the bidding process for each case. This includes possible interactions with other variables. The codes are, 'fair value' 'undervaluation', 'opportunistic', 'means of payment', ''bid premium'. The reaction of target management to a bid can play a critical role in the outcome of a bid. Again, codes are adopted to assess the scale and nature of this factor in the bidding process. The codes, 'hostile' and 'friendly' relate to the nature of target management reaction, while the codes' 'shareholder value' and 'management entrenchment' relate to the revealed motives of target management. Information revealed about a bidder during a bidding process can play an important role. Lots of different types of information can be revealed about bidders and codes were developed to reflect this range. This includes 'positive' and 'negative' information. In addition, the type of information needs to be discerned. Hence, the codes reflect this: 'commercial', 'financial' and 'management' information. The preliminary analysis of primary and secondary data revealed different types of information. Hence, the codes were revised accordingly. Similarly, information can be revealed about targets in the abandoned bidding process. Lots of different types of information can be revealed about targets and codes were developed to reflect this range. These codes were similar to the codes adopted for bidding firms. Preliminary analysis of primary and secondary data revealed different types of information. Hence, the codes were revised accordingly.

The presence of a rival bidder can have a critical impact on whether a bid is abandoned. Hence, codes are developed to reflect the scale and nature of the influence a rival bidder has on the bidding process. This can interact with other variables including valuation, the means of payment and target management reaction. Hence, codes are derived to reflect this. Evidence suggests that referral of a bid to the competition authorities is a trigger for abandonment. The role this played in abandonment needs to be assessed. Finally, the nature of abandonment was included as a contingent factor in the bidding process. How far did the bid progress? Did the bidder make a rule 2.5 announcement? Or withdraw before that? Was the abandonment 'voluntary' or 'involuntary'? Table 4.4 shows the codes for each contingent factor in the bidding process and the sources of evidence.

Table 4.4 The Codes for each contingent factor in the bidding process

Contingent Factor	Codes
Valuation Extent and nature of the impact of valuation on abandonment	'fair value', 'undervaluation', 'opportunistic', 'means of payment', 'premium'.
Target Management Reaction Nature of and motive for resistance.	'friendly', 'hostile', 'shareholder value', 'management entrenchment'.
Information about Bidder Nature of information revealed about bidder	'positive information', 'negative information', 'commercial' 'financial', 'management', 'share price effect'.
Information about Target Nature of information revealed about target	'positive information', 'negative information', 'commercial', 'financial', 'management', 'share price effect'.
Rival Bid Timing, motive and means of payment of rival bidder	'rival bid', 'cash', 'premium', 'white knight', 'competition'
Competition Issues	'competition problems', 'referral to competition commission'.
Nature of Abandonment	'withdrawn', 'lapse', 'voluntary', 'involuntary'.

5.46 Derivation of Causal Networks for Cases

In each case, the findings from the analysis of primary and secondary data enable the categorisation of each variable in relation to the established codes. For each case, the coded data is drawn together to write a case summary. This is the first step in combining the discrete elements of data into an evidential chain which has a causal logic (Miles and Huberman, 1994). The next was developing fragments of the causal network for each case– antecedent bidder characteristics, transaction characteristics and contingent factors in the bidding process. Each characteristic was rated according to the codes, (high or low, weak or strong), depending on the nature of the variable. Characteristics which are anticipated to have a causal relationship are linked by lines and the nature of the link is illustrated by a label and an arrow. Directional arrows are used to show temporal sequences between certain characteristics and later ones it appears to influence. The development of these fragments enables the observation of how each characteristic related to other characteristics within each fragment.

Then, these fragments are brought together to derive a causal network diagram, which is an illustrates how the different fragments fit together in each case of abandonment – which characteristics are present/absent and how the variables interact in the proposed causal mechanism (Steinberg, 2007).

Causal network narratives are written to tell the chronological story of the network – the pathology of the abandoned bid and its outcome. The key here is to explore the causal configuration which triggered abandonment in each case. This explains the importance of particular antecedent bidder characteristics, transaction characteristics and contingent factors in abandonment. Furthermore, the narrative enables an opportunity for expansion by being explicit about causation. The narrative explains the nature of the revealed causal interaction between characteristics and factors and whether the configuration of variables has a significant influence on changes in the bidder subsequently and the nature of that influence (Miles and Huberman, 1994).

The derivation of the causal network diagram and the drafting of the causal network narrative should be iterative. It involves constructing a network, independent reflection and re-specification of the network. Then, the narrative is redrafted to improve coherence and check there is consistency between the two analytical outputs (Miles and Huberman, 1994). For the most-likely cases, a deductive approach is taken, comparing their causal networks against the typological network. For the least-likely cases, an inductive approach is taken. Chapter six discusses the findings of the within-case analysis.

5.5 Cross-case Analysis

Evidence is drawn from each case and analysed together. The principles adopted for the cross-case analysis are those proposed by Miles and Huberman, (1994).

The comparative analysis is done in the context of the outcomes identified. The causal networks are assembled and those with common outcomes grouped together. In this research, while each case had different specific outcomes, two broad classes are anticipated: (1) Companies which endured disciplinary sequences after abandonment and (2) companies which did not endure disciplinary sequences after abandonment. Within each case, the causal stream is isolated. Streams that were similar are matched across cases with similar outcomes. While similarities between cases are identified, case-specific factors can be maintained. Pattern-matching is used to cluster cases around core replicated configurations which produced the same outcome theme (Yin, 2003). These matched patterns had the following characteristics:

- The core replicated configurations on the causal path are the same.
- The immediate predictor characteristics are the same.
- The common characteristics have the same rating.
- The outcome theme is the same (Disciplinary / non-disciplinary outcome)
- Narrative confirms the similarity of outcome derived from the causal mechanism.

(Miles and Huberman, 1994)

The final stage of the cross-case analysis is to develop different meta-causal mechanisms to explain the different outcomes. Miles and Huberman (1994) define a causal mechanism as,

> "A network of variables with causal connections among them, drawn from multiple case analysis. Although empirically grounded it is essentially a higher-order effort to derive a set of testable propositions about networks of variables and interrelationships."
>
> (Miles & Huberman, 1994, p.222)

The key to this research is deriving a network of interrelationships between bidder characteristics, transaction characteristics and contingent factors in the bidding process for each distinctive outcome; (1) disciplinary outcomes (2) non-disciplinary outcomes (Miles and Huberman, 1994). It is acknowledged that the complexity of the abandoned bidding process and the small scale of the fieldwork means the proposed causal mechanisms will be provisional, contingent generalisations which are propositions for further analysis.

6. Summary and Conclusion

This chapter has described the methods adopted in the two stages of fieldwork, demonstrating the careful, methodical approach to the collection and analysis of data adopted in the research. The methods employed derive from the aim and objectives of the research and the resultant research questions. A major concern is the potential messiness and complexity of abandoned acquisitions. Chapter three describes the novel conceptual framework developed as part of this research, in order to address the complexity of the process of abandoned acquisitions. The framework characterises the underlying mechanisms present in the process of abandoned acquisitions. This depiction of the process integrates existing theoretical concepts about fragments of the acquisition process in a novel way. These fragments are antecedent bidder characteristics, information revelation in the bidding process and disciplinary changes after abandonment.

This chapter has explained how comparative case study analysis offers the richness in explanation required to address the research questions in the context of the conceptual framework. In this study, the case is defined as an abandoned corporate acquisition. The aspect which is the focus of investigation is the role of abandoned acquisitions in the corporate governance of bidding firms.

Within the case study strategy, this thesis involves the novel application of CPT methods to the investigation of abandoned acquisitions. CPT was suitable because this method could handle the analysis of the mechanisms inherent in the framework. CPT enables this research to analyse the complexity of the interaction of firm characteristics, transaction characteristics and contingent factors in the bidding process which produces different outcomes in bidders after abandonment.

Cumulatively, the fieldwork stages contribute to knowledge by applying CPT methodology in the context of the original conceptual framework. The aim of the fieldwork is to identify the conditions under which specified outcomes in bidding firms occur and the causal mechanisms through which they occur. From this, contingent generalisations may be proposed. These are particular meta-causal mechanisms – pathologies of abandoned acquisitions - which apply to particular groups of cases, while allowing for specific processes and interactions to differ from case to case.

Codes are established in relation to theoretical conceptions regarding bidder characteristics, transaction characteristics, contingent factors in the bidding process prior to the fieldwork. The fieldwork involves the collection of data from documentary sources, semi-structured interviews with executives of bidding companies and informed participants in the market for corporate control. This mix of sources is crucial to developing an understanding of the underlying mechanisms of abandoned acquisitions. Together, they offer a triangulation of evidence which will enhance the validity of the findings. Both the primary and secondary data for each case are interrogated with reference to the codes in order to thematically reduce the data. Using coding templates, relevant information and phrases in the documents are identified, coded and allocated to particular bidder characteristics, transaction characteristics and contingent factors in the bidding process. This enables the cases to be rated for each characteristic and contingent factor in relation to theoretical propositions. Semi-open coding is vital since it enables new characteristics or factors to be identified, offering the potential for unexpected processes and interactions to emerge.

Chapters five, six and seven will present and discuss the findings from the fieldwork stage of the thesis. Chapter five will present the findings of the analysis of the experience of bidders after abandonment. Chapters six and seven will present and discuss the findings of the within-case and cross-case analysis of underlying mechanisms present in categories of cases selected.

Chapter Five: New Perspectives on the Experience of Failed Bidding Firms after Abandoned Acquisitions

1. Introduction

The experience of bidding firms after abandoned acquisitions can provide some indication of the governance role in disciplining their managers provided by the market for corporate control. However, there is a dearth of studies examining many aspects of the experience of bidding firms, particularly in the context of the UK. This research aims to address this gap by investigating new aspects of the experience of bidders in a novel manner. This investigation is encapsulated in the following research questions previously advanced in chapter three:

> What changes happen in bidding firms after an abandoned acquisition?
>
> Are these changes consistent with discipline?
>
> Are these changes not consistent with discipline?

This research represents the acquisition process and its aftermath as a complex process involving bidder characteristics, transaction characteristics and contingent factors in the bidding process interacting to cause abandonment and lead to disciplinary outcomes subsequently. The theoretical and methodological innovations developed in this thesis address this complexity of merger and acquisition activity. This extends to the post-abandonment period. Little is known about the nature of the disciplinary process, if any, after abandonment. The literature of corporate governance and acquisitions has identified a number of variables which represent disciplinary changes after abandonment. However, unlike the majority of the existing literature, it is proposed that these changes cannot be considered in isolation. The experience of bidders after abandonment involves multiple, linked dimensions. In the conceptual framework, these multiple dimensions are linked in sequences of change which represented possible disciplinary processes after abandonment. Alternatively, different sequences of change are proposed which are not consistent with discipline. By analysing the sequences of changes in bidders with reference to the proposed sequences, more can be learned about the experience of bidders after abandonment, particularly the nature of the disciplinary process. This chapter discusses the findings of this analysis.

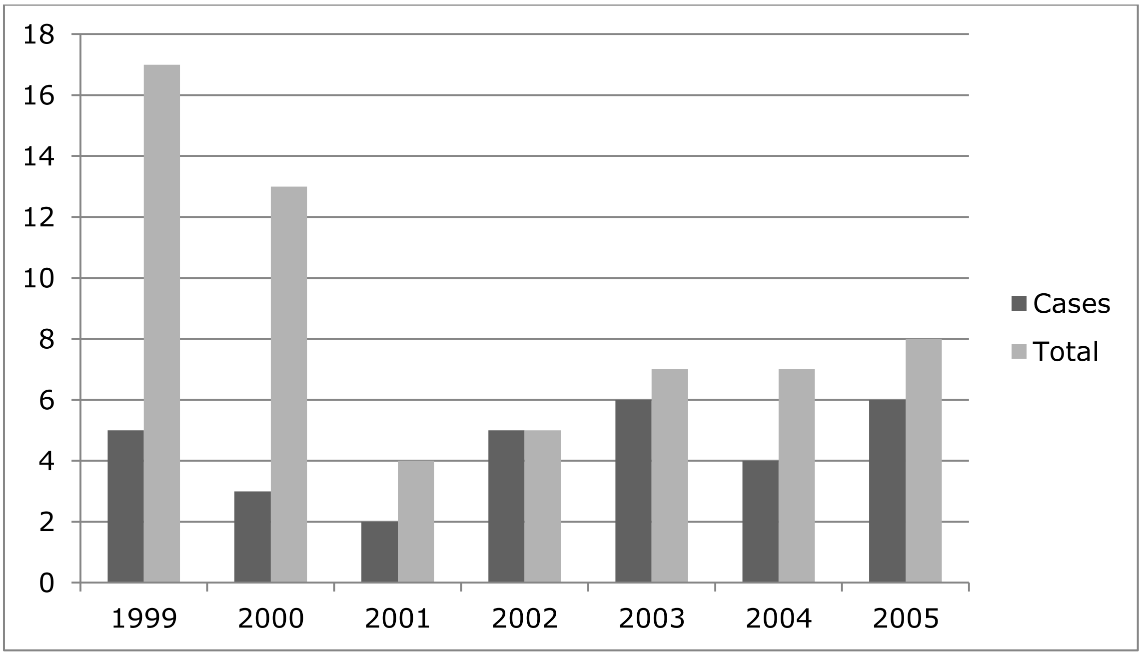
The fieldwork is cumulative. In addition to enhancing our knowledge of the experience of bidding firms after abandonment, the second stage of the fieldwork builds on this analysis. The findings of this analysis are used to select cases for the second stage. The second stage is a detailed analysis of the processes of abandoned acquisitions using causal process tracing. This is consistent with the methodical approach to causal process tracing – choosing cases on the dependent variable (outcome(s) after abandonment). The selection is theory driven. Given the variety of potential outcomes, cases consistent with a disciplinary process can be used to assess the nature of the governance role of abandoned acquisitions – 'most-likely' cases. Furthermore, counterfactual cases revealing outcomes not consistent with discipline can also be identified to analysis alternative processes evident in abandoned acquisitions - least-likely' cases - (Yin, 2003).

The chapter proceeds as follows. Section 2 reveals stylised facts about the 31 cases of abandoned bids selected for analysis. Section 3 reveals the classification of cases across the anticipated dimensions of change after abandonment. Section 4 discusses the sequences of changes evident in the cases. Section 5 distils the analysis into the classification of cases into (1) proposed disciplinary sequences and, (2) non-disciplinary sequences. Section 6 discusses the findings. Section 7 is the summary and conclusion.

2. Characteristics of Abandoned Bidders

Given the research concentrates on the governance role of abandoned acquisitions, the bidding firms chosen for analysis are those likely to suffer agency problems through a separation of ownership and control. In the UK, these are more likely to be public limited companies (Plcs). The cases of bidding companies are drawn from abandoned bids which occurred between 1999 and 2005. The explanation for the selected cases is provided in chapter four. Figure 5.3 illustrates the total number of abandoned acquisitions involving UK Plcs as bidders and the number of cases included in this research. The 31 cases represent 49% of the total number of abandoned bids by UK Plcs recorded by the Takeover Panel in the time period.

Figure 5.1: Total number of abandoned acquisitions involving UK PLCs as bidders and the number of cases used in fieldwork: 1999-2005



Source: The Takeover Panel

Table 5.1: Summary Statistics for Cases of Bidders

Summary Statistic	Age (Years)	Total Assets (£ 000s)
Mean	42.87	648554.38
Median	22	125900
Maximum	305	6632991
Minimum	1	588
1st Quartile	9	28657
3rd Quartile	64	520600

The mean age of the bidding firms was approximately 43 years which was significantly higher than the median age of 22. However, this distinction is deceptive. There was a great range of ages from one firm incorporated a year before their abandoned bid to one firm incorporated for 305 years. This latter outlying case greatly affected the value of the mean. Indeed, nearly a third of the firms were incorporated for 10 years or less at the time of their abandoned bids. This pattern suggests that a high proportion of young bidders tended to abandon acquisitions. Younger firms, in new industries have substantial organic growth potential. As new industries mature, consolidation occurs in these industries, involving many mergers and acquisitions, some of which may be abandoned.

The average value of total assets among the cases was £648.554 million. The average is influenced by several very large firms in the sample, including large financial firms and one large mining firm. Therefore, the median value of total assets was £125.9 million. This suggests there was a sizable group of small firms in the sample. Indeed, a quarter of the sample had a book value of less than or equal to £28.66 million. The small sizes are reflected in the listings characteristics of some of these firms. Five of the smallest firms were listed on the Alternative Investment Market (AIM) – the stock market in the UK for smaller, growing companies.

Therefore, the selection of cases has a younger, smaller orientation. However, despite this, the cases are diverse. At the time of their abandoned bids, the firms were large and small, old and young, listed on the main exchange, but also listed on the Alternative Investment Market (AIM). In addition, the firms came from a broad range of industrial classifications, with services being the biggest grouping. Within that, seven of the firms were classified as financial services. Of the remainder, ten firms operated primarily in manufacturing and two in primary products. This diversity was useful, because it raises the potential for a greater variety of experiences after abandonment, aiding investigation relating to the research questions.

3. Experience of Bidding Firms after Abandonment: Classification of Cases across Dimensions of Change

The identification and classification of firms across the dimensions of change was the first stage of the process of data reduction and analysis. The impact of abandonment on the bidding firms were separated into different aspects / dimensions of change in bidders after abandonment. Using the criteria specified in chapter four, the 31 companies were classified according to the different aspects of change after abandonment. In addition to anticipated changes, disciplinary or otherwise, the analysis allowed for unanticipated outcomes to be recorded. Indeed, such unanticipated outcomes did arise.

The results indicate that all of the bidding firms demonstrated changes across one or more dimensions after abandonment. Some firms exhibited significant changes consistent with discipline, while others exhibited significant changes inconsistent with discipline. Some firms demonstrated changes after abandonment which is not anticipated by the corporate governance literature - four firms entered administration within three years of abandonment. Some of the firms demonstrated significant changes across multiple dimensions of impact after abandonment. These firms are included in the findings across all of the appropriate dimensions. This finding supports the proposition that, rather than the impact of abandonment being one dimensional, it is multidimensional. This suggests there may be links between dimensions of change, implying a process where significant changes in one dimension led to subsequent changes in other dimensions. This is discussed further in section 5 below.

3.1 Disciplinary Changes after Abandonment

There was evidence of significant changes across all of the dimensions, consistent with post-abandonment discipline on bidding managers. However, the changes experienced differed greatly across the firms identified. Table 5.2 illustrates the number and percentage of cases which demonstrated each significant dimension of change after abandonment. The variable names are shown in brackets.

Table 5.2: Percentage of Companies which demonstrated 'Disciplinary' dimensions of Change after Abandonment

Dimensions of Change	Number of Firms	%
Significant Blocks of Share Acquired (>5%) (BLOCK)	16	50%
Replacement of CEO (CEO)	14	45%
Significant Strategic Changes (Statement in annual report) (STRAT)	8	26%
Subsequently Acquired (ACQR)	4	13%
Significant Asset Disposals (Defined as bottom quartile of distribution for 23 firms) (DISP)	6	25%
Significant Increase in Gearing (Defined as top quartile of distribution for 23 firms) (UGEAR)	5	16%

The acquisition of ownership blocks by 'active' investors after abandonment may be a response to information revealed during the bidding process about the performance / actions of managers. The blocks may be obtained to force disciplinary changes in the firm (Denis and Serrano, 1996). The acquisition of significant blocks of shares by investors (>5% of share capital) showed the greatest incidence in the sample. Approximately 50% of firms had at least one significant block acquired in the year after abandonment. A small number of firms had multiple blocks acquired, including one with four such blocks acquired within a year of abandonment. Hence, the acquisition of significant ownership blocks may lead to other disciplinary changes (see section 5).

The literature hypothesises that the replacement of a CEO may be a punishment for proposing acquisitions with poor prospects (Franks and Mayer, 1996). This replacement is proposed as a possible disciplinary response to information revealed by an abandoned acquisition. 45% of the firms replaced their CEO within two years of abandonment.

Pickering, (1983) proposes that the abandonment of a bid may lead to a reflection regarding the strategies of firms. The changes in these cases are consistent with a significant impact of abandonment on these companies' strategies. 26% of the cases made significant strategic announcements after abandonment as reported in their annual report. For instance, one of the company's report stated the abandoned acquisition represented the "…closing of one chapter and the opening of another…". Another company's annual report highlighted "strategic repositioning" within months of their abandoned bid. If the strategic changes were part of a disciplinary process, these strategic changes should be evident in other subsequent changes, particularly appropriate asset and financial restructuring (see section 5 below).

Significant net disposals are consistent with a disciplinary response to abandonment whereby the bidder unwinds excessive acquisitiveness prior to the abandonment bid (Haynes et al. (2000). The hypothesis is that such information about excessive acquisitiveness is revealed by the abandoned bid. Abandonment is forced and disciplinary disposals occur. Some of the firms could not be classified in this area because they were either acquired or went into administration within three years of abandonment and didn't have sufficient data. Of the remaining firms, a quarter of the firms - the bottom quartile for net acquisitions (disposals) - are defined as having made significant asset disposals. The median value of net disposals within three years of their abandoned bids, for this category of firms, was 6.9% of total assets.

Debt is proposed as a 'bonding' mechanism for managers to discipline them to focus on shareholders' interests (Barclay and Smith Jr, 2005). With significant debt to service, there is little free cash available for discretionary spending by managers. For the reasons stated in the preceding paragraph, some of the firms could not be classified in this dimension. Of the remaining firms, those in the top quartile for the percentage point change in gearing are defined as having made significant increases in gearing compared to the pre-bid period. These firms had gearing ratios more than 43.9 percentage points above their pre-bid three-year average.

A subsequent acquisition is consistent with discipline imposed by the market for corporate control. An abandoned bid reveals weaknesses in the firm which produces a disciplinary acquisition afterwards (Mitchell and Lehn, 1990). Four firms were acquired within three years of their abandoned bids, suggesting discipline imposed by the market for corporate control for pursuing 'bad' bids.

3.2 Non-Disciplinary Changes

Some of the firms displayed evidence of significant changes which are not consistent with post-abandonment discipline. These changes include significant asset acquisitions, significant decreases in gearing and firms entering administration within three years of the abandoned bid. Table 5.3 illustrates the number and percentage of firms experiencing these significant dimensions of change after abandonment. The variable names are in brackets.

Table 5.3 Aspects of Changes in Bidders after Abandonment inconsistent with Disciplinary Changes

Aspects of Changes after Abandonment	**n**	**%**
Significant Asset Purchases (ACQUIS) (Defined as top quartile for distribution of 23 firms)	6	25%
Significant Decreases in Gearing (DGEAR) (Defined as bottom quartile for distribution of 23 firms)	6	25%
Entering Administration (ADMIN)	4	13%

Significant asset acquisitions are defined as net acquisitions in the top quartile for the sample. After removing firms either acquired or, which entered administration within three years of abandonment, the top quartile each made net acquisitions of more than 10% of total assets. Indeed, two of these firms made net acquisitions equivalent to 50% of total assets in the three years after their abandoned bids.

Firms conducting significant reductions in gearing are defined as those in the bottom quartile for the distribution of this variable. This meant decreases of 19 percentage points or more. However, several of the firms made much greater reductions – more than 50 percentage points compared to their pre-abandonment level.

Four companies went into administration within three years of abandonment. This was an outcome not anticipated by the theoretical and empirical literature on the governance role of acquisitions in the context of discipline.

These outcomes are not consistent with post-abandonment discipline as conceived by existing literature. However, such firms represent a counterfactual experience after abandonment implying different types of causal processes involving abandoned acquisitions.

4. Multiple Dimensions of Change

A majority of cases exhibited significant changes across several dimensions of impact. It is anticipated that the changes will be related in some way and the sequence of changes after abandonment would enhance knowledge of the nature of the impact of abandoned acquisitions and the role of abandoned acquisitions in the corporate governance of bidding companies.

The cases were ordered in the context of the dimensions of impact after abandonment in the way suggested by Miles and Huberman (1994). This enabled the identification of 'high cases' - cases with multiple dimensions consistent with a 'disciplinary' response to abandonment; and 'low cases' - companies which demonstrated little evidence of disciplinary changes after abandonment, but there were significant changes nonetheless. This indicates the abandoned bidding process had some sort of impact. This would contribute to the process of case selection for subsequent deeper analysis. In line with the conceptual framework, the changes are separated into trigger variables (BLOCK, STRAT and CEO), and outcome variables (DISP, UGEAR, ACQR, ACQA DGEAR and ADMIN).

Table 5.4 illustrates the ordering of cases according to the dimensions of change after abandonment. Panel A show the pattern of trigger and outcome variables for the cases demonstrating the highest number of dimensions consistent with discipline. Panel B shows the pattern of trigger and outcome variables for the cases demonstrating the highest number of dimensions consistent with no evidence of discipline. Panel C shows the pattern of variables for cases where there were no significant outcomes, but some trigger variables were present.

Table 5.4: Dimensions of Change in Bidding Firms after Abandoned Acquisitions

Panel A	**Disciplinary Outcomes**								
	Triggers			**Outcomes**					
Case	**BLOCK**	**STRAT**	**CEO**	**DISP**	**UGEAR**	**ACQR**	**ACQA**	**DGEAR**	**ADMIN**
FUT	X	X	X	X	X				
MFL	X		X	X					
WHI		X		X					
SGM		X		X					
SLE		X		X					
LLD	X	X	X		X				
MHT			X		X				
ABN	X				X				
CAT	X	X				X			
NWT	X		X			X			
CTB	X		X			X			
BOS						X			

Panel B	**Alternative Significant Outcomes**								
	Triggers			**Outcomes**					
Case	**BLOCK**	**STRAT**	**CEO**	**DISP**	**UGEAR**	**ACQ**	**ACQA**	**DGEAR**	**ADMIN**
SPW			X						X
RSG			X						X
REG			X						X
PHB									X
GLD	X	X	X				X	X	
VMH	X		X				X	X	
MEL	X				X		X		
GPG			X				X		
TRG							X		
ROM							X		
HWL							X		
SNW	X		X					X	
TEY								X	
PTH								X	

Panel C	**No Significant Outcomes**								
	Triggers			**Outcomes**					
Case	**BLOCK**	**STRAT**	**CEO**	**DISP**	**UGEAR**	**ACQ**	**ACQA**	**DGEAR**	**ADMIN**
DOL	X		X						
PGT			X						
AGA			X						
CMI	X								
MIC	X								

For some companies, the evidence suggests abandonment had an extensive impact, producing many changes. For other firms, abandonment had little impact. Panel A illustrates the 'most likely' cases - Those bidding companies with many aspects / dimensions consistent with a disciplinary process. In the first case (FUT), there was evidence of significant changes in all of the aspects consistent with discipline. This is a unique case in this sample. However, FUT shares similarities with other firms in panel A. All of these firms conducted significant asset disposals in the three years after abandonment. In all of the firms, asset disposals were not conducted independently. Asset disposals were associated with trigger variables – either the acquisition of significant ownership blocks, and/or changes in strategy, and/or replacements of the CEO. This suggests a sequence of events, perhaps a disciplinary sequence of events, in these firms after abandonment. Such sequences are discussed further in the section 5 below.

In addition to conducting significant disposals, FUT raised gearing levels significantly in the post-abandonment period. For other cases, increased gearing, while not associated with other disciplinary outcomes, was also associated with anticipated disciplinary triggers- either the acquisition of ownership blocks, and/or changes in strategy and/or replacements of the CEO. This is consistent with a disciplinary process involving significantly higher levels of debt, acting as a 'bonding mechanism', to limit the discretion of managers to pursue their own goals. As with asset disposals, none of these firms increased gearing without experiencing other significant changes too. Again, this provides support for the concept of a disciplinary process after abandonment. This is discussed further in the section 5 below. There is one case, MEL, where the acquisition of a significant ownership block was associated, not only with a significant increase in gearing, but also, significant acquisitions after abandonment. It may be that, while asset acquisitions are not consistent with discipline, the use of debt to finance such acquisitions supports its use as a bonding mechanism.

Four of the companies were acquired within three years of abandonment. In three of the cases, an announced change in strategy and/or replacement of the CEO also occurred, suggesting some sort of disciplinary process. However, there is one case where the firm was acquired within three years of abandonment without any other significant changes present. This suggests that the nature of the impact of abandonment was different in this case compared to the others. Perhaps, in this case, this pattern distinguishes this subsequent acquisition as non-disciplinary.

Panel B shows the cases which demonstrated significant outcomes inconsistent with discipline. There was a group of cases which went into administration within three years of abandonment. This wasn't anticipated to be part of a disciplinary governance process. However, in three of the four cases, the CEO was replaced between the time of abandonment and administration, suggesting a process.

The second group shown in panel B made substantial acquisitions in the three years after abandonment. Some made these substantial acquisitions after abandonment with no evidence of other substantial changes. However, some companies made substantial acquisitions and also endured other changes consistent with post-abandonment discipline – changes in strategy, and/or replacement of the CEO. This implies an alternative non-disciplinary process involving abandoned acquisitions.

The final group of companies in panel B reduced gearing levels by a significant amount after their abandoned acquisitions. In one case, this was associated with the acquisition of significant blocks of shares and the replacement of the CEO. In contrast, the remaining cases in this group experienced no other significant changes after abandonment. This suggests the abandonment had a limited impact, not consistent with post-abandonment discipline.

Panel C shows the cases where there were significant changes in variables proposed as triggers for a disciplinary process. However, no subsequent changes happened as a result of the triggers. In some of the cases, the CEO was replaced, but no other significant changes happened afterwards. This indicates the replacement of the CEO, in these cases, may not have represented post-abandonment discipline. There may be other reasons why the CEOs were replaced, for example retirement. Furthermore, in two other cases, significant blocks of shares were acquired, but nothing else of significance happened.

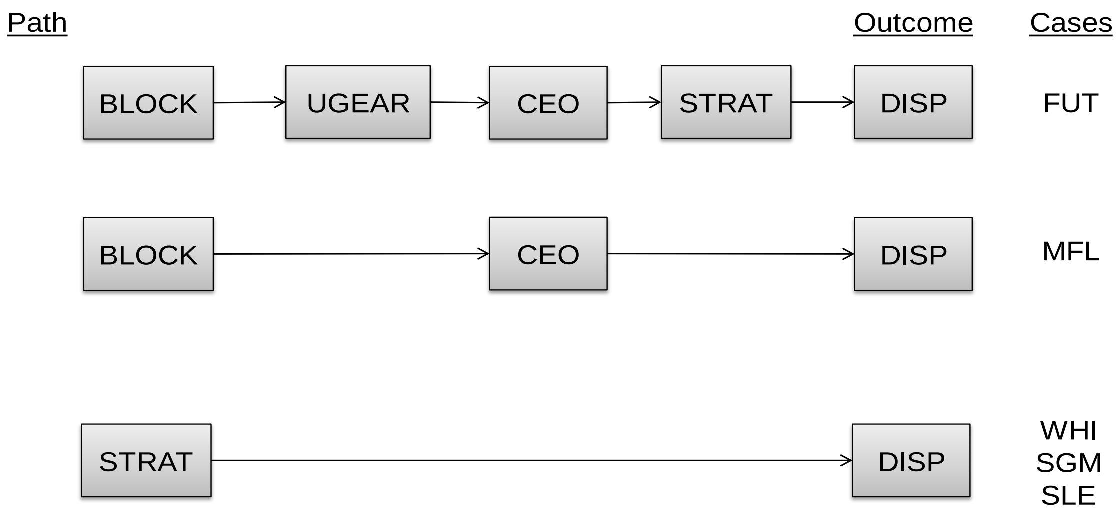
5. Sequences of Changes in Bidders after Abandonment

By tracing the sequence of changes in bidders, more can be learned about the nature and scale of the impact of abandonment on bidding firms. This can help determine the characteristics of sequences of significant changes which were disciplinary compared to sequences of changes which were not disciplinary. As proposed in chapter 3, an abandoned acquisition may trigger a disciplinary process which could follow a number of different sequences. Firms were grouped according to final outcomes after abandonment and the sequences of changes which led to these outcomes were identified. This approach would enable the analysis to identify the character of each process much more clearly. The findings are reported in the following manner. Sequences with hypothesised disciplinary outcomes are reported in section 5.1 below. Sequences with alternative outcomes are reported in section 5.2. Sequences with no significant outcomes are reported in section 5.3.

5.1 Disciplinary Sequences

A variety of outcomes after abandonment are consistent with post-abandonment discipline. In some cases, the final outcomes in the sequences traced were net disposals. Indeed, asset disposals always happened as the outcome of a sequence of events after abandonment. It was never conducted independent of other significant dimensions of change after abandonment. There were a number of different sequences revealed across the firms which produced significant net disposals - evidence of equi-finality. Figure 5.2 illustrates the different sequences revealed.

Figure 5.2: Revealed Sequences of Change resulting in Asset Disposals

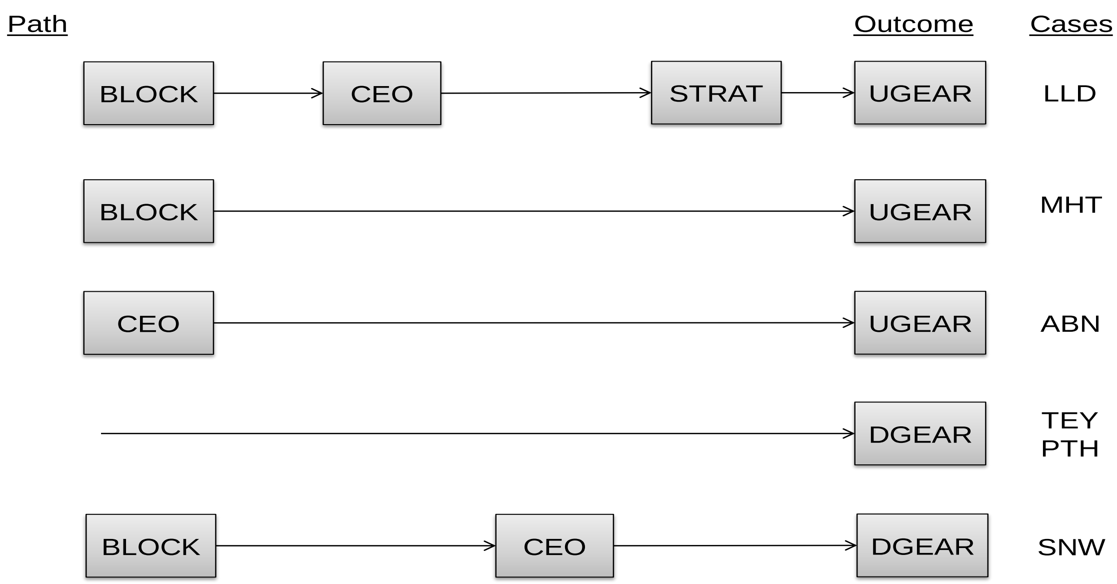


In two of the cases, the acquisition of ownership blocks occurred first in a sequence, triggering a disciplinary sequence ending with asset disposals. This supports the argument that investors react to abandonment by buying significant stakes in abandoned bidders and disciplining the bidding management for proposing 'value-destroying' bids (Denis and Serrano, 1996). There is no desire to change ownership, just exert control. Such blocks are followed by a variety of sequences involving intervening variables. In the case of FUT, the acquisition of a significant ownership block was followed by a significant increase in gearing, CEO replacement, an announced change in strategy and ended with significant net disposals. In this case, higher gearing was not an outcome, but a contingent factor in the disciplinary process. In MFL's case, the replacement of the CEO was followed with net disposals. Again, this adds weight to the interpretation that, in these cases, the abandoned acquisition had a strong disciplinary impact, centering on the replacement of the CEO. This led to a retrenchment in the activities of the firms, evidenced by significant net disposals.

In the three remaining cases, announced changes in strategy happened immediately after abandonment, producing significant net disposals. Statements by the firms relating to their changes in strategy highlighted asset disposals as an important aspect. In the cases of FUT and MFL, the replacement of the CEO prompted a change in strategy. However, in these latter cases, there was no such trigger. The changes in strategy announced appear to have been prompted directly by abandonment. These findings extend the findings of Paul (2007) to abandoned acquisitions. She found significant asset downsizing after completed 'bad' acquisitions – acquisitions associated with negative abnormal returns around announcement. Here, asset disposals occurred after a variety of disciplinary processes. This suggests that, in these cases, a 'bad' acquisition is abandoned, producing a disciplinary process in the bidding firms. This implies a governance role for the abandoned acquisition.

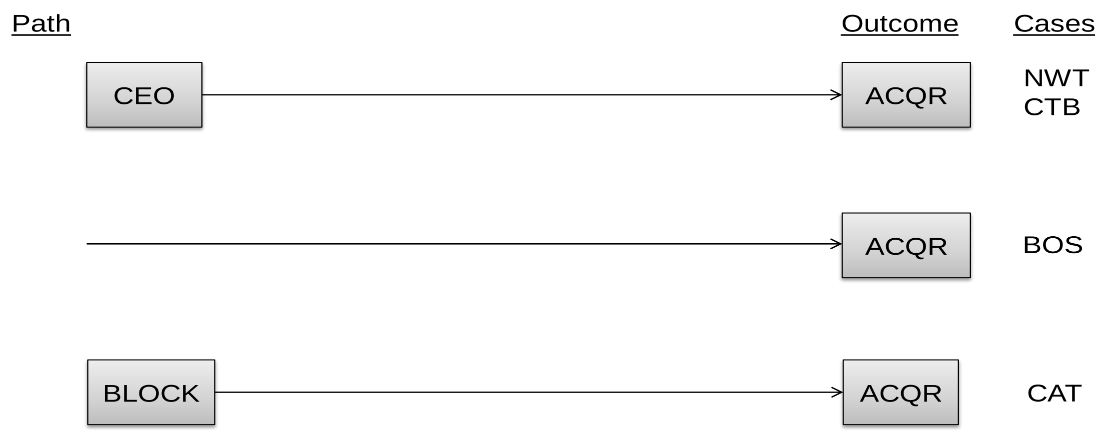
Significant increases in gearing appeared unexpectedly as an intervening variable in the post-abandonment sequence in the case of FUT. However, this variable occurred as a final outcome in several other cases. This was consistent with post-abandonment discipline through bonding in the way suggested by Barclay and Smith (1995). Figure 5.3 illustrates the different sequences revealed. As an outcome, UGEAR did not appear independently. It was prompted by two different triggers, BLOCK and CEO. The presence of these interceding variables supports the interpretation of UGEAR as a bonding mechanism imposed as part of a disciplinary process after abandonment. In the process experienced by LLD, the existing CEO is replaced and their replacement is bonded to performance through higher gearing. In the process experienced by MHT, ownership blocks exerted control over existing managers. In ABN's case, there were no evidence of blocks acquired, but the replacement of the CEO was followed by higher gearing levels.

Figure 5.3: Revealed Sequences of Changes resulting in Increased Gearing



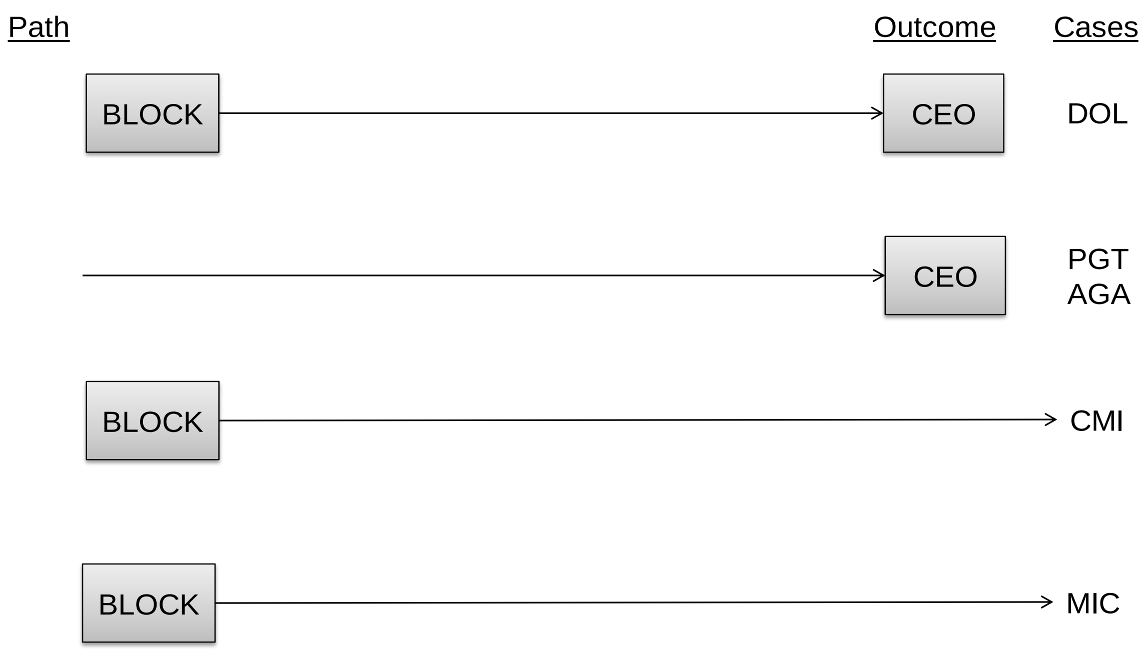
Of the failed bidders which were subsequently acquired, there is evidence of equi-finality in the sequences of change experienced. Figure 5.4 illustrates these different sequences. One firm was acquired after abandonment without evidence of associated changes in other dimensions. However, in the other cases there were intervening variables. In two of the cases, the CEOs were replaced. However, no other significant changes happened. In other cases, CEO replacement was followed by changes in strategy coupled with other disciplinary outcomes like asset disposals or increased gearing. However, this didn't happen in these cases. This suggests that, if new CEOs do not make significant changes to remedy problems in the firms, further discipline may be imposed through the market for corporate control. In the final case, CAT, a significant ownership block was acquired by a partner as part of a joint venture. Ultimately, this led to the company being acquired by the same partner.

Figure 5.4: Revealed Sequences of Changes leading to Subsequent Acquisition



Much literature on the governance role of acquisitions interpret the replacement of a CEO as a disciplinary outcome (Huson et al., 2001). Indeed, in some of the cases in this study, the replacement of the firms' CEOs was the only significant outcome after abandonment. There were no further significant changes afterwards, particularly the further disciplinary changes which might be anticipated. In one of the cases, the replacement was preceded by the acquisition of a significant ownership block. However, in the remaining cases, CEO replacement happened independently. In the conceptual framework, it was proposed that the replacement of CEOs should be a trigger for asset / financial restructuring in bidding firms as part of a disciplinary process, making definite changes in the firms. Where no further significant changes happened in the bidders relating to asset / financial restructuring, this weakens the disciplinary interpretation of such replacements. Figure 5.5 illustrates the revealed sequences with CEO as the final event.

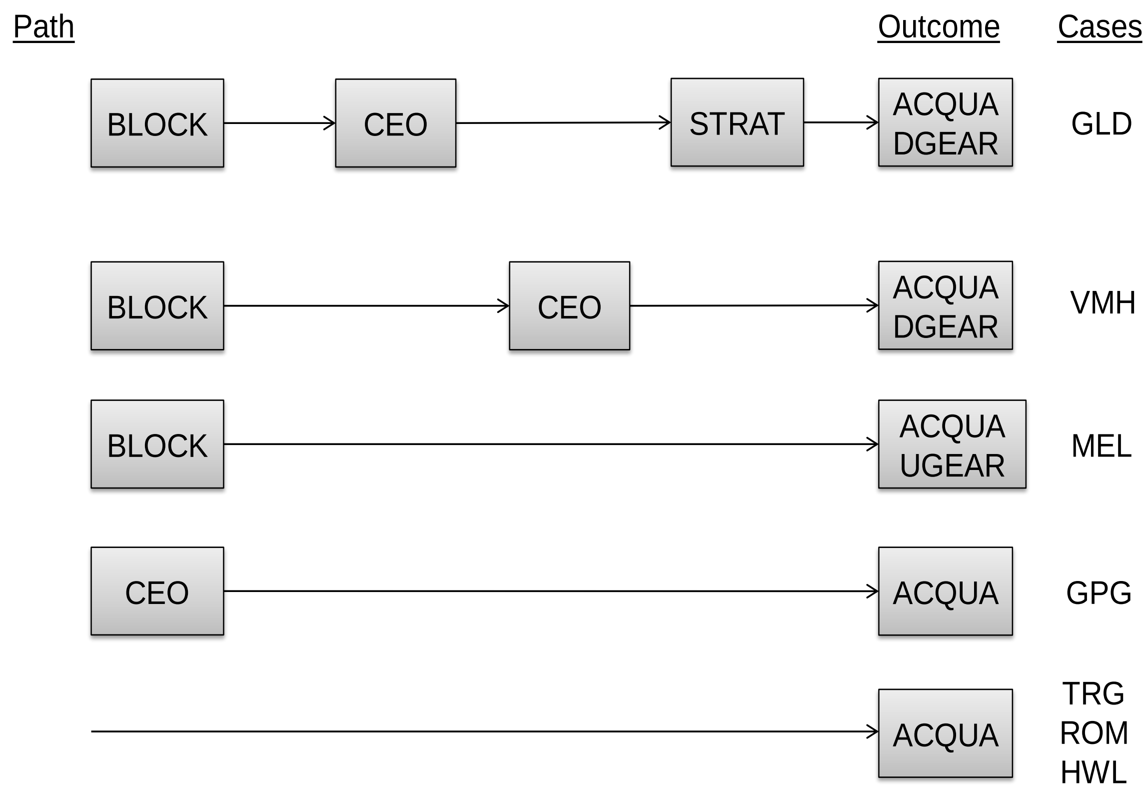
Figure 5.5: Revealed Sequences of Changes resulting in CEO replacement and no further Changes



5.2 Non-Disciplinary Sequences

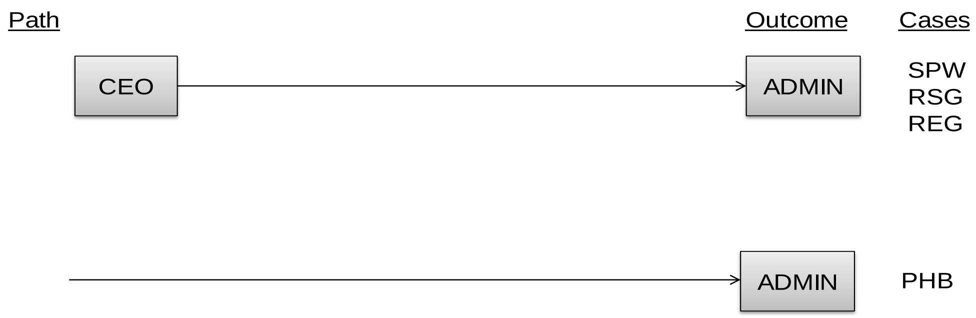
Significant asset acquisitions are outcomes not consistent with discipline. In the causal sequences revealed in cases which made significant asset acquisitions, there is evidence of equi-finality. Figure 5.6 illustrates the sequences revealed. In three of the cases significant asset acquisitions were conducted without any prior triggers in the bidders. However, in several firms, there were triggers. In other cases, BLOCK was the trigger to the sequence of changes after abandonment. In some, this led to the CEOs being replaced before significant acquisitions were pursued. In a number of cases, these asset acquisitions were coupled with substantial decreases in debt levels. However, in one case (MEL), significant asset acquisitions were coupled with significant increases in gearing as part of the financing.

Figure 5.6: Revealed Sequences of Changes resulting in Asset Acquisitions



Firms entering administration within three years of abandonment was an outcome not consistent with discipline according to the literature on corporate governance and acquisitions. However, it was the fate for four of the abandoned bidders analysed. Figure 5.7 illustrates the sequences of changes revealed for these firms. In one firm, administration happened without any prior triggers. In contrast, for the three remaining cases, administration was preceded by CEO replacement. This suggests a process of change after abandonment. This could be interpreted as the disciplinary removal of a CEO, for poor performance, revealed during the bidding process. However, the new CEO may have been unable to improve performance by making significant changes. Consequently, further discipline was imposed through the corporate reorganisation associated with administration.

Figure 5.7: Sequences of Changes resulting in Administration



In addition to GLD and VMH, three additional firms reduced their gearing levels by significant amounts in the post-abandonment period. Figure 5.3 illustrates the revealed sequences for these cases. In two of the cases, this happened without any significant trigger. In one case, SNW, the decrease in gearing was the outcome of a process starting with the acquisition of an ownership block and involving the replacement of the CEO, suggesting a process of change after abandonment, albeit one inconsistent with discipline. However, one possible interpretation is that shareholders may have been concerned about the high levels of debt in the firm and sought new management to reduce the debt burden.

5.3 No Significant Sequences

Two firms had significant ownership blocks acquired after their abandoned acquisitions. However, there is no evidence of significant changes across any other dimension of changes after abandonment. This suggests that the abandoned acquisition had little impact on the firms concerned. On the other hand, significant changes imposed by the ownership block may not have been captured by this analysis. These changes could relate to organisational structure, managerial responsibilities or other qualitative variables. This requires further investigation, beyond the scope of this thesis.

6. Discussion of Findings

The investigation of the experience of bidders after abandonment has identified a variety of causal sequences present in bidding firms after abandonment. George and Bennett (2005) highlight this possibility of multi-finality in causal processes – similar causal patterns leading to different outcomes. This is the pattern revealed for these cases of failed bidders. Sequences after abandonment demonstrating similar triggers and interceding variables can be part of very different causal processes, producing very different outcomes; some consistent with discipline, some not.

There were cases where the acquisition of ownership blocks led to CEO replacement, and then announced changes in strategy. In some of the cases this led to significant net disposals. However, in other cases this path led to significant net acquisitions. These distinct patterns were replicated across a number of cases. Meanwhile, CEO replacements led to changes in strategy and significant net acquisitions. However, it also led to different outcomes - firms being the target of subsequent acquisitions or being forced into administration. Generally, an announced change in strategy produced significant net disposals. This outcome is consistent with a disciplinary process.

This evidence supports the proposition of the conceptual framework that the acquisition of ownership blocks / announced changes in strategy / replacement of CEOs may not be unique to disciplinary processes. They can be part of different processes, each with contrasting natures. In themselves, such changes cannot reveal the nature of a process. If such changes are part of a process, then something else needs to happen, as a result of these changes, to determine the nature of the process. Therefore, the analysis suggests it is the final outcome which characterises the nature of a sequence of changes after abandonment.

As a result, three scenarios can be identified:

1. Disciplinary sequences: abandonment has a significant outcome suggesting a disciplinary role.
2. Non-disciplinary sequences: Abandonment has a significant outcome, but no disciplinary role.
3. Non-disciplinary sequences: Abandonment has an insignificant impact, no disciplinary role.

6.1 Disciplinary Sequences

With disciplinary outcomes, there is evidence of equi-finality - different causal paths to the same outcome. Disciplinary outcomes could be triggered by acquisition of ownership blocks, or announced changes in strategy, or the replacement of CEOs. A variety of patterns relating to interceding variables emerges. In some cases, the final outcome was significant net disposals. Indeed, as an outcome, asset disposals always occurred at the end of a sequence of changes. It never happened independently. There were a number of different sequences revealed. However, announced changes in strategy were prominent in all of the paths to this outcome. Interestingly, where a change in strategy is the first response to abandonment, this always led to significant net disposals. This never produced alternative outcomes. Indeed, the statements by those firms revealing the changes in strategy highlighted asset sales as a crucial aspect. In none of these cases did changes in strategy pre-empt the replacement of a CEO. These findings are consistent with Lehn and Zhao (2006). An incumbent CEO who addressed the implications of abandonment and announced a change in strategy was given an opportunity to implement it. Hence the changes in strategy led directly to asset disposals. However, where a CEO was replaced, this sometimes led to a change in strategy and asset disposals. This suggests a governance role for abandoned acquisitions with the abandoned bidding process being a critical juncture for the strategic direction of the company. In these cases, abandonment produced a change in strategy entailing the disposal of a significant percentage of assets.

However, in cases where BLOCK, CEO or STRAT did not lead to significant changes through appropriate asset or financial restructuring, monitors may have taken this as a signal that these changes had not been enough to address the problems in the firm. This necessitated discipline through the market for corporate control or through the reorganisation associated with administration. For instance, in a number of cases, replacement of the CEO preceded being acquired or going into administration. This suggests that CEO replacement was an attempt to address problems in the company revealed during the abandoned acquisition. Consequently, subsequent acquisition or administration could be interpreted as a discipline on new managers failing to deal with the problems identified during the abandoned bid. This sequence suggests abandoned acquisitions may have a governance role, revealing information about problems in these firms.

It is revealing that none of the bidding companies which had significant ownership blocks acquired as the initial response to abandonment, consequently entered administration. The acquisition of ownership blocks were prominent in the sequences of changes leading to anticipated outcomes. However, with administration, given the severity of the outcome, it could be argued that the problems which forced administration were revealed in the bidding process, deterring subsequent investment.

It is proposed by the corporate governance literature that the replacement of the CEO could be a disciplinary outcome (Franks and Mayer, 1996). In the conceptual framework, it was proposed that the replacement of a CEO was part of a disciplinary sequence, triggering subsequent changes in firms. This study proposes the interpretation of CEO replacement needs to be set in the context of the process of which it forms a part. The findings support this interpretation. In a number of the firms, CEO replacements led to announced changes in strategy. Where this happened, the firm tended to stay as a going concern and significant asset and/or financial restructuring was pursued. Conversely, in several cases, the replacement of the CEO produced no further significant changes within three years of abandonment. This weakens the interpretation of such replacement as discipline in these cases, since it would be anticipated that the firm would require further asset and/or financial restructuring. Where there was none, the abandoned acquisition had little impact, implying no governance role. These findings suggest that CEO replacement independently, is not disciplinary. In order to be interpreted as disciplinary, such replacement needed to be linked with further substantial changes in firms, consistent with discipline.

6.2 Non-Disciplinary Sequences

There is evidence of equi-finality across the bidding firms which experienced non-disciplinary outcomes. Actually, in a number of cases, there is no evidence of a process at all. The absence was more likely in firms where the outcome was not consistent with post-abandonment discipline. Some of these firms made significant asset acquisitions within three years of their abandoned acquisition, without any preceding significant events. Similarly, some firms decreased gearing significantly after abandonment without any preceding events. However, these outcomes were also the result of different sequences of changes after abandonment. Indeed, these sequences were remarkably similar to the sequences for some of the firms which endured disciplinary outcomes.

In these cases, CEO replacements led to announced changes in strategy. Where this happened, the firm tended to stay as a going concern and significant asset acquisitions conducted. In such circumstances, CEO replacement may not have been disciplinary, and the process itself not disciplinary. However, a disciplinary interpretation could be placed on such sequences. A CEO could be replaced, not for an overall acquisition strategy, but the proposal of the specific poor acquisition transaction which was abandoned. Consequently, their replacements were tasked with continuing the acquisition strategy, which is then pursued successfully. This interpretation, while not expected, suggest such sequences of changes requires further investigation.

6.3 No Significant Sequences

There were several firms which endured the acquisition of ownership blocks with no further significant asset restructuring and/or financial restructuring, which would be anticipated if abandonment had triggered a disciplinary response. In addition, these companies were not acquired, nor entered administration. One interpretation of these patterns suggests that, without substantial asset and /or financial restructuring, these changes intimated no governance role for the abandoned bidding process, in these firms. Another interpretation is that other disciplinary changes, not captured by this analysis, were triggered consequently. This requires further investigation.

7. Summary and Conclusion

This analysis has contributed to knowledge by investigating the nature of discipline imposed by the market for corporate control on bidding firms. This chapter has discussed the culmination of the abandoned acquisition process – the impact of abandonment on bidders.

This stage of the fieldwork investigated the presence of sequences of related dimensions of change in bidders after abandonment. This helps identify the nature of the impact of abandonment on bidding firms. The study extends existing work on the impact of both completed and abandoned acquisitions, by identifying the presence of different causal sequences after abandonment. The analysis suggests the period after abandonment was characterised in some cases by disciplinary processes which produced disciplinary outcomes and, in other cases, processes which generated no disciplinary outcomes. In addition, there were cases with no evidence of a sequential process at all.

This study extends the work of Boone (2000), Perry and Shivdasani (2005) and Paul (2007). They identified asset disposals as a disciplinary response to poor performance, evidenced in different ways. In this research, assets disposals were generally the result of a process consistent with discipline originating in an abandoned acquisition. This suggests information was revealed in the bidding process about the efficacy of executives' acquisition proposals. In some cases where bidders were subsequently acquired, this study found evidence of a disciplinary process. This complements the results of Mitchell and Lehn (1990). In their study, bad bidders became good targets. The findings here distinguished firms where managers who proposed bad bids, may signal this and become good targets.

On the other hand, this study found that non-disciplinary outcomes, particularly significant asset acquisitions, were experienced in a number of cases with no evidence of disciplinary triggers. However, such outcomes were also the result of sequences of changes. This differential impact may suggest different causal mechanisms in the abandoned acquisition and its aftermath which require further investigation.

There were great similarities between the intervening variables across a number of cases with disciplinary outcomes and cases with non-disciplinary outcomes, particularly asset acquisitions and asset disposals. The acquisition of ownership blocks, CEO replacements and resultant changes in strategy were common aspects in sequences producing these different outcomes. This suggests that these variables are not unique to a disciplinary process in the way proposed by parts of the governance literature. This study extends current knowledge by showing that the role of such variables is more nuanced, dependent on the specific circumstances of firms. This suggests the nature of discipline imposed may be different depending on firm specific characteristics and factors in the abandoned acquisition. More research into the role of these changes in bidders after abandonment is required, particularly to see whether there is a replication of patterns across a larger number of firms.

Subsequent chapters will build on this work to investigate the causal mechanisms evident in cases which produce different outcomes. As a result of the analysis discussed in this chapter, the firms were placed into two categories. The first set included the cases exhibiting a disciplinary process after abandonment, leading to a disciplinary outcome – 'most-likely cases. The second set included the firms exhibiting either, processes leading to non-disciplinary outcomes or no process at all – 'least-likely cases (Yin, 2003). Within each category, several firms were identified. These firms were used as the cases for investigation in stage 2 of the fieldwork.

Identifying a small number of cases with different outcomes after abandonment enables the second group of research questions to be addressed. What are the underlying causal mechanisms which produce different outcomes? Is there any difference between the causal mechanisms of cases exhibiting disciplinary processes after abandonment and the cases which do not? By tracing the causal paths back through the bidding process to before the abandoned bid, the research can identify the nature of the interrelationships between characteristics and contingent factors which form the causal mechanisms of abandonment. This would help to determine whether the causal mechanisms of abandoned acquisitions can provide any insight into the different experiences of firms afterwards.

Chapter Six: Within-Case Analysis - Causal Mechanisms involving Failed Bidders in Abandoned Acquisitions

1. Introduction

The research aims to investigate the causal mechanisms of abandoned acquisitions. More can be learned about the acquisition process by identifying the conditions under which specified outcomes occur, and the causal mechanisms through which they occur. Stage 1 of the fieldwork investigates the experience of failed bidders after abandonment, to identify the dimensions to the different processes of change after abandonment. Stage 2 of the fieldwork builds on the findings of that work to answer the second set of research questions posed in chapter 3:

> What is the nature of the underlying mechanisms in abandoned acquisitions which produces post-abandonment discipline of bidders' managers?
>
> What is the nature of the underlying mechanisms in abandoned acquisitions which does not produce post-abandonment discipline of bidders' managers?
>
> To what extent are the mechanisms different?

On the basis of the finding at stage one, the bidding firms are split into two categories. Firstly, those firms which experience sequences of changes after abandonment, consistent with a disciplinary process, are classified as 'most-likely' cases. Secondly, those firms which demonstrate sequences of change not consistent with a disciplinary process are classified as 'least-likely' cases (Yin, 2003). This is consistent with accepted methodological practice using causal process tracing (Miles and Huberman, 1994).

Table 6.1 shows the cases of firms exhibiting disciplinary sequences after abandonment and the example cases from this category analysed using causal process tracing (CPT). These cases were chosen because they represent valid examples of 'most-likely' cases, where, according to theory, the process of abandonment is most likely to play a governance role (Miles and Huberman, 1994). Consequently, the typological network derived as an original aspect of this research could be tested in the light of the empirical evidence revealed at the fieldwork stage.

In the most-likely cases, the sequences of change were heterogeneous, but they produced outcomes consistent with discipline – asset disposals, increases in gearing or subsequent acquisition. By drawing on this heterogeneity, the research can distinguish subtle, but potentially significant differences in the observed mechanisms, if any exist.

Table 6.1: Example Cases exhibiting Disciplinary sequences after Abandonment

Cases in Wider Sample	**Example Cases analysed using Causal Process Tracing (CPT)**	
SLET	WHI	WHI announced a change in strategy within weeks of the abandoned bid, followed by the significant net disposal of assets and the return of proceeds to shareholders through share repurchases and higher dividends.
MFL		
WHI		
SGM		
FUT	FUT	FUT had blocks of shares acquired followed by increases in Gearing. Then the CEO was replaced leading to an announced change in strategy and significant net disposals after abandonment.
LLD		
MHT		
ABN		
CAT	CAT	Significant ownership block acquired by joint venture partner. This led to subsequent acquisition by the joint venture partner.
NWT		
CTB		
BOS		

Table 6.2 shows the cases of firms exhibiting non-disciplinary sequences after abandonment and the example cases from this category analysed using causal process tracing (CPT). These cases were chosen because they represent valid examples of 'least-likely' cases, where, according to theory, the process of abandonment is least-likely to play a governance role (Miles and Huberman, 1994).

Table 6.2: Example Cases exhibiting Non-Disciplinary sequences after Abandonment

Case in Wider Sample	**Example Cases analysed using Causal Process Tracing (CPT)**	
TRG	TRG	Significant Asset Acquisitions
ROM		
HWL		
SNW		
GLD	MEL	Significant ownership block acquired followed by an increased in gearing and significant asset acquisitions
VMH		
MEL		
GPG		
SPW	REG	Entered Administration
RSG		
TRG		
PHB		
TEY	PTH	No significant changes after abandonment
PTH		
DOL		
PGT		
AGA	MIC	No significant changes after abandonment
CMI		
MIC		

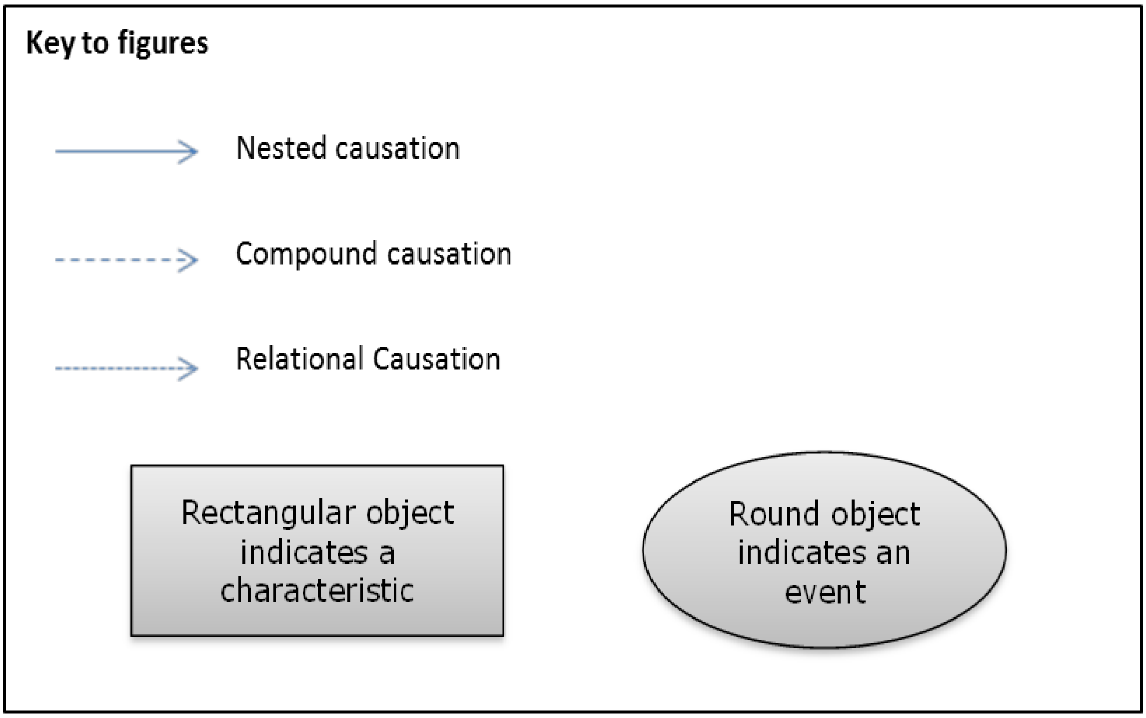
The literature on CPT emphasises the importance of such counterfactual cases, where the dependent variable implies that the typological theory is not confirmed - cases where the post-abandonment experience of bidders is not consistent with discipline (Richards, 2009). Consequently, one would anticipate that these cases involved alternative non-disciplinary causal mechanisms producing no post-abandonment discipline.

However, this may not be the case. It may be that cases with disciplinary outcomes and cases with non-disciplinary outcomes have similar causal mechanisms producing abandonment. But, by analysing different types of cases, the research can investigate whether the causal mechanisms of most-likely and least-likely cases are different. However, if there are differences, the research can identify how, and in what circumstances, the different causal mechanisms arise. Miles and Huberman (1994) highlight the methodological importance of both within-case and cross-case analysis, within CPT, in drawing out the causal processes present in case studies. This would provide a deeper, denser understanding of the causal mechanisms of abandoned acquisition and whether they can provide guidance on the subsequent activities of bidding firms. This chapter will present the findings of the within-case analysis. The following chapter will present the findings of the cross-case analysis.

Employing the conceptual framework, codes were established in relation to the firm characteristics, transaction characteristics, contingent factors in the bidding process and outcomes after abandonment. Both the primary and secondary data for each case were interrogated with reference to the codes. Relevant information and phrases in the documents were identified, coded and allocated to particular characteristics and factors across the four categories. This enabled the cases to be rated for each characteristic and contingent factor in relation to the conceptual framework.

Fragments of the causal process were analysed separately under the different groups of characteristics and contingent factors. Data from the case was categorised according to the codes used for analysis (see chapter four). In addition, new relevant characteristics were identified and incorporated into the analysis. The categorisation for each case is shown in Appendix B. These fragments are drawn together to propose a tentative 'causal network', reflecting the apparent causal mechanism for each abandoned acquisition and its aftermath. A 'causal network diagram is a visual illustration of the network. A causal network narrative is written to explain the causal network (Miles and Hberman, 1994).

The chapter proceeds as follows. Section 2 presents the findings for the most-likely cases. Section 3 presents the findings for the least-likely cases. For each case, a case history is presented to give the reader an understanding of its important points. Then, there is a discussion of the causal process tracing conducted in the case, drawing each fragment together to propose a parsimonious causal network. This is illustrated diagrammatically and described using a causal network narrative (Miles and Huberman, 1994). The key to the diagrams used to illustrate the causal networks is shown below.[1] Section 4 is the summary and conclusion.



[1] For an explanation of these relationships, see chapters three and four.

2. Most-Likely Cases

2.1 The Case of WHI

2.11 Case History

In May 1999, WHI announced the intended acquisition of the entire UK operations of the Target. It was an agreed acquisition for the pub operations, which were the target of a hostile bid from a rival pub chain. WHI stated:

> [The acquisition] "…provides growth in the eating out, pub and budget hotel market."
>
> (RNS Statement, 25/5/1999)

WHI's historical origins were in brewing and pubs. Its main Standard Industrial Classification (SIC) was 'Beer Manufacture'. However, over time it had become a broader leisure company incorporating restaurants, hotels, coffee outlets, leisure centres and off licenses. Hence, the firm's broad strategy was:

> "UK hospitality, out-of-home leisure."
>
> (Company Annual Report)

Brewing and pubs are mature sectors of the economy, highly concentrated, with low growth potential. WHI's brewing division held a 15.7% share of the UK market at the time of the bid (Bid announcement). However, these sectors generated substantial free cash for the firm. Consequently, the firm was generating substantial free cash, but with little growth prospects. Indeed, the firm was committing a lot of free cash to significant organic and acquisition investment expenditure – 20% and 10.85% of total assets, respectively, in three years before the abandoned bid. In addition, the company paid generous dividends of 48.4% of net profits. This produced a negative free cash flow (-5.45% of total assets in the year before the abandoned bid). The evidence suggests the organic and acquisition investment spending was in hotel and leisure assets, where anticipated growth was higher. There was little evidence of investment in brewing, so the residual was paid out as the high dividends disclosed above.

This company context underpinned the proposed acquisition of the UK operations of the Target. The context of the industry also influenced the proposed acquisition. The use of an acquisition reflected the maturity of the pub market, where there were few opportunities for organic growth. Further growth could only be achieved through acquisitions. This was highlighted by the popularity of the UK operations of the Target, attracting several bids. For WHI, the acquisition was an opportunity to achieve further growth and also "cost savings" (RNS Announcement, 25/5/1999).

Another important factor, in the bid and the bidding process, was the regulatory environment in which WHI operated. A report by the Monopoly and Mergers

Commission (MMC), in 1989, into competition in the brewing and related pub sector, found a complex monopoly situation existed. The report concluded that a small number of brewers, including WHI, owned a large number of pubs, enabling them to restrict choice. In addition, through exclusive supply arrangements, the choices available to consumers in independent pubs were also restricted. On the basis of the report, The Supply of Beer (Tied Estate) Orders Act (1989) was enacted. This restricted the number of licensed premises which brewers could own to 2,000, limiting the growth potential of brewers further in this mature market. At the time of the abandoned bid, WHI's pub estate numbered 1,700. The proposed acquisition would take it above the threshold established by the legislation.

At the time of the abandoned bid, the firm had an atomistic ownership structure, suggesting little incentive for shareholders to monitor managers. However, the 64% of non-executive directors suggested an independent board. The executive directors (EDs) held 0.69% of shares, indicating little incentives consistent with shareholders' interests.

The agreed takeover by WHI was financed with a mixture of cash and equity. However, the equity component represented 99% of the financing (Bid Document). This valued the Target at £2.3 bn. The Target had rejected a rival offer, highlighting the many uncertain aspects of it – the delayed completion date, the need for tax clearance and the rival's 'threats to walk-away' if the bid was not accepted.

Aware of the regulation regarding pub ownership, WHI stated in its bid documents that it:

> "…will separate its brewing interests following completion of the acquisitions."
>
> (Bid Document)

This was a non-standard condition of the bid, which WHI hoped would enable it to hold more than the 2,000 pubs allowed under the legislation. This non-standard condition caused great uncertainty. Press reports during the bid process implied that WHI were "thinking the unthinkable", by disposing of their brewing business. In addition, the rival bidder and other pub owners criticised the terms of the merger arguing it would lead to greater concentration in the brewing industry and greater monopoly power for brewers in dictating supply terms. In a statement, the Rival bidder said (the merger):

> "..raises significant regulatory issues."
>
> (RNS Statement, 23/6/1999)

The uncertainty prompted a decline in WHI's share price of 4.7%. This decline raised concerns about the value of the bid, requiring WHI to increase its offer twice, eventually offering £2.8 bn – still almost completely financed using equity.

Negative information revealed about the bidder during the bidding process added to the uncertainty. This related to its poor management of the bidding process. The company negotiated with the Office of Fair Trading (OFT), but press reports suggested they did not manage the relationship well. After meetings, the OFT reported there were issues of concern, but the bidder suggested formally that there were no issues of concern. It announced [WHI]:

> "…has had discussions with the OFT and supplied all information which the OFT has requested."
>
> (RNS Statement, 25/6/1999)

The Department of Trade and Industry (DTI) referred the bid to the OFT for an investigation stating that the concentration of off-licenses in some areas and brewing was anti-competitive. After the referral, the Bidder's board stated [The company]:

> "…will not proceed with the transaction or therefore with the inquiry".
>
> (RNS Announcement, 15/7/1999)

In addition, the statement read:

> "…it [WHI] has serious concerns about the implications for competition policy which arise from this decision."
>
> (RNS Announcement, 15/7/1999)

The announcement further questioned whether the rival bid should be allowed to progress in the light of its regulatory implications. Despite this, the rival bid was not referred to the OFT and succeeded later in the year.

After abandonment, a market analyst commented,

> "Strategic development is probably going to be away from brewing and pubs – they are caught in a bit of bind as to how to resolve the situation there in the long term […] but the company does have quite important strategic issues to address".
>
> (Press report)

Indeed, there was a strategic review of the firm's activities. This led to a strategic restructuring of the company, which suggests a disciplinary process after abandonment through the refocusing of activities. There were net disposals of 6.9% of total assets in the three years after abandonment, involving a reorientation away from brewing and pubs (low growth) towards hotels and leisure (high growth). This was evidenced by the acquisition of a large hotel chain in the year after abandonment and the disposals of brewing and pubs – the regulatory environment leaving little room for growth in that area. A large proportion of the realised value of the pub estate was returned to shareholders.

2.12 Causal Network Narrative

The evidence suggests a causal network for WHI which does not conform to the anticipated network proposed for a disciplinary governance mechanism, However, there is evidence that the outcomes of abandonment can be traced to aspects of the acquisition process and that the process played a governance role. These involved the interaction of certain characteristics of the bidder, the industry, transaction characteristics and contingent factors in the bidding process. Appendix 2a demonstrates the coding of primary and secondary data for WHI, using the templates derived from the conceptual framework. This was used to produce the causal network diagram, reflecting the underlying mechanism present in this case. This causal network diagram is illustrated in figure 6.1. The causal network narrative which explains the mechanisms underpinning the diagram is presented in the following sections. The numbers in brackets relate each part of the causal network narrative to the corresponding characteristic or factors illustrated in the causal network diagram.

2.13 Bidder Characteristics

The evidence suggests that several characteristics of the bidder were important causal factors in the abandoned acquisition. There was a nested causal path from maturity (1) to low growth (2) to acquisitions (3). The maturity of the company's traditional brewing and pub activities meant there was low organic growth potential, requiring an acquisition investment strategy to generate growth. At the same time, these assets were highly profitable, producing substantial free cash. However, there is little evidence that the acquisition pursued was driven by managerial preferences. It was intended to produce higher growth in the firm. Hence, these characteristics are not important in this causal network, disputing the typological disciplinary network. In addition, corporate governance characteristics relating to monitoring and incentives suggest little discretion for managers to pursue their own interests. Hence, it is proposed that these characteristics had little role to play in the causal mechanism and do not feature in the causal network. The critical antecedent variable in the causal path is the low growth potential of the assets. A nested causal path can be drawn from this characteristic, through the acquisition strategy, to the identity of the Target - a firm with a high degree of industrial relatedness (4).

In addition, the maturity of the market and the vertical links between brewing and pub ownership created the regulatory environment the firm faced (5). Legislation restricted the number of pubs that brewers such as WHI could own. This suggests this regulatory environment is an antecedent industry characteristic, necessitating the proposed sale of the brewing interests of WHI (6). Its implications would cause WHI to breach the threshold for pub ownership defined by legislation.

2.14 Transaction Characteristics

A nested causal path can be derived from the low growth potential of assets to the related bid. In addition, there is relational causation between the industrial relatedness of the two firms, and the regulatory environment within which WHI operated. These forced WHI to include the non-standard condition of the bid – the sale of its brewing interests (6) - to satisfy the requirements of the Beer Orders Act. This non-standard condition was the critical characteristic in the causal process, producing abandonment and disciplinary outcomes afterwards.

2.15 Contingent Characteristics in the Bidding Process

A nested causal path can be traced from the non-standard condition of the bid to the strategic uncertainty about the rationale for the bid and its role in the wider strategy of the firm (7). The management of WHI was never able to overcome this uncertainty. The choice of equity (8), while not linked with the firm's characteristics, exacerbated the uncertainty. The use of equity financing transmitted the strategic uncertainty surrounding the bid, through the decrease in WHI'S share price, to a decrease in the bid's inherent value (9). In addition, the presence of a rival bidder (10) and their vociferous opposition to the proposed disposal of brewing added further to the uncertainty. The referral of the acquisition (11) for a detailed investigation to the OFT was the trigger for abandonment (12). The referral, coupled with the other contingent factors, created too many strategic uncertainties around the proposed acquisition. Hence, there was an interaction of several antecedents and intervening factors contributing to the strategic uncertainty. This caused abandonment and the disciplinary sequence afterwards. In the bidding process, the causal mechanism did not operate in a neat temporal fashion. There was a configuration of characteristics and factors which interacted in a compound manner to heighten the strategic uncertainty in the causal mechanism. This supports the type of causal configuration highlighted by Blume and Blatter (2008).

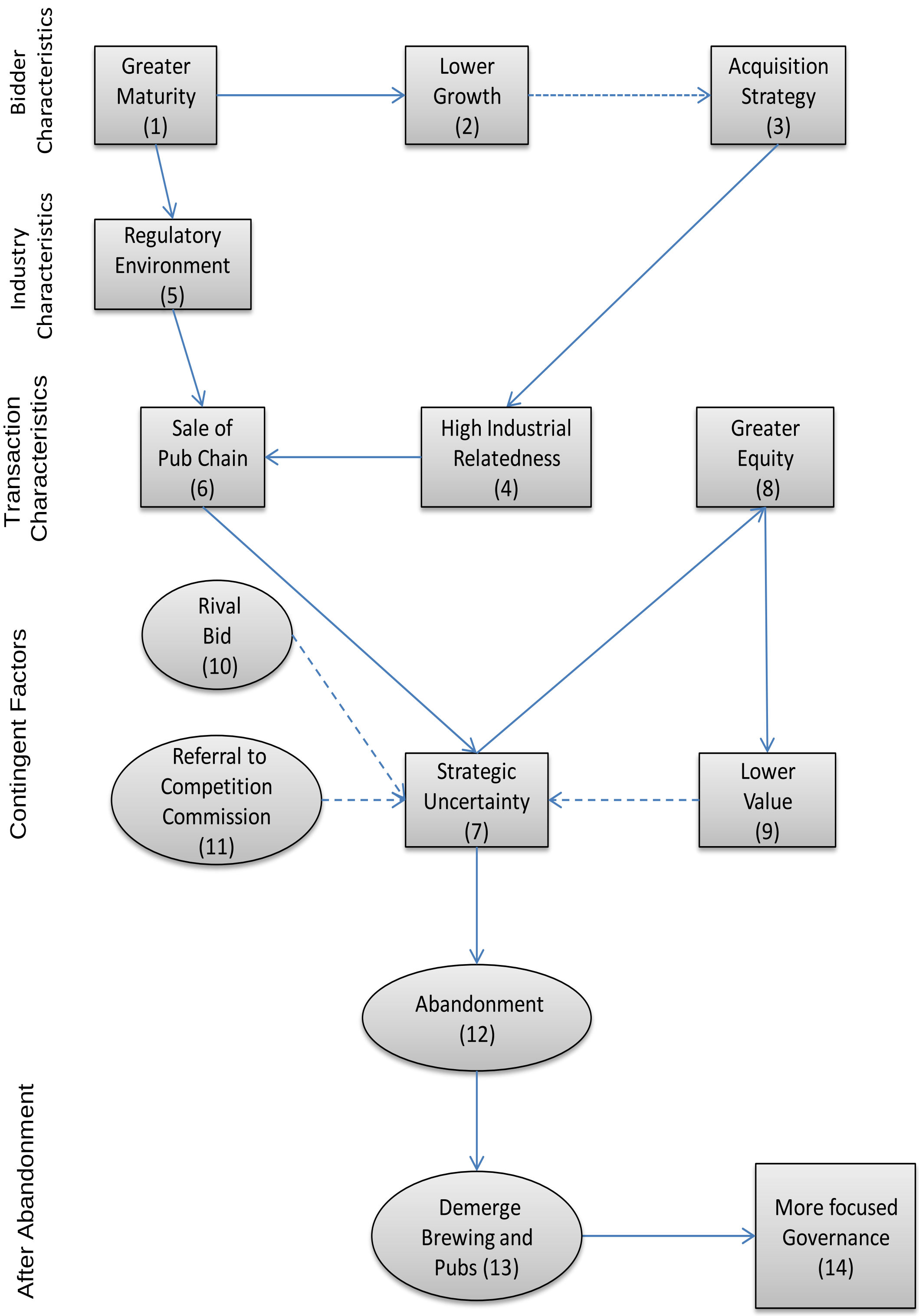
2.16 After Abandonment

After abandonment, WHI conducted a strategic review of its activities. The decision was taken to divest its brewing and pub assets (13). This enabled more focused governance in all of the activities of the firm (14). Management could concentrate on these core activities, without being concerned about the implications of their decisions for other parts of the business, which had created the strategic uncertainty surrounding the abandoned bid. WHI itself could:

> "…grow its share of those segments of the expanding UK leisure market that are consistent with its core skills and experience."
>
> (Bid Documents)

Hence, the abandoned bid played a governance role, leading to a process of restructuring and reorientation in WHI.

Figure 6.1: Proposed Causal Network for WHI



2.2 The Case of FUT

2.21 Case History

Formed in 1984, FUT was a media company, publishing special interest magazines and websites. On 14/2/05, FUT and Target announced a merger involving a recommended offer valuing the Target at £31.6mn, a 35.5% premium to the Target's value at the time of the announcement. In recommending the offer, Target CEO stated, the offer:

> "…represented a fair value for shareholders."
>
> (RNS Announcement, 14/2/05)

The equity offer meant:

> "…shareholders could share in the financial and commercial improvements that resulted from the merger."
>
> (RNS Announcement, 14/2/05)

FUT stated that the acquisition would enable the firm to enhance its position in special interest magazines, where the Target possessed valuable assets. This facilitated further growth, consistent with the growth strategy announced in the previous year's annual report:

> " A doubling of the size of the company within 5 years."
>
> (Company Annual Report, 2004)

The acquisition would make FUT the "…3rd largest magazine publisher in the UK and the 2nd largest publisher of special interest consumer magazines."

(Bid Documents)

In 2001, several years earlier, the situation was very different. The director reported that excessive growth in the 1990s had left the company overstretched:

> "…the company was close to the edge of a cliff. Overstretched, with a small management team operating in more than a dozen countries with a ludicrous amount of debt. We fired half the board, half the staff."
>
> (Interview with Director)

Then:

> "…there was a glorious period […] where the company was debt-free, with a rising amount of net cash."
>
> (Interview with Director)

Secondary data demonstrate this. Profits were rising and free cash was an average of 11% of net assets in three years prior to abandoned bid. The director continued:

> "So, the question […] what the devil are we going to do with it?"

FUT began to engage in organic and acquisition investment. Rather than acquire whole companies, FUT acquired specific assets of other firms including magazine titles and websites. This led to a growth in net assets of 18.9% between 2002 and 2005. This growth was formalised in the strategy announced in the annual report of 2004. Hence, FUT was seeking opportunities to grow. The potential acquisition of the Target was one such opportunity.

The UK special interest magazine sector was dominated by three firms. FUT and Target were two. The third was EMAP, which was much larger and the market leader. Hence, in an aggregate sense, the special interest magazine market was mature and highly concentrated. However, in individual segments, competition was intense and dynamic, with rivals publishing multiple titles. New market segments were being developed continuously (eg. computer games) and competition extended to new media formats, notably internet publishing. By 2005, FUT published 30 websites (Company Annual Report, 2005, p.3). This also extended to geographical competition. By 2005, FUT operated in four countries (Company Annual Report, 2005, p.3). This created a dynamic industrial environment. As a result, the director commented:

> "We're always looking at our competitors, to see what they are doing [...] in this case, could we think about acquiring them."

An acquisition between two of the three major firms in the UK market would enable significant synergies to be realised, generating increased scale and financial strength. FUT intended to rationalise the Target's portfolio by divesting business titles and concentrating on consumer titles. The acquisition would also enable FUT to diversify further. Due to the Target's portfolio, 'Computer Games' would fall from 46% of FUT's revenues to 25% (Bid Documents). However, the acquisition of the Target, a whole company, would be significantly larger than previous acquisitions.

The Target was in trouble. It had issued a profits warning and replaced its chief executive and finance director. Its share price had declined substantially, so FUT's Board of directors saw an opportunity to acquire Target at a favourable price. In this environment, the Target management indicated a willingness to merge the two firms. After negotiation over the price and terms, the Target Board was prepared to recommend the offer to their firm's shareholders.

Equity was used as the means of payment. The director made the following statements providing the argument for the equity-financing:

> "We should use as much of our share power as possible."
> "…debt is more dangerous than people think."
> "The proportionate of debt to profits […] if you get that wrong, that gives far too much power to the banks…"

Hence, instead of been burdened with increased borrowing and the financial distress this could create, the company decided to pay for the transaction using shares.

The merger had significant implications for competition and the director recognised this. However, despite the risk that the merger would be prohibited, he stated the Board felt it was worth pursuing:

> "…our view, after consultation, was that there was an extremely small chance, no guarantees, but there was an extremely small chance, having met the OFT officials, of having the bid referred to the Competition Commission."

The director suggested that FUT felt the area of overlap was in a very narrow segment of the market relating to computer games magazines. Therefore, the 'consumer interest' - the basis for referrals of mergers for investigation - would not be damaged. However, the OFT referred the merger to the Competition Commission for further investigation on 14/4/05. The basis of the referral was:

> "…concerns that the combination of the largest supplier of computer games magazines with its largest competitor may be expected to lead to a lessening of competition in the UK."
>
> (OFT Press release, 14/4/05)

The director expressed concern about the judgement of the OFT. They had used a narrow definition of the 'consumer interest'. He argued that, at the time of the referral, it was likely that the Target would go bankrupt, which indeed it did. This would have left FUT as the sole supplier in the market. Instead, if the merger had have been approved, it would have produced synergies, which would have benefitted consumers. The bid automatically lapsed and FUT decided to abandon the acquisition of the whole Target, announcing:

> "It is not in [FUT's] shareholders' interests to pursue the bid. We have instructed the OFT to cancel the referral as we do not see it in our interests to pursue the bid."
>
> (RNS Announcement, 14/4/2005)

After abandonment, FUT decided to restructure the deal. Instead of acquiring the entire firm, FUT acquired some specific assets of Target. The director reflected:

> "We immediately held a senior meeting in the company and we recognised we could walk away […] we were concerned that from under our nose, assets that we thought were effectively ours would disappear."

The acquisition of specific assets meant a cash deal financed with debt. A price of £30.5mn was agreed, producing a substantial increase in gearing for FUT. This was something the firm had been keen to avoid.

Soon after these assets were acquired, according to the director interviewed, the CEO proposed a much larger acquisition than the one just abandoned, in another country. The chief executive's enthusiasm for the growth strategy:

> "…led to a worry that the senior management would become overextended."

In addition,

> "the assets of Target which we cherry-picked, whichever way you look at it, they either underperformed, and/or, we paid too much for them […] so suddenly the debt-to-profit figure didn't look good."

The chief executive was replaced and the firm moved from an expansive acquisition strategy to one of disposals and consolidation as the company attempted to reduce its debt burden. In the year after the replacement of the CEO, there were net disposals of 4.9% of total assets.

2.22 Causal Network Narrative

The disciplinary sequence after abandonment involved the replacement of the CEO, an announced change in strategy, followed by net disposals. This means that FUT was categorised as a 'most-likely' case. Hence, it was anticipated that its causal network would be consistent with the typological disciplinary network. However, while its network possesses some similar features, there are differences. Analysis suggests that certain bidder characteristics, transaction characteristics and contingent factors were important in determining the disciplinary process after abandonment. Appendix 2b demonstrates the coding of primary and secondary data for FUT, using the templates derived from the conceptual framework. This was used to produce the causal network diagram, reflecting the underlying mechanism present in this case. This causal network diagram is illustrated in figure 6.2. The causal network narrative which explains the mechanisms underpinning the diagram is presented in the following sections. The numbers in brackets relate each part of the causal network narrative to the corresponding characteristic or factors illustrated in the causal network diagram.

2.23 Bidder Characteristics

The bidder characteristics for FUT worked out as follows. The company was mature, but, evidence suggests its maturity did not place a significant role in the causal process. The origins of the process lie in the restructuring conducted in 2001 (1). It started generating profits (2), producing substantial free cash (3). In addition, it was operating in a dynamic industrial environment (4) with substantial growth potential (5). Hence two nested causal paths can be traced, producing the strategy of growth, involving organic investment, but also acquisitions (6). The path running from restructuring, through high profits to high free cash suggests that managerial preferences rather than shareholders' interests may have been dominant in pursuing the strategy. However, the firm did not face a moribund business environment. In contrast to what the disciplinary network anticipates FUT was operating in a dynamic business sector. In addition, the firm's corporate governance characteristics were not consistent with the disciplinary network. These indicate strong monitoring by both the board and outside shareholders, consistent with corporate governance theory and the Combined Code applicable at the time. Hence, there is no evidence these characteristics provided the discretion for FUT's managers to pursue their own interests. However, these characteristics, particularly the board, have an important role to play in the abandonment of the subsequent, larger acquisition.

2.24 Transaction Characteristics

The abandoned bid can be traced to the company's growth strategy and hence further back to the substantial free cash available. There was the underlying growth strategy of the bidder, but the timing and identity of the Target was opportunistic (7). FUT was seeking opportunities to grow. The acquisition of the Target was such an opportunity. The Target was in trouble, willing to be bought and offered substantial potential synergies. Hence, the related nature of the Target (8) was the outcome of opportunism.

With its substantial free cash flow, the disciplinary network proposes that FUT should have used cash. However, instead of being burdened with increased borrowing and the financial distress this could create, the company decided to pay for the transaction using shares. The firm was trying to use its share power, so the equity-financing can be traced to the opportunism underpinning the timing of the bid (9), but also the memory of the debt burden that nearly destroyed the firm in 2001. However, the equity-financing had no further role in the causal process of abandonment.

2.25 Contingent Factors in the Bidding Process

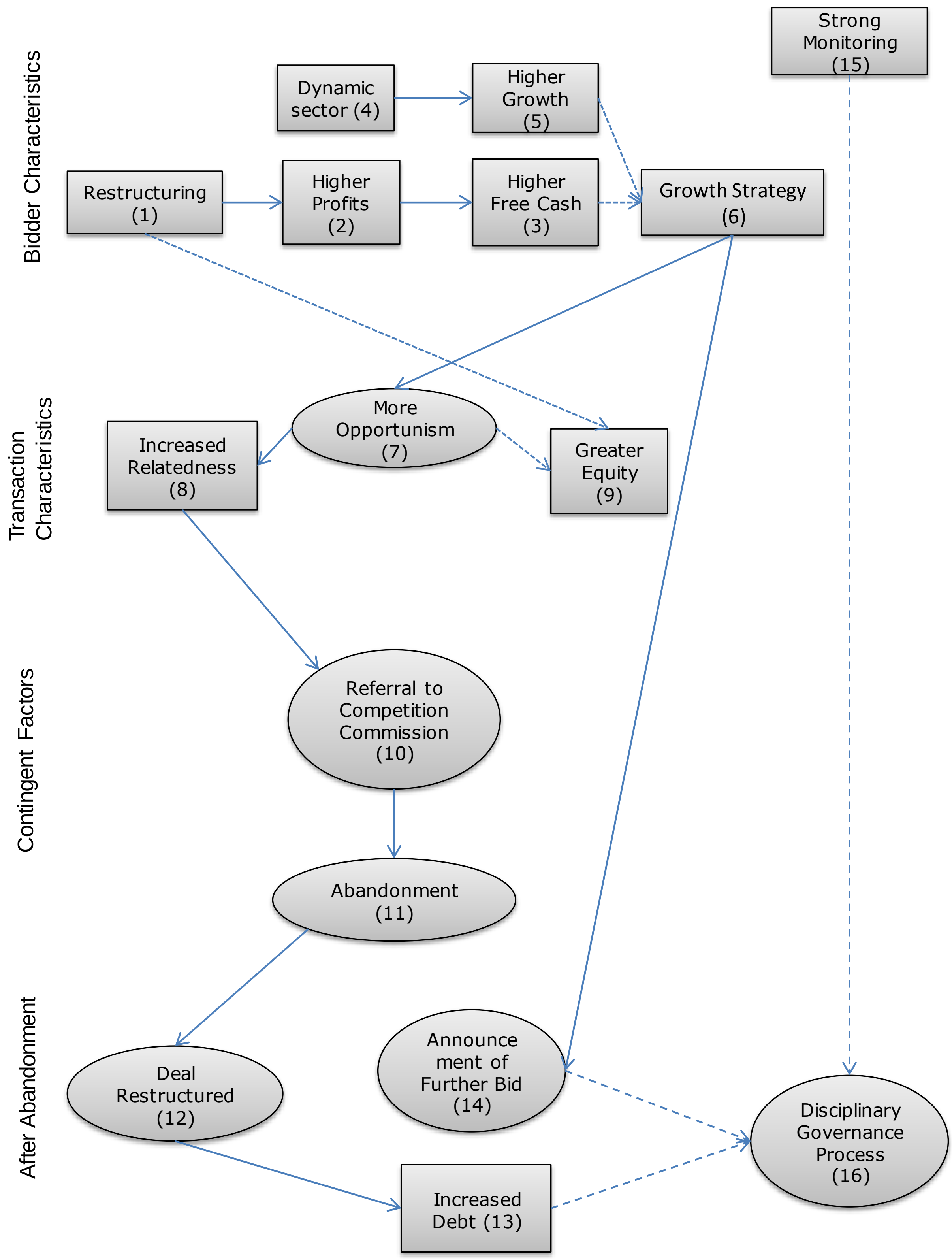
The bidding process in this case was relatively straightforward. The evidence overwhelmingly suggests the referral of the bid by the OFT to the Competition Commission for a detailed investigation was the critical contingent in this abandoned bidding process. It forced FUT to abandon its bid for the entire capital of Target and led to the restructuring of the deal subsequently. Hence, a nested causal path can be traced from the relatedness of Target (8), through the referral of the bid to the Competition Commission (10) to abandonment (11).

2.26 After Abandonment

Abandonment offered another course of action to the bidder, which it took, but which had a significant impact on subsequent events. The deal was restructured to buy particular assets of the Target (12). The increase in gearing levels (13) after abandonment was caused by the restructuring of the deal, and consequently, abandonment. In addition, the events after abandonment were driven by several characteristics of the bidder. The evidence suggests a direct causal influence deriving from the substantial free cash of the bidder, through the growth strategy initiated before the abandoned bid, to the continued pursuit of acquisitions after it, evidenced by the subsequent larger acquisition, proposed by the CEO (14). The free cash was a necessary condition for the growth strategy, which in turn was necessary for the pursuit of a further acquisition. However, it was the proposal of this later acquisition which created uncertainty among the bidder’s directors and not the abandoned one.

It is at this point that monitoring by the board of directors becomes an important causal factor (15). The directors weighed the information about the strategy of the company in the light of the increased debt burden, and the proposed further bid. This didn’t happen with the earlier bid. The added information provided by the restructured deal, and the resultant increased gearing, changed their view of the growth strategy. This suggests information was revealed during a bidding process and used by directors in a way similar to that proposed by Hirschleifer and Thakor (1998). Together, these events and characteristics were instrumental in instigating a disciplinary governance process (16). The chief executive was replaced and the company changed from an acquisition strategy, to one of disposals and consolidation, as the company attempted to reduce its debt burden. However, the further proposal was causally related to the increased debt incurred by the restructuring of the abandoned deal in triggering discipline. However, the disciplining happened in the context of the firm’s growth strategy, and the monitoring provided by the board of directors. Independently, these factors were not sufficient to trigger a disciplinary process after abandonment, but acting in a compound manner, they were. The CEO was replaced and the firm began a process of consolidation, disposing of assets.

Figure 6.2: Proposed Causal Network for FUT



2.3 The Case of CAT

2.31 Case History

On 24/1/03, CAT and the Target, two small firms in the developing biotechnology sector, announced their intention to merge. The merger involved the Target's shareholders exchanging shares in Target for shares in CAT. The bid was recommended by Target managers to their shareholders.

CAT was a biotech company. It was first listed in 1997. It had a research group with products in the pipeline. By 2003, it had 5 products in pre-clinical development and 15 products in discovery. It had a strong intellectual property position, particularly in world-leading antibodies. However, as a relatively young company in its growth phase, it still had substantial cash reserves from its IPO from which to finance investments, but was generating a small turnover and making large losses. At the time of the abandoned bid, the company had net cash and liquid resources of £123.7mn. Its goal was to develop products to the stage where revenues could be drawn from them and the company would become self-sustaining. The scarcity of cash available and the restricted ability of the company to finance its product development was a recurrent theme in the company's annual report. The same statement quoted below about the availability of financing appears in several annual reports, spanning the abandoned bid:

> [The company], "…will continue to consider these sources (revenue streams and equity finance), though there can be no assurance that the company can generate significant revenue nor that equity finance will be available on acceptable terms or at all."
>
> (Company Annual Report, 2003)

Indeed, the director referred to it indirectly when discussing CAT's strategy in the pre-abandonment period:

> "The business model […] was a statistical game. There would be lots of drug development that would fail and for that model to work, companies need a broad span of business and funnel down into one successful product. It was a model which required a lot of scale and therefore quite a lot of money to get things, if not all the way to the market, to a point where you could retain significant value before bringing in a partner."

CAT's strategy involved acquisitions, but was broader than that. There were a number of strategic interactions between CAT and partners.

> [We were], "...seeking partners to exploit the technology, either through joint ventures, licensing or indeed acquisitions. We [the bidder] already had some joint ventures and licensing arrangements. This [the bid] was part of that strategy."

Acquisitions were part of a broader strategy that involved constant interaction between companies in the biotechnology industry. Companies attempted to spot opportunities for beneficial collaboration in a variety of ways. The director commented:

> "We talked to everyone. It was the nature of the industry to do deals with others."

Company's board characteristics met the corporate governance requirements accepted at the time. With more than 50% of the board comprised of non-executive directors, its board structure suggests independence and strong monitoring. In addition, there was substantial concentration in the firm's ownership structure, suggesting strong monitoring by outside investors. However, the executive directors owned an insignificant proportion of shares, suggesting weak incentives.

Both CAT and the Target had discussed the potential synergies from linking their portfolio of assets. In addition, like CAT, the Target had raised substantial cash from issuing equity in the late 1990s. It had cash reserves of £130mn. Hence, the enhanced cash resources that would be available to the merged enterprise were attractive. CAT's director commented:

> "To find a company with an interesting portfolio and some cash was rare."

Therefore, CAT's management spotted an opportunity to remedy its financing problems, and worked to take advantage of the opportunity. According to the director:

> [The Target], "…just happened to become available and just happened to fit into the strategy. That's how we came to it."

> "It [the bid] was too good an opportunity to let slip by. [It was] …too good an opportunity to miss."

Bid Documents were posted to shareholders on 2/2/03. It was an all-equity offer of 0.362 CAT shares for each Target share. The bid valued the Target at £109.6mn, a premium of 28.2% on its market value at that moment. The director noted there was a need to use equity in order to retain cash in the enlarged enterprise.

> "The rationale for the bid would be undermined if cash were used. If it were, the enlarged company would have cash resources that were substantial, but were insufficient to meet the bidders' needs going forward. Funding issues were an on-going problem and it would have compounded the funding problem."

The bid was recommended by the Target managers. The Target shareholders were encouraged to accept the merger in order to share in the future benefits provided by the merging of the two companies resources. In this context, an equity bid was acceptable to Target shareholders. A Target director commented that, through the equity bid, target shareholders could:

> "…benefit from the strengthened opportunities for the combined company."
>
> (RNS Announcement, 24/1/03)

Almost immediately, and entirely coincidentally, a portfolio investment decision by a US financial institution led to their sale of CAT shares. It led to a gradual decline in the share price to a level where uncertainty about the value of the bid began to be raised. A position CAT's director acknowledged:

> "This meant that the value of the bid drifted down to a point where the value of the offer was equivalent to underlying cash in [the Target]."

At this point, acceptances from Target shareholders began to dry up. In response, the UK market leader announced a rival cash bid for Target at a premium to CAT's offer. In its bid document, the rival bidder admitted that their bid was:

> "…opportunistic, taking advantage of the situation to acquire assets at a discount."
>
> (RNS announcement, 26/2/03)

This approach was rebuffed by Target's management. However, CAT's offer was further jeopardised by the revelation that there was a dispute over royalties on licenses in the USA. This created added uncertainty in the market and CAT's share price fell by 17% on the announcement. CAT's director recalled:

> "…the cataclysmic decline put a nail in the coffin of the bid."

The bid was no longer viable. The Target tried to elicit a higher bid from CAT, including a cash component. However, as the director commented:

> "…in our view that [using cash] would be self-defeating."
>
> [With cash], "The deal wouldn't have made sense. We would have been building a bigger beast, with the same amount of cash to fuel it."

Consequently, no higher bid was proposed and Target's management had to withdraw their support from CAT, eventually recommending the rival bid after discussions with other parties did not lead anywhere. At that time, with insufficient acceptances, CAT's offer officially lapsed. The rival bid succeeded a few weeks later.

After abandonment, CAT engaged in further strategic interactions with other firms. When the opportunity to complete the acquisition disappeared, CAT investigated an alternative strategy:

> "A strategy to cement a very large alliance with a single party. Leverage value of platform by charging for access to someone with downstream expertise to pull products through."

The director of the CAT didn’t view this negatively:

> “Strategy meanders! An event happens and leads to a particular strategy. Something else happens and this takes the company off in another direction.”

> “The deal […] would have taken the company in a particular direction. The failed bid meant a new strategy.”

Eventually, CAT was acquired by the firm with which they had developed the alliance.

> “We recognised at the time that the possibility of being bought out at the right price was a satisfactory outcome for shareholders.”

2.32 Causal Network Narrative

The disciplinary sequence after abandonment involving the subsequent acquisition of CAT meant this was categorised as a most-likely case, whereby the abandoned acquisition played a governance role. Hence, it was anticipated that its causal network would be consistent with the typological disciplinary network. However, the evidence suggests that the outcome, while consistent with the disciplinary hypothesis, may not have been disciplinary at all. Instead, the causal network suggests a different causal process, driven by specific bidder characteristics, transaction characteristics and contingent factors in the bidding process. Appendix 2c demonstrates the coding of primary and secondary data for CAT, using the templates derived from the conceptual framework. This was used to produce the causal network diagram, reflecting the underlying mechanism present in this case. This causal network diagram is illustrated in figure 6.3. The causal network narrative which explains the mechanisms underpinning the diagram is presented in the following sections. The numbers in brackets relate each part of the causal network narrative to the corresponding characteristic or factors illustrated in the causal network diagram.

2.33 Bidder Characteristics

CAT was a 'young' company in the new dynamic biotechnology sector. It did not generate profits yet, so was relying on the cash raised through its stock market flotation to sustain its growth to the point where it achieved self-sustaining profitability. These characteristics are not consistent with the proposed disciplinary configuration. This evidence suggests that the financial constraint was an important characteristic of the bidder at the time of the abandoned bid and it derived from the age of the company (1) and its lack of profitability (2). This suggests a nested causal path from age through profitability to low free cash (3). In addition, the new, dynamic nature of the industry (4) provided plentiful opportunities for high growth (5). A relational causal path can be traced between high growth and low free cash to the strategic interaction which the company was pursuing (6). The bid was part of the strategic interaction.

Evidence relating to the board and ownership structure at the time of the bid does not suggest poor monitoring and incentives, providing the discretion corporate governance theory suggests is necessary for managers to pursue bids driven by managerial preferences. In addition, there is no evidence to suggest these characteristics had an important influence in the causal mechanisms producing abandonment. Hence, these characteristics are not included in the causal network for this abandoned bid.

Since acquisition activity was part of broader strategy that involved constant interaction between companies in the industry, a more localised, short-term nested causal path can be traced as a branch of the main path stemming from the strategy of CAT before the bid to the choice of the Target.

2.34 Transaction Characteristics

Several linked characteristics of the bid stand out as being important to the pathology of abandonment. As with the firm characteristics, these characteristics are not consistent with the proposed disciplinary configuration. A causal path can be traced from the characteristics of the firm to the choice of the Target and the transaction characteristics. Firstly, a causal link can be drawn from the strategy of the bidder to the industrial relatedness of the Target. The merger is part of the strategic interaction in the biotechnology industry. However, there is no evidence that this line of causation stretched any further into the acquisition process. The relatedness of Target was not a critical factor in the pathology of abandonment. Secondly, opportunism played a role in the bid too (7). The acquisition was an opportunity to pursue CAT's strategy, but particularly, ease the company's financial constraints. Thirdly, the funding constraint necessitated the choice of equity as the means of payment (8). There was a need to retain cash in the enlarged enterprise. However, evidence suggests the decision to use equity-financing in the acquisition was the critical contingent characteristic in the pathology of this abandoned bid. The choice exposed the value of the bid to contingent events in the bidding process, which detrimentally affected the company's share price. This nested causal chain, deriving from equity can be traced right into the bidding process which will be discussed in the next section.

2.35 Contingent Factors in the Bidding Process

Target management support for the bid suggests this was not a critical factor in this abandoned bid and does not feature in the causal process. This suggests that the transaction was part of the strategic interaction in the biotechnology industry, particularly consolidation among the many firms that emerged at the outset of the industry's life.

In this case, the evidence suggests the use of equity financing was the critical juncture in the causal network. This is inconsistent with the proposed causal network which hypothesises that disciplinary processes are more likely to involve cash financing. The equity financing exposed the value of the bid to a number of contingent events during the acquisition process that influenced the share price and hence the implied value of the bid.

At the time that the bid was announced, there were no valuation concerns about the offer. According to the bid documents, the offer price was viewed as a 'fair value'. However, events - share selling (9) and negative commercial information (10) - became important contingent factors in abandonment because their negative impact on the bid was exacerbated by the choice of equity as the means of payment. This demonstrated the weakness of using equity as a means of payment (Hansen, 1987). The use of equity financing meant the value of the bid was uncertain (11). A nested causal path can be traced from this valuation uncertainty to the rival bid. The decrease in the value of the offer prompted a rival bidder to enter the bidding (12), offering the certainty of cash, attractive to target shareholders. Ultimately, these factors caused the Target management to switch their recommendation and meant the opportunity for CAT to acquire the Target disappeared (13). This led to abandonment (14). The evidence suggests this pathology is localised and related to the immediate bidding process. There is no evidence of a lasting impact on the bidder.

2.36 After Abandonment

A subsequent acquisition of CAT suggests a disciplinary process. The detailed template analysis was intended to assess the nature of the process. A nested path can be traced directly from the characteristics of the bidder before the abandoned bidding process (its low free cash, it high growth potential and policy of strategic interaction) to the alternative strategies pursued after abandonment leading to the strategic alliance (15) and the eventual acquisition of the bidder by its significant partner (16). On the subject of the eventual acquisition of the company after abandonment, the director admitted that several bids had been received, but underplayed this, stating:

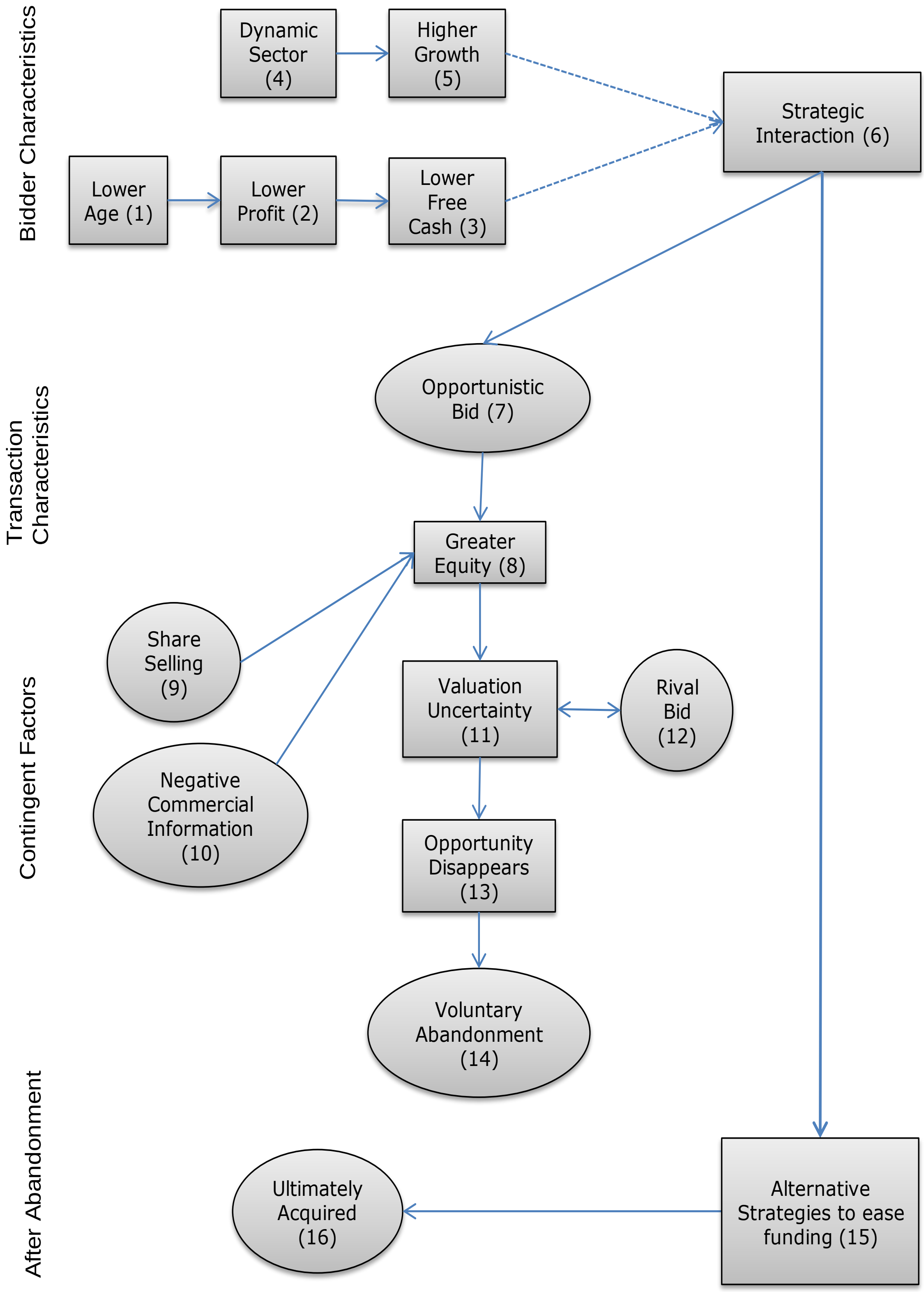
> "We talked to everyone. It was the nature of the industry to do deals with others."

Discussions with other companies were happening all the time. These were not a major issue. The company made bids, they received bids. They were comfortable about that. However, the evidence suggests that abandonment may have signalled a weakness in CAT which attracted bids. The obvious weakness was the funding constraints. When put to CAT's director, this was disputed:

> "…the company stood up on its own terms. It was a success. It generated products. This would have been taken forward […] within the parameters of the strategic alliance."

Thus, this suggests the company felt the need to be acquired was not desperate, and so was able to reject bids before the right deal was offered. There is no evidence to suggest that the subsequent acquisition was the outcome of a disciplinary process for bidding managers, but a way of realising shareholder value.

Figure 6.3: Proposed Causal Network for CAT



3. Least-Likely Cases

3.1 The Case of TRG

3.11 Case History

On 13/11/03, TRG, the bidding firm in this case, announced merger talks with the Target. The bidder was a large, mature company owning several high street restaurant chains. Target was a younger, smaller chain of restaurants still owned and controlled by founding management team. Merger talks continued for several weeks with press speculation about whether the merger would occur. On 18/12/03 the terms of a recommended takeover of the Target by TRG were revealed. It was a part cash-share (40:60) offer, valuing the Target at £168mn.

Two years before, in 2001, TRG was called a 'basket case' (Press report, 18/11/03).

> "The company had lost its way. It had dissipated its efforts in too many brands in this market…the popular catering market,"
> (Interview with Executive Chairman, Sunday Telegraph, 11/1/04)

The management of the company was replaced and the new team had engaged in restructuring and reorientation up to the time of the bid for the Target. In the three years prior to the bid there were high levels of asset turnover, involving high levels of net investment spending (a real value in the three years 2000-2003 equating to 33.7% of total assets in 2003). There is little evidence of acquisitiveness in the pre-bid period. The restructuring is consistent with enhanced governance. This is supported by comments made by the chief executive at the time:

> "The idea [of restructuring] was to bring focus."
> (Interview with Executive Chairman, Sunday Telegraph, 11/1/04)

Expansive acquisitions would be inconsistent with this strategy. The company was generating relatively high levels of free cash flow (3.4% of total assets in 2003) and was a generous dividend payer (88% payout ratio). However, this latter figure suggests a lack of internal growth opportunities. There were press reports intimating that the company was considered "stale", lacking internal investment opportunities (Investors Chronicle, 21/11/03). Further growth could only be achieved through acquisitions. This suggests the lack of growth opportunities was determined by the characteristics of the bidder, rather than the maturity of the market.

The board of directors was dominated by the executive directors suggesting weak monitoring by that mechanism. However, there was a concentrated ownership structure with a 5-shareholder concentration ratio of 50%. This provides a great incentive for monitoring by these shareholders. As a mature company, its executive directors held an extremely small proportion of share capital – 0.02% at the time of bid.

The bid for Target was the first major acquisition since 2001, suggesting the start of an acquisition strategy.

> "Inevitably, you look around at what else is happening. To us, the most admired competition on the high street was [Target]."
> (Interview with Executive Chairman, Sunday Telegraph, 11/1/04)

The Target company was a pasta and pizza chain still owned and managed by its founders, who had a history of developing restaurant groups and selling them to more established concerns, like TRG. The Target demonstrated strong entrepreneurial flair. The founders were looking for an exit for their investment and have been gradually selling shares, holding 16% at the time of the bid. The acquisition by TRG was considered to be an opportunity for 'exit', enabling the founders to move onto another project.

The acquisition was an opportunity for TRG to acquire some entrepreneurial flair to stimulate growth. Indeed, one of the conditions of the bid was that important members of the Target would join the board of the merged enterprise. In addition, it was proposed that the merger would create a company with a strong growth potential and a leading position in the UK dining market. Market analysts suggested that there were strong complementarities between the companies' portfolios – TRG in out-of-town restaurants; the Target in high-street chains.

Bid talks dragged on for several weeks. Press speculation about problems between the companies forced them to issue a joint statement stating that "due diligence had been materially completed" and "terms substantially agreed" (RNS announcement, 11/12/2003). TRG's chief executive recalled:

> "The negotiations […] took a long time to see if the chemistry worked."
> (Interview with Executive Chairman, Sunday Telegraph, 11/1/2004)

Eventually, terms were agreed and announced on 18/12/03. The means of payment for the bid was a combination of 40% cash and 60% equity, valuing the Target at 168mn. The substantial cash element provided target management / investors with a return on their investment in the Target, which they were looking for. The equity portion gave Target shareholders an opportunity to "share in the growth of the enlarged group" (Bid Document).

Target was considered an attractive proposition and press comment and trading statements, during the bidding process, reiterated the point. Investors Chronicle, the financial publication advised:

> "Target shareholders ought to hold out for a tasty slice of the action to reflect what they're bringing to the table." [Bidder should] "…sweeten offer by lifting cash element to 50%..."
>
> (Investor's Chronicle, 21/11/2003)

This suggested TRG's offer was insufficient. However, Target management seemed content with the price offered and were happy to recommend the bid.

On 10/1/04, news of a potential rival bid emerged. Rival, a private equity group which already owned another restaurant chain announced that it was considering a bid for the Target at a premium to the bid by TRG. The board of Target reiterated their support for TRG's bid, but stated that:

> "…any proposal would be judged on its merits".
>
> (RNS announcement, 10/1/2004)

On 19/1/04 the merger between TRG and Target was given clearance by the Office of Fair Trading. A day later, TRG announced that it had acceptances from 47% of Target's shareholders. On the same day, Rival reiterated the possibility of a bid. TRG responded by stating:

> "…that its offer was the only one on the table and that [the Rival] had not made a formal offer."
>
> (RNS announcement, 10/1/2004)

On 23/1/04 Target received an indication of a possible offer from Rival, subject to pre-conditions. It is a cash offer at a substantial premium to TRG's. The board of the Target commented that a bid at that level was extremely attractive and advised shareholders that had not already accepted TRG's offer to take no further action. After the announcement of a possible rival offer, very few further acceptances were received by TRG. Acceptances rose from 47.7% to 47.9% between 26/1/04 and 3/2/04.[1] On that day, the Takeover Panel instructed the Rival to make a formal bid for Target by 13/2/04 or, withdraw from the bidding process. On that date, the Rival made its formal bid and Target's directors withdrew their support for TRG's bid, encouraging shareholders to accept the new offer. TRG allowed its bid to lapse and withdrew from the bidding contest. In a statement, the company said that:

> "…overpaying would have jeopardised their position. We wanted the right deal at the right price."
>
> (RNS announcement, 13/2/2004)

[1] Data from RNS announcements.

The bidder stated after the abandonment:

> "Financing, part of which was to finance the abandoned takeover is viewed as a launch pad to developing [the Bidder]."
>
> (RNS announcement, 13/2/2004)

The use of the term 'launch-pad' suggests a new start. However, the abandoned bid itself was an aborted new start. The bidder pursued extensive acquisition activity in the period after abandonment – net acquisitions amounting to 52% of total assets in the three years after abandonment.

3.12 Causal Network Narrative

The disciplinary sequence after abandonment involved significant net acquisitions by TRG. This meant this case was categorised as a least-likely case. It was anticipated that the abandoned acquisition did not play a governance role. Hence, it was anticipated that its causal network would not be consistent with the typological disciplinary network. Therefore, the causal network may suggest a different causal mechanism, driven by specific bidder characteristics, transaction characteristics and contingent factors in the bidding process. Appendix 2d demonstrates the coding of primary and secondary data for TRG, using the templates derived from the conceptual framework. This was used to produce the causal network diagram, reflecting the underlying mechanism present in this case. This causal network diagram is illustrated in figure 6.4. The causal network narrative which explains the mechanisms underpinning the diagram is presented in the following sections. The numbers in brackets relate each part of the causal network narrative to the corresponding characteristic or factors illustrated in the causal network diagram.

3.13 Bidder Characteristics

TRG's corporate governance characteristics show it was a mature company in the mature restaurant sector. The firm had the weak board monitoring which corporate governance theory proposes facilitates managerial discretion. The low managerial shareholding also suggests that senior managers would have an incentive to pursue their own interests, at the expense of their shareholders. Unexpectedly, these characteristics are consistent with the proposed disciplinary configuration. However, there is no evidence to suggest these characteristics were important factors in the process of the abandoned acquisition. There is no evidence the acquisition was a poor decision. It was worthwhile, enhancing shareholder value for the bidder. Abandonment related to other causal factors and, in addition, the activities after abandonment were not consistent with discipline. Other characteristics of TRG were important.

After the crisis of 2001, the firm began to generate profits (1) and free cash (2), again unexpectedly consistent with the disciplinary configuration. There is little evidence of acquisitiveness in the pre-bid period, but no significant disposals either, which is inconsistent with the disciplinary hypothesis. However, the firm lacked internal investment opportunities. The initiation of an acquisition investment, which the abandoned bid represented, provides evidence the company recognised high growth may only have been possible through acquisition investment. The existence of low internal investment opportunities is a company trait consistent with Jensen (1986). Hence, another nested causal path can be traced from the maturity of the company (3), to its low internal growth prospects (4). The combination of the nested paths, culminating in high free cash and low growth prospects respectively, led to the pursuit of growth through acquisitions (5).

A nested causal path can be traced directly from the bidder's characteristics, particularly from its low growth to the substantial acquisition activity after abandonment. Events after abandonment were related to the long term strategy of promoting growth, evident before the abandoned bid, rather than some disciplinary process stemming from the pathology of abandonment. Another more localised nested causal chain can be traced as a branch stemming from the strategy of pursuing growth, through acquisitions, to the abandoned bid. The evidence suggests this localised causal path involved characteristics and events which did not produce a significant disciplinary impact.

3.14 Transaction Characteristics

The transaction characteristics derived directly from the acquisition strategy of TRG. The industrial relatedness between TRG and Target was strong. This suggests synergy was a strong element in the rationale for the bid. The bid documents highlighted strong synergies between the bidder and the target, particularly the complementary portfolio of restaurants. Furthermore, the target management were viewed as "bright entrepreneurs" in the sector. The acquisition was an opportunity to bring in entrepreneurial flair to stimulate growth. This led to certain characteristics of the transaction; seats on the board of the merged company for target management and the decision to use some equity in the means of payment.

Hence, a nested path can be traced back from the transaction characteristics to TRG's acquisition strategy to enhance growth. However, the industrial relatedness between the two firms was not important to the causal process of abandonment. The causal process which led to abandonment stems from the opportunistic offer price (6) and the decision to use equity financing (7).

3.15 Contingent factors in the Bidding Process

The evidence suggests that the level of TRG's offer was an important factor in the bidding process which caused the abandonment. A related causal variable was the high equity element in the means of payment. Both were important in raising valuation concerns (8), but it was the announcement of a higher rival cash offer (9), which was the critical contingent factor in the pathology of abandonment. Hence the value and financing of the offer, while necessary, were not sufficient factors to cause abandonment. The higher rival cash bid compounded the undervaluation associated with TRG's offer and led the target management to switch their recommendation (10) from TRG's bid to the rival one. This suggests that maximising shareholder value was the key for them in accepting a bid. By switching their recommendation from TRG's bid to the new one, the Target management showed they wanted to maximise value for themselves and shareholders by accepting the highest bid.

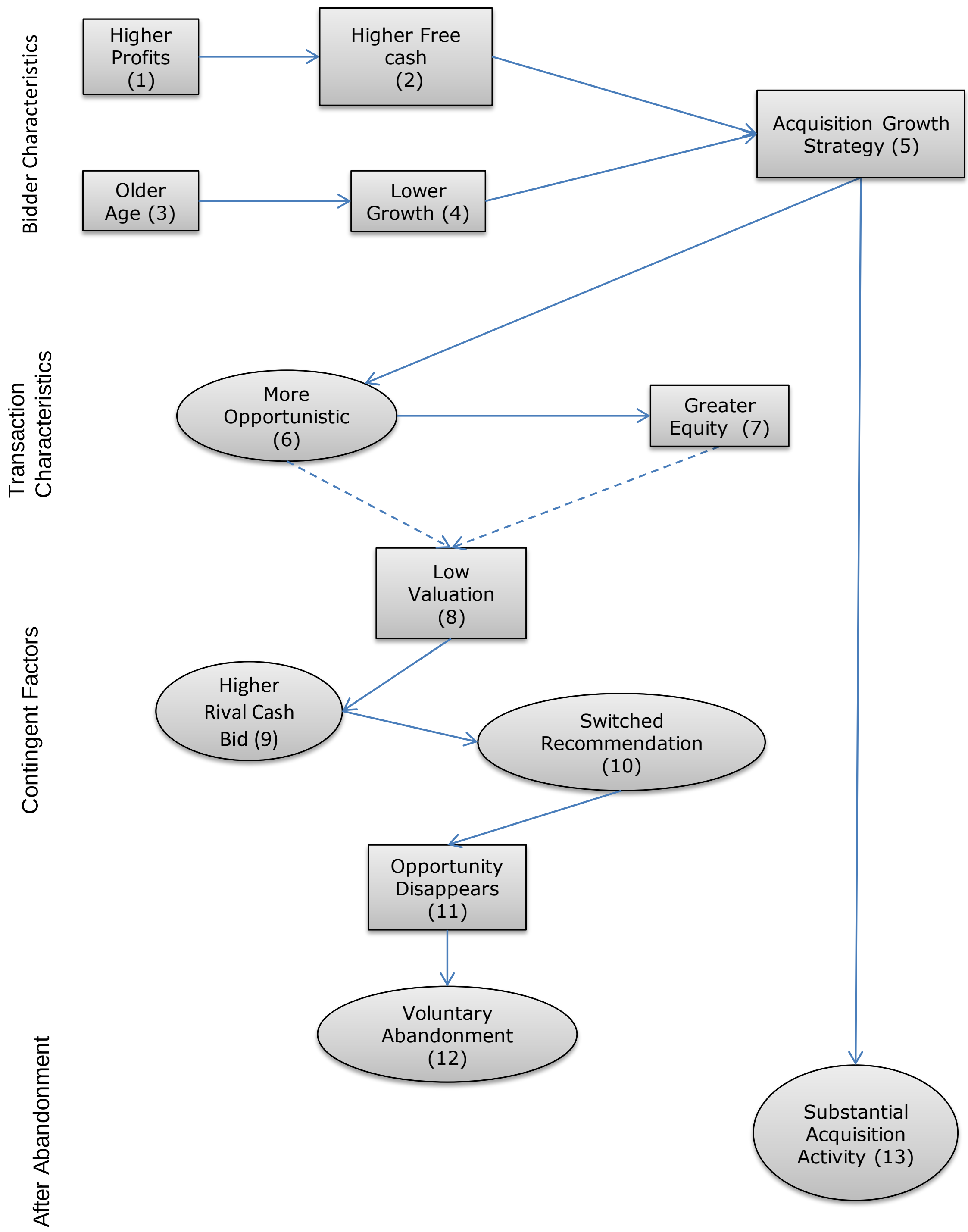
This causal process combines with the opportunistic nature of the bid. At the outset of the bidding process, the conditions existed for the opportunity to make a bid for the Target at a favourable offer price, but the appearance of a higher rival cash bid removed the favourable conditions. It was better for the bidder to abandon the acquisition, rather than raise its bid and suffer the 'winner's curse' (11) (Roll, 1986).

The casual process removed the opportunity for TRG and it was decided to let the offer lapse (12). The causal process ended. This pathology was localised and related to the immediate bidding process. There is no evidence that the effects of this pathology are significant in the aftermath of the bid.

3.16 After Abandonment

The bidder pursued extensive acquisition activity in the period after abandonment – net acquisitions amounting to 52% of net assets in the three years after abandonment (13). This suggests that TRG was able to fulfil its growth strategy by pursuing different, successful acquisitions. As anticipated, this evidence does not imply the abandoned acquisition played a disciplinary governance role. Events after abandonment were a continuation of the strategy adopted before abandonment. This stems directly from the bidders characteristics at the time of the abandoned bid.

Figure 6.4: Proposed Causal Network for TRG



3.2 The Case of MEL

3.21 Case History

On 4/11/04, MEL announced a possible offer for the Target at between 140 and 150p per share, financed by MEL shares and cash – 1 MEL share and 45p in cash. The Target immediately responded, stating that the bid was hostile, involved no discussions with the board of the Target and shareholders should reject the bid.

MEL had been floated on the Alternative Investment Market in October 2003, just a year before the bid for the Target. It was a cash shell, with a market capitalisation of £17mn. It had a strategy of,

> "…acquiring companies and businesses whose performance [MEL's] directors believe can be improved to create shareholder value."
>
> (Bid Document)

Hence, the firm had little corporate history. There was a small senior management team of 3, with only 1 non-executive director on the board. The senior management team were founders and held 7.4% of the shares between them. As a new, small, listed company, ownership was relatively concentrated, with eight institutions owning 63.3% of the firm's shares. In their previous role as part of the management of WAS Plc, the team suggested it had a strong record of delivering enhanced value for shareholders, producing a compound return of 18% per annum over a 12 year period (Bid Documents).

The evidence suggests that the Target of the bid was viewed as an opportunity for MEL to pursue its stated strategy. The Target was a building products group, which had struggled to generate strong performance since 2000. Restructuring had taken place and a new chief executive had been appointed to try and revive the firm's fortunes. Contrasting their performance at WAS with the Target's recent poor performance, MEL's bid documents stated:

> "…Target has consistently delivered to its shareholders: poor share price performance, poor management, poor strategy and value destroying acquisitions, poor and declining margins."
>
> (Bid Document)

MEL stated that the Target's performance represented a "damning indictment of the performance of [Target's] board in delivering shareholder value" (Bid Document), particularly criticising the new CEO of the target firm. The bid document stated:

> "Your board has already destroyed a great deal of value simply through the poor running of the business."
>
> (Bid Document)

MEL's management team thought they could improve performance by managing the Target better. In response, the Target management stated that they were committed to shareholder value and would consider seriously any offer they received. Further, they issued a defence document criticising the management of MEL and suggested that the indicated value and structure of the deal undervalued the Target. They advised shareholders to take no action with regard to the bid. Further, the Target's management stated they would consider offers. They announced [MEL's bid] was a, "…catalyst for a number of other parties to express interest in the group's business." (RNS Statement, 13/12/04).

MEL decided to use a mixture of cash and shares to finance the acquisition – 45p cash and 1 MEL share valued at 100p - valuing the Target at 145p per share. MEL's use of its own shares to finance the acquisition drew strong criticism from the board of the Target. The target management commented:

> "Given the relative size of the companies, the upshot of a takeover would be to give Target's shareholders replacement shares in their own company."
>
> "Any upside in the value of [Target] would be shared with [MEL's] management and other shareholders of [MEL], instead of being retained fully for the benefit of [Target's] shareholders."

The bidding process continued with acrimonious exchanges. On the day MEL posted their bid documents, they warned Target's shareholders that the target management may frustrate the bid by holding a "fire sale" which would realise a lot less value for shareholders (RNS statement, 29/11/04). Target's statements continually focused on the terms of the deal, emphasising its undervaluation of the Target and:

> "…deprived shareholders of a substantial element of the upside we are confident we can deliver."
>
> (RNS statement, 29/11/04)

An appreciation in the price of MEL's shares increased the implied value of the offer to 172.5p per share, 39% higher than the original bid. Despite this, the Target's management continued to reject the offer.

On 13/12/04, Target announced that it had reached an agreement with a Rival company, a US diversified technology and manufacturing group, to acquire Target. They were making a cash bid of 191.6p per share. The board of Target considered the bid by the rival to be very attractive, much more attractive than the MEL offer. The Target management firmly recommended the rival offer.

On 20/12/04, MEL, having received acceptances from less than 5% of Target's shares stated that their "…conditions had not been met and it would allow its offer to lapse." The Rival's bid progressed and in early 2005 was completed.

MEL's directors underplayed the impact of the abandonment. The abandoned bid was one of many options and one revealed:

> "…the failure of one such bid therefore had no impact on the company or lasting effects…"
>
> (Interview with Director)

Indeed, several large acquisitions were pursued in the months after abandonment, financed by a combination of a share issue and increased borrowing. Some of these companies were subsequently disposed. This was consistent with the company's strategy, improving performance in underperforming target companies.

3.22 Causal Network Narrative

MEL endured changes after abandonment which was consistent with a disciplinary process. It increased its gearing by 112 percentage points which suggests a disciplinary response to abandonment, bonding managers to exert greater effort. However, at the same time this increase in gearing coincided with two significant acquisitions, equivalent to ten times the existing net assets of the company. This was the reason for the additional borrowing. Since MEL is labelled a 'turnaround finance' company, some of these assets where then sold for a higher value. This was equivalent to 18 times net assets at the time of the abandoned bid.

Taken together, this configuration of changes in MEL after abandonment does not illustrate evidence of a disciplinary process after abandonment. This suggests the abandoned bidding process did not play a governance role. Instead, the configuration of firm characteristics, transaction characteristics and contingent factors in the bidding process, indicates a different causal mechanism of abandonment. Appendix 2e demonstrates the coding of primary and secondary data for MEL, using the templates derived from the conceptual framework. This was used to produce the causal network diagram, reflecting the underlying mechanism present in this case. This causal network diagram is illustrated in figure 6.5. The causal network narrative which explains the mechanisms underpinning the diagram is presented in the following sections. The numbers in brackets relate each part of the causal network narrative to the corresponding characteristic or factors illustrated in the causal network diagram.

3.23 Bidder Characteristics

MEL was a newly listed company, Hence, it was a young 'cash shell', not trading fully, scanning the market looking for opportunities to acquire poorly performing companies, raise performance and gain from the value improvement (3). This demonstrates the features of a 'disciplinary' acquisition, with MEL the agent of change in the Target (Manne, 1965).

While the company exhibited weak board independence, its relatively concentrated share ownership structure ensured strong monitoring and incentives - the directors owned significant blocks of shares. This suggests the appropriate incentives for the managers to pursue value-enhancing acquisitions (1).

A direct causal path can be traced directly from the experience and stated skills of MEL's management team (2), to its strategy of acquiring underperforming companies to improve their performance, to not only the abandoned bid, but also the substantial acquisition activity after the abandonment. The company's buying and selling of companies after the abandoned acquisition is consistent with the stated strategy beforehand.

A causal path can be traced from the stated strategy of the company to the characteristics of the abandoned bid – the opportunistic acquisition of a poorly performing company. This is a more localised causal process, traced as a branch stemming from the main causal path.

3.24 Transaction Characteristics

The bid was consistent with the company's strategy and the characteristics of the transaction can be traced to that. The bid was an opportunity to acquire underperforming assets cheaply and this led to certain characteristics of the bid; the opportunistic offer price and the use of a high proportion of equity as financing. Part of this governance role is consistent with opportunism whereby the target is acquired for a relatively cheap price, performance is improved and the acquirer gains from selling the company for a higher price. Hence, the strategy of the bidder and the resulting transaction characteristics suggest this acquisition process, rather than playing a governance role for the bidding firm, did so for the target firm (O'Sullivan and Wong, 2005).

The choice of equity as the means of payment is related to this opportunism. MEL planned to use its own shares to pay approximately 60% of the cost of the acquisition. This meant it did not have to commit a substantial amount of its own capital to the transaction, but reap rewards from better performance anticipated in the future.

The opportunistic nature of the bid (4) and the choice of equity (5) exhibited compound causation on the acquisition process through their influence on the reaction of target management. This reaction, and its impact on the acquisition process, is discussed further in the next section.

3.25 Contingent Factors in the Bidding Process

There were several critical interrelated events in the bidding process which could be traced back to the opportunistic nature of the bid and the high equity component in financing. The target management's resistance focused on the value of the bid, particularly the equity component. Given the stated rationale for the bid – performance improvement by replacing poorly performing managers - this could be interpreted as target managers being motivated by 'managerial entrenchment'. However, the target's management stated they would consider offers. This suggests target managers realised that the company would be sold, so wanted to get the maximum value for shareholders.

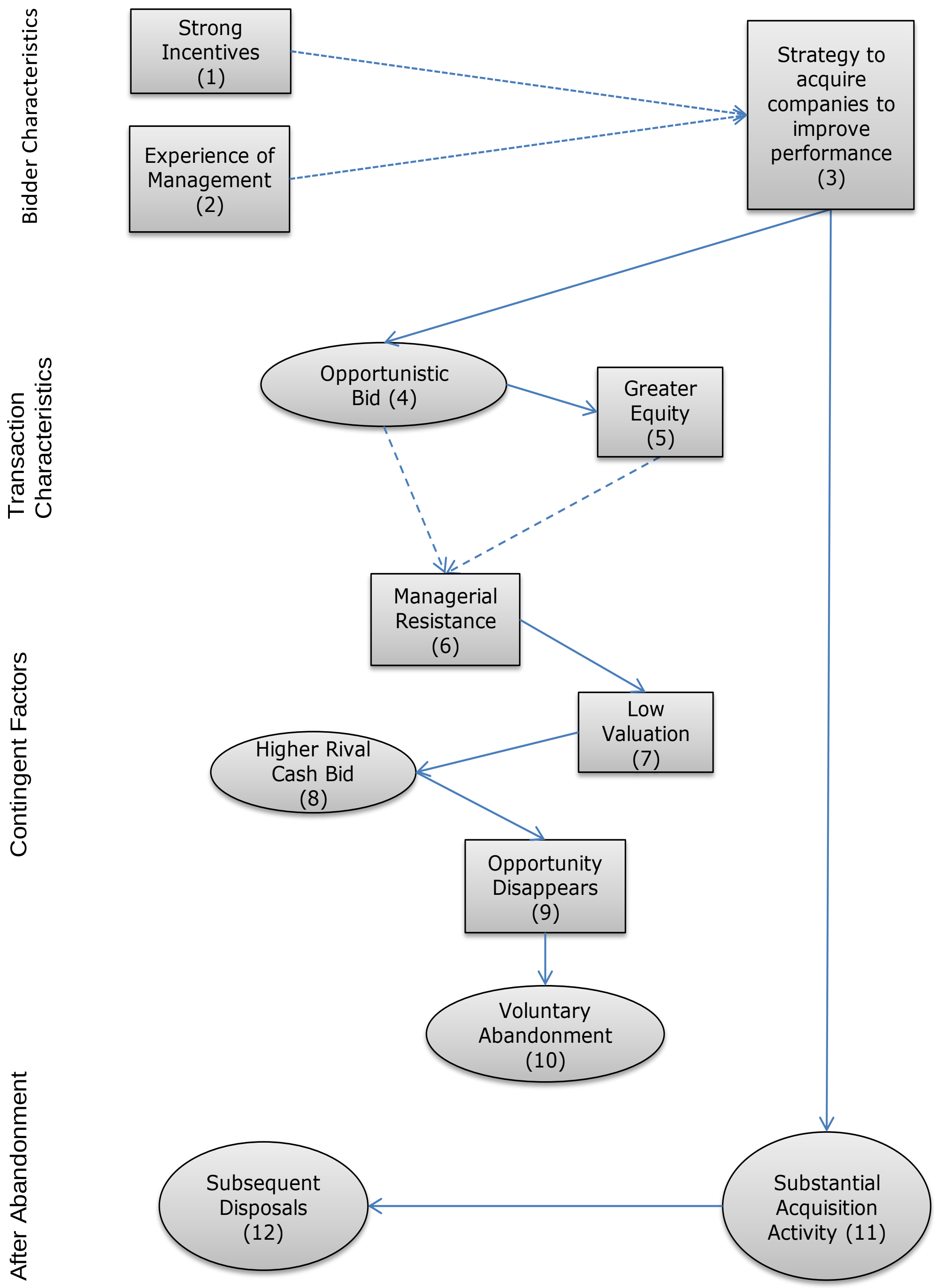
However, they believed that MEL's offer undervalued the Target. They were particularly critical of the equity component – suggesting the bid merely represented a dilution of the Target's shareholders' position by sharing any performance improvement with MEL's shareholders. The opportunistic nature of the bid and the equity financing displayed a relational causal process, producing target management resistance (6). In themselves, they were necessary, but not sufficient to provoke managerial resistance. However, together they were sufficient to elicit resistance, because of the perceived low value of MEL's bid (7).

An alternative higher rival cash bid (8) emerged, which was recommended by the Target management. This was a more attractive option because it gave the shareholders the certainty of cash and avoided the dilution of ownership inherent in MEL's offer (Chang et al., 2009). Managerial resistance led to the higher cash bid, which combined to frustrate MEL's bid. The higher rival bid compounded the valuation concerns about the offer. This path of causation is derived from the opportunistic nature of the bid. Having only received 4.1% acceptances from the Target's shareholders, MEL allowed its bid to lapse. The conditions which created the opportunity to acquire the target profitably had disappeared (9). This suggests a 'rational' decision that if changing conditions, produced in this case by the higher rival cash bid, meant the acquisition was no longer profitable, it was better to abandon it (10). This would avoid getting drawn into a bidding contest, potentially suffering the 'winner's curse'.

3.26 After Abandonment

This pathology is localised and related to the immediate bidding process. There is no verification that the effects of this pathology are significant in the aftermath of the bid. Events after abandonment were related to the long term strategy of the firm. Companies were acquired shortly after abandonment (11), using equity and debt financing. The companies were restructured by the management of MEL to realise value. Some of the companies were sold in 2008 for a substantial return (12).

Figure 6.5: Proposed Causal Network for MEL



3.3 The Case of REG

3.31 Case History

On 8/6/05 the Target, a late night bar operator, announced it had received an unsolicited offer from REG, a rival late night bar operator. Both firms were relatively young, operating bar chains specialising in late night drinking. Both were struggling. REG, the bidder, was making low profits and had been trying to reduce costs in the period between 2001 and 2004. It had disposed of assets equivalent to 14.9% of total assets in that time. REG's director recalled:

> ""The previous year, the bidder had got itself into a lot of trouble. Performance issues, issues of governance and that sort of stuff. The previous management team had been removed, and myself and the chairman came in, having just sold a business, to try and restore its fortunes…"

These governance problems are demonstrated by the firm's relatively weak governance characteristics. There was a low percentage of NED's on the board, dispersed shareholding and weak incentives for senior managers.

The strategy adopted by the new management was strongly influenced by the firm's problems. These problems were derived from the situation in the late night drinking sector. The director commented [it was]:

> "…obvious that [REG] and a number of other players in the sector were sub-scale. The overheads were too big for the type of business, not getting the benefits of purchasing power…we were finding organic growth more and more difficult to get, therefore, consolidation became an obvious picture."

REG was faced with low organic growth potential. The management perceived substantial excess capacity in the industry and the best way to remove it was through an acquisition. Therefore, consolidation was the key issue underpinning REG's bid for the Target. The synergistic benefits would be derived from economies of scale. The director made several comments, evidencing this:

> "There were quite a number of small players around, not many of whom were publicly quoted."

> "We did the same things. We bought the same things, so purchasing power; we could reduce the purchasing overhead."

> "…a hell of an amount of research went into identifying that there were synergistic benefits to be had.'

In late 2004, REG approached the Target informally on a number of occasions proposing a merger. The Target rebuffed the advances of REG. Early in 2005, REG tried again. The director continued:

> "I don't recall exactly what the share prices were, but if you track the target's share price … you'll see it had come-off quite a lot. So there was an opportunity for us (REG) to offer a significant premium to their shareholders in order to make them happy."

Indeed, the Target's share price had fallen from 760p at the start of 2005 to 573p by the beginning of May - a decrease of 23.3%.

Consequently, REG made another approach to the Target. This bid was also rejected. However, information about the approach was leaked to the market, causing the Target's share price to appreciate by 10%. Due to the unusual share price movements, the Takeover Panel forced the Target to make a statement, regarding the unsolicited bid by REG. This was made on 8/6/05. It also revealed that earlier bids had been received from REG. In the statement, it outlined the reasons for the rejection. The indicative offer "undervalued" the Target. It was "share-based", and there was "…little strategic fit between the two very different businesses". (RNS Statement, 8/6/05). On the same day, REG released a statement, making public the indicative terms of its bid. It was an equity offer, with a partial cash alternative of 30%. The bid valued the Target at 820p per share – a 29% premium on the closing price on 7/6/05. The director of REG said the high equity component was chosen to:

> "…minimise the amount of cash going out of the business".

The Target's share price rose 65p to 700p after the revelation of REG's bid. Conversely, REG's share price fell 31p to 772p. Several weeks passed without any further movement. Then, the Takeover Panel issued a PUSU (Put up or shut up) ultimatum, giving REG a deadline of 25/7/05 to make a formal bid. If REG didn't make a formal bid by that date, it would be prevented from making a bid for six months. REG revealed its trading results for the year to 2/7/05, stating:

> "Trading…is ahead of original expectations."
>
> (RNS Statement, 2/7/05)

It also emphasised the restructuring which had taken place since the new management had taken over, and the expected improvements to come.

On 12/7/05, REG released a statement detailing what it considered to be a "final offer" for the Target. The new offer was 975p per share with an enhanced cash component equivalent to 45% of the financing. In the same statement, REG highlighted the poor trading results of the Target announced during the bidding process, suggesting "the final offer should be very attractive to [Target] shareholders in current circumstances" (RNS Statement, 12/7/05).

This higher offer was rejected by the Target board. Indeed, in a statement, it revealed that the Target had received three additional all-cash offers from private equity groups (RNS statement, 13/7/05). REG's director commented:

> "…it became obvious that there was a rival bid and it was not a trade player. It was a 'take-private' and that was quite obvious."

> "…we went to see the top 5 or 6 shareholders and we presented our case to them and they seemed reasonably comfortable with it, but nobody was prepared to give us irrevocable undertakings ... All the shareholders wanted was a maximum 'cash-out'."

Given the revelation of rival offers, REG criticised the Target's management:

> "Following its request to the Panel on Takeovers and Mergers for the imposition of a put-up or shut-up deadline, [REG] is surprised that [the Target] appears to be running a public auction process and inviting offers from third parties."
>
> (RNS statement, 13/7/05)

On 18/7/05, REG announced that it did not want to engage in a competitive process and withdrew its indicative offer. A quotation attributed to the chairman stated:

> "[REG] regrets the decision by the [Target's] board not to cooperate with [REG's] proposal, which I believe would have increased value for both groups of shareholders. However, we are not prepared to overpay."
>
> (Quote from Chief Executive in RNS statement, 18/7/05)

Further, REG called the abandonment a "lost opportunity" for the industry (RNS statement, 18.7.05).The director commented:

> "…it got to the point, well, we had raised our bid on three occasions and in the end we decided that this was getting too rich for us, we can't make this work."
>
> "It is a clear mathematical point where you clearly say there is a point where you cannot make it work."

The director reflected further on the bid abandonment:

> "From the point of view of abandonment, there can be positive impact. Okay, that didn't happen. Let's lick our wounds and get back to what we know best."

Evidence suggests the bidder continued to focus on the strategy of consolidation. The regulatory environment tightened with the introduction of the smoking ban in pubs during 2006. REG acquired a restaurant chain during 2006 in an attempt to diversify and place less reliance on pubs. The company itself received several bids after the abandonment. The director commented, [the]:

> "…industry still needs consolidation. Insulate the industry from recession and regulatory changes. Better overheads and purchasing power, if nothing else."

The director revealed the board were prepared to sell, but:

> "…we couldn't persuade the shareholders. Shareholders believed that if there was a bid at 123 [pence per share], they could get a little more."

Unfortunately, the bid was not raised and through 2007 and into 2008, unfavourable market conditions, and the failure to consolidate, forced REG to enter administration in 2008. REG's director also highlighted the plight of the other firms in the sector. One of the rival private equity bids succeeded in acquiring the Target at a price of 1070p per share. However, REG's director stated:

> "…we were really surprised by the ultimate 'take-out' price."
>
> "Of course, the one thing you can never, ever change is what you paid for it [the target]. You can do all sorts of other things, but you can't change what you paid for it."

The director suggested that the rival bidder had paid too high a price and stated that as a result it had gone through significant restructuring since 2005.

3.32 Causal Network Narrative

REG made an acquisition and received several unsuccessful bids after its abandoned bid. However, the ultimate outcome for the firm after abandonment was administration. The firm entered administration in 2008 and went through subsequent restructuring. Since administration is not anticipated as a disciplinary outcome, it shouldn't be expected that the causal configuration of characteristics and contingent factors will be consistent with the disciplinary configuration. While some of REG's characteristics are consistent with the proposed disciplinary network, other aspects do not. Overall, the network suggests the causal mechanism for REG does not match the network proposed by the typological disciplinary theory. A different causal network was revealed. Appendix 2f demonstrates the coding of primary and secondary data for REG, using the templates derived from the conceptual framework. This was used to produce the causal network diagram, reflecting the underlying mechanism present in this case. This causal network diagram is illustrated in figure 6.6. The causal network narrative which explains the mechanisms underpinning the diagram is presented in the following sections. The numbers in brackets relate each part of the causal network narrative to the corresponding characteristic or factors illustrated in the causal network diagram.

3.33 Bidder Characteristics

REG had been struggling, with low profitability and net asset disposals of 14.9% in the three years before the abandoned bid. REG's problems arose from the low organic growth available to the firm due to the lack of scale in the industry. The identification of these issues by REG's management suggests that these characteristics were the origin of the causal path leading to the bid for the Target. A nested causal chain can be drawn from low growth (1) to low profitability (2) to low free cash (3) and significant disposals in the pre-bid period (4). This culminates in a disciplinary process before the abandoned bid, in which the management team were replaced (5). This suggests a disciplinary process had already taken place before the abandoned bid, producing a change in management. However, even after the disciplinary replacement, REG still exhibited weak monitoring of managers and weak incentives for managers. Despite this, the strategy of the company was more influenced by the performance problems which led to the replacement of its managers and not managerial interests enabled by poor governance mechanisms. Therefore, these are not relevant characteristics for the causal network of abandonment and its aftermath, so are not included.

The new management was looking for opportunities to complete acquisitions to realise consolidation and the evidence suggests this outcome of the disciplinary process was the critical rationale for the proposed acquisition. Consequently, a further link in the nested causal chain can be added running from the disciplinary process to the consolidation strategy which REG was attempting to pursue (6).

Indeed, the analysis indicates a nested causal path can be traced directly from the bidder's characteristics, particularly REG's poor performance before abandonment and the perceived need for consolidation in the late night pub sector. The abandoned bid was intended to be part of this strategy. After abandonment, the sequence of events was consistent with a continuation of this strategy involving further attempts at consolidation, either by acquiring or being acquired. According to the bidding management, it didn't matter which. Unfortunately, the necessary consolidation was not achieved and the firm was forced into administration.

Furthermore, the evidence suggests a localised causal configuration relating to abandonment. This can be traced as a branch from REG's main strategy. The consolidation strategy led REG to identify a target with which the bidder could achieve the necessary consolidation. This led to certain transaction characteristics, some of which were important elements in the pathology of abandonment.

3.34 Transaction Characteristics

Deriving from the REG's stated strategy, 'synergy' and 'consolidation' were the key factors providing the rationale for the bid. Consequently, the Target operated in the same industry as REG, so there was a high degree of industrial relatedness between the two firms. Therefore, a strong nested causal path can be drawn between the strategy of the bidder and the identity of the Target as 'related'. REG's director argued both sets of shareholders would benefit from greater consolidation. However, the evidence suggests that the industrial relatedness of the Target was not important in the pathology of abandonment. As a result, it is not included as part of the causal network.

Another characteristic of the bid was the opportunism evident in choosing the specific target. It was available for acquisition, since it was one of the few public limited companies available in the sector. The greater liquidity of the Target's ownership made it easier to acquire than a private firm. In addition, the merger of two public companies would enable greater corporate governance economies to be realised. The Target's share price had declined, creating an opportunity to acquire the Target more cheaply.

In addition, there is some evidence to suggest that there is a causal link between the characteristics of the bidder and the means of payment. The offer was a mixed cash-equity offer. According to the director, the high equity element was chosen to,

> "…minimise the amount of cash going out of the business".

This suggests some liquidity issues in the company, which constrained REG in its choice of financing. These liquidity issues derived from the firm's poor performance, resulting in low free cash and the need to retain cash. The opportunistic nature of the bid (7), and the related decision regarding the use of equity (8), had important implications for the pathology of abandonment.

3.35 Contingent Factors in the Bidding Process

The evidence suggests that the opportunistic bid and the choice of equity were necessary, but not sufficient to cause abandonment. Several contingent factors during the bidding process were necessary to compound the impact of these transaction characteristics. In this case, managerial resistance was the key contingent factor in abandonment (9). Without a management recommendation, REG was not prepared to make a formal bid. Resistance was driven by a perception that the offer was too low (10). This could be interpreted as target managers being motivated by the maximisation of shareholder value.

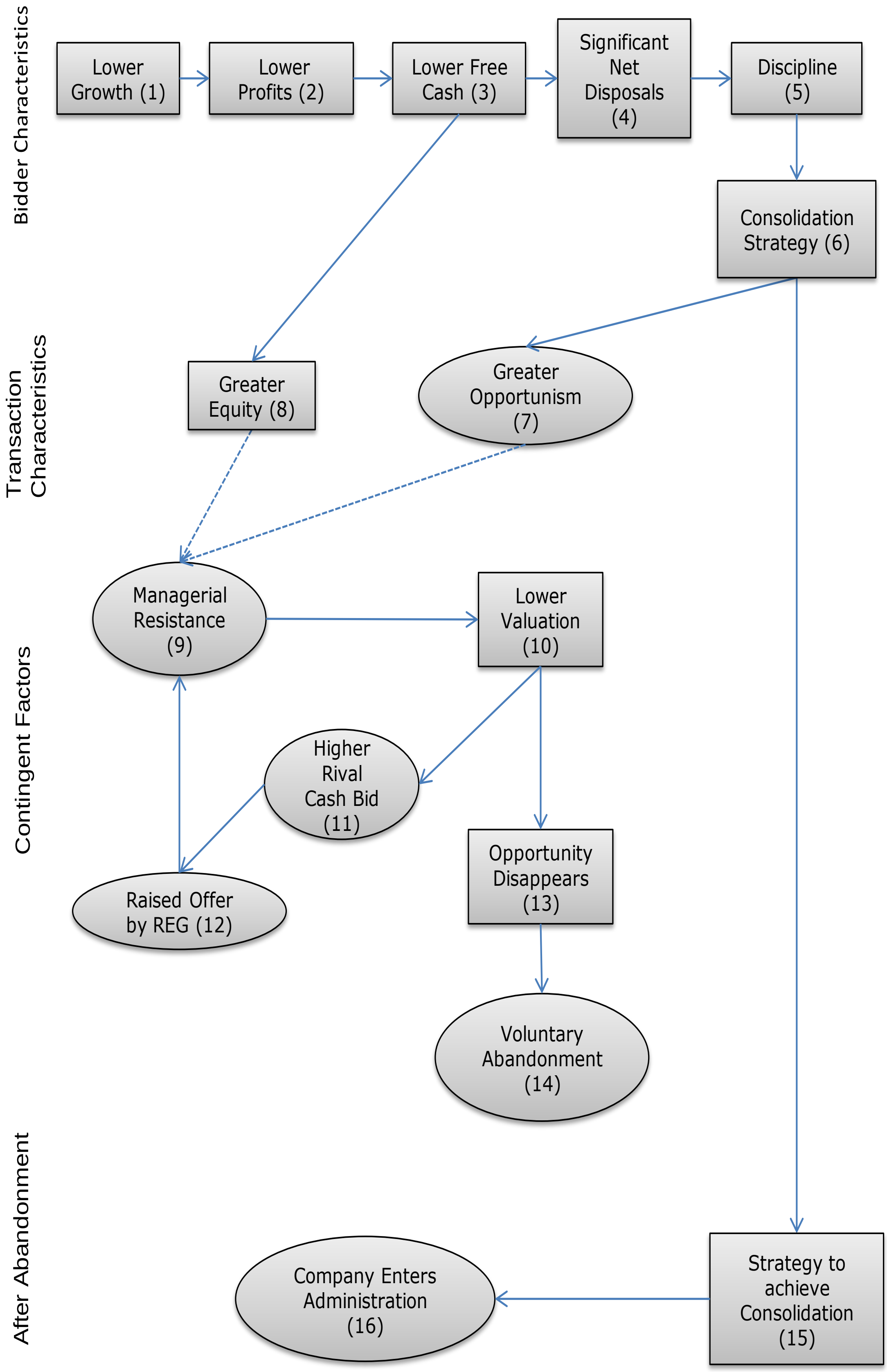
But, the managerial resistance was compounded by the presence of potential rival bidders, prepared to pay a higher premium, using cash (11). Despite REG raising its bid substantially (12), the Target continued to resist. This suggests the Target wanted to receive the highest possible amount of cash. As REG's director noted, this was the more attractive option because it gave the Target's shareholders an exit (Holl and Kyriazis, 1996). Thus, while there was no explicit relationship between REG's choice of equity and the rival bid, these factors compounded one another to emphasise the lower value of REG's bid.

REG voluntary withdrew its bid before committing to the process with a rule 2.5 announcement. It wanted to avoid being drawn into a 'bidding war' and paying too high a price (the 'winner's curse' in competitive bidding). This suggests a rational decision by REG's management consistent with shareholders' interests. Once the opportunity disappeared (13), REG abandoned the acquisition (14). REG's management considered that the price paid for the Target was too high and were relieved to walk away.

3.36 After Abandonment

However, this causal configuration for abandonment, relating to the value of the bid had little impact on the events after abandonment. The strategy of the bidder was not altered by the abandoned bidding process, supporting the view that it did not play a governance role. Events after abandonment were typified by further attempts to achieve the consolidation (15), which was a necessary condition for the abandoned bid. Unfavourable market conditions and the inability to achieve consolidation forced the company into administration (16).

Figure 6.6: Proposed Causal Network for REG



3.4 The Case of MIC

3.41 Case History

On 28/4/2005, it was announced that MIC was planning a cash/equity offer of 50p in cash and 0.3758 MIC shares for the Target. MIC'S bid was in response to an earlier cash bid of 71p by another firm, recommended by the target's board. The initial bid had been at a premium of 25.7% to the target's market value and the rival had already received 49.8% acceptances from target shareholders. MIC's bid was at a premium of 14.1% to the rival bid and the target board immediately switched their recommendation to MIC's higher offer.

MIC had been incorporated for 31 years at the time of the abandoned bid, but operated in a dynamic and growing business environment. It was a business-to-business firm offering software and consultancy to the financial services sector. With the rise of internet banking and increased use of IT in finance and accounting, MIC had developed several marketable products. It had started generating profits and had free cash of 4% at the time of the bid. There was an expressed desire to grow in the medium term, with a stated acquisition strategy. Consequently, as stated in the annual report, there was no distribution of profits.

> "Consistent with the Group's acquisition strategy, MIC does not at present pay a dividend."
>
> (Company Annual Report, 2005)

This acquisition strategy was evidence by net acquisitions equivalent to 9.8% of total assets in three years between 2002-2004. The annual report made reference to a "rapid acquisitions integration model", enabling MIC to integrate acquired assets quickly. This helped to drive the acquisition strategy forward. The firm was:

> "…looking to secure suitable acquisitions in the future if the opportunity arises".
>
> (Company Annual Report)

The annual report refers to an intention to:

> "…explore potential further opportunities that may enhance shareholder value".
>
> (Company Annual Report)

The company was open about its growth strategy through acquisitions and the abandoned bid must be considered in this context.

The firm had strong corporate governance characteristics. It had a majority of non-executive directors on its board. Despite its maturity, it had a relatively concentrated ownership structure, with the directors themselves holding 10% of share capital of the company. This suggests no conflict between managers and other shareholders.

The bid for the related Target was consistent with MIC's growth strategy, creating substantial potential synergies. In the bid announcement, it was stated the transaction would:

> "…provide [MIC] with a significantly increased presence in the financial services sector." "Provide an opportunity to market [MIC's] complementary software offerings to target's customer base."
>
> "…enlarged group will benefit from having an increased presence and expanded client base, with a broader range of software and service offerings".
>
> (RNS announcement, 28/4/05)

The timing and choice of the Target was opportunistic. Target was already the subject of a recommended bid by Rival offering 71p in cash. MIC's bid valued Target at 81p, a premium of 14.1% over Rival's bid. Consistent with their strategy of keeping cash to reinvest in the business, MIC offered a cash/equity combination in a ratio of 60:40 respectively. Target management immediately switched their recommendation to the higher offer from MIC. Rival immediately responded to MIC's bid with a statement encouraging the target shareholders to:

> "…take no action", commenting on the "significant paper element" [Equity] in MIC's bid and, "the absence of a full cash alternative."
>
> (RNS Announcement, 28/4/05)

However, the next day, MIC responded, stating it had 54.5% irrevocable undertakings from Target shareholders. [1] However, several days later, the Rival raised its cash offer to 85.5p. MIC responded, stating it was not prepared to raise its offer. It withdrew its bid, stating:

> "…it was not in shareholders' interests to raise its offer".
>
> (RNS Announcement, 13/5/05)

Rival's bid was declared unconditional several weeks later. Consequently, MIC received an inducement fee from Target.

After abandonment, MIC pursued significant alternative acquisitions in the same year as the abandoned bid. Three acquisitions, equivalent to 10% of total assets, were completed, suggesting MIC sought alternative opportunities to pursue its medium term growth strategy. After that, the annual reports suggest that MIC was integrating the acquisitions, focusing on organic development primarily, but looking for acquisition opportunities wherever these arose. However, no further acquisitions were made within three years of the abandoned bid.

[1] RNS announcement 29/4/05

3.42 Causal Network Narrative

The series of significant acquisitions after abandonment means that MIC was categorised as a 'least-likely' case. It is anticipated that the abandoned acquisition did not play a governance role. Hence, it was anticipated that its causal network would be very different from the typological disciplinary network. This is indeed the case. The causal network suggests a different causal mechanism in abandonment, driven by specific bidder characteristics, transaction characteristics and contingent factors in the bidding process, which did not have a lasting impact. Appendix 2g demonstrates the coding of primary and secondary data for MIC, using the templates derived from the conceptual framework. This was used to produce the causal network diagram, reflecting the underlying mechanism present in this case. This causal network diagram is illustrated in figure 6.7. The causal network narrative which explains the mechanisms underpinning the diagram is presented in the following sections. The numbers in brackets relate each part of the causal network narrative to the corresponding characteristic or factors illustrated in the causal network diagram.

3.43 Bidder Characteristics

The evidence suggests several bidder characteristics were important causal factors in the abandoned bid and its aftermath. A nested causal path runs from high profits (1) to high free cash (2). There was a dynamic corporate environment (3) generating high growth potential (4). Together, these causal paths exhibited compound causation, enabling a strategy of high organic and acquisition investment (5).

There is little evidence that the investment strategy was driven by managerial interests in conflict with shareholders. MIC's corporate governance characteristics suggested strong monitoring (6) and strong incentives (7). With such characteristics, it is less likely that managers will make value-destroying decisions. Hence, the abandoned bidding process has little impact on MIC subsequently. Indeed, the analysis suggests that the biggest influence on the bidder in the aftermath of abandonment was not the abandoned bid, or factors of events related to it, but the strategy of organic and acquisition investment (5).

A nested causal path can be traced from the bidder's free cash, growth objectives and the announced acquisitions and investment strategy to the substantial acquisitions (16), pursued in the same year as the abandoned bid. These were integrated over subsequent years.

3.44 Transaction Characteristics

A localised causal path can be traced as a branch of the main path stemming from MIC's high organic and acquisition investment strategy. The bid was consistent with MIC's strategy. The identity of Target involved a high degree of industrial relatedness, producing significant synergies. However, there is no evidence to suggest that the industrial relatedness of the Target played a significant role in abandonment. Hence, it is not included as a causal factor.

More important to the causal mechanism was the opportunistic nature of the bid (8). Using the signal of an existing bid (9), MIC spotted an opportunity to acquire the Target at a favourable price. This opportunism extended to the choice of financing. MIC used a mixture of cash / equity to finance the transaction (10). There was no all-cash alternative. The management of MIC did not want to see too much cash leave the company, evidenced by the reluctance to pay dividends. Some equity was included as a result. However, the offer price and the means of payment, while necessary, were not sufficient to cause abandonment. Additional factors were important in the causal mechanism of abandonment. These important contingent factors are discussed in the next section.

3.45 Contingent Factors in the Bidding Process

Initially, the Target board initially viewed the offer of MIC to be:

> "…fair and reasonable…" (RNS Announcement, 28/4/2005)

They switched their recommendation from the Rival's all-cash offer (11). Their decisions were based on achieving the highest possible value for their shareholders since they were prepared to switch their recommendation to a higher bid. The value of MIC's offer was only considered to be too low (13) once the Rival raised its cash offer above the implied value of MIC's bid (12). Hence, the raised offer is the critical contingent factor in the pathology of abandonment. Without it, with the amount of acceptances received, the bid of MIC would almost certainly have succeeded. Instead, MIC's management decided to withdraw their bid. As the bid was opportunistic, the company had a price in mind and did not want to pay too much for the Target.

Once, the existing bidder raised their offer, the conditions which gave rise to the opportunity no longer existed (14), so MIC was prepared to walk away (15) and sought other opportunities after abandonment (16). The decision to abandon can be related to the 'winner's curse'. MIC did not want to overpay. This could stem from strong monitoring and incentives within the firm. Pursuing the bid was no longer on shareholders' interests, so it was abandoned. This can be related to the statement in one of the company's annual reports in the pre-bid period where it acknowledged:

> "…there is no guarantee that suitable acquisitions will be identified or transactions completed".
>
> (Company Annual Report, 2004)

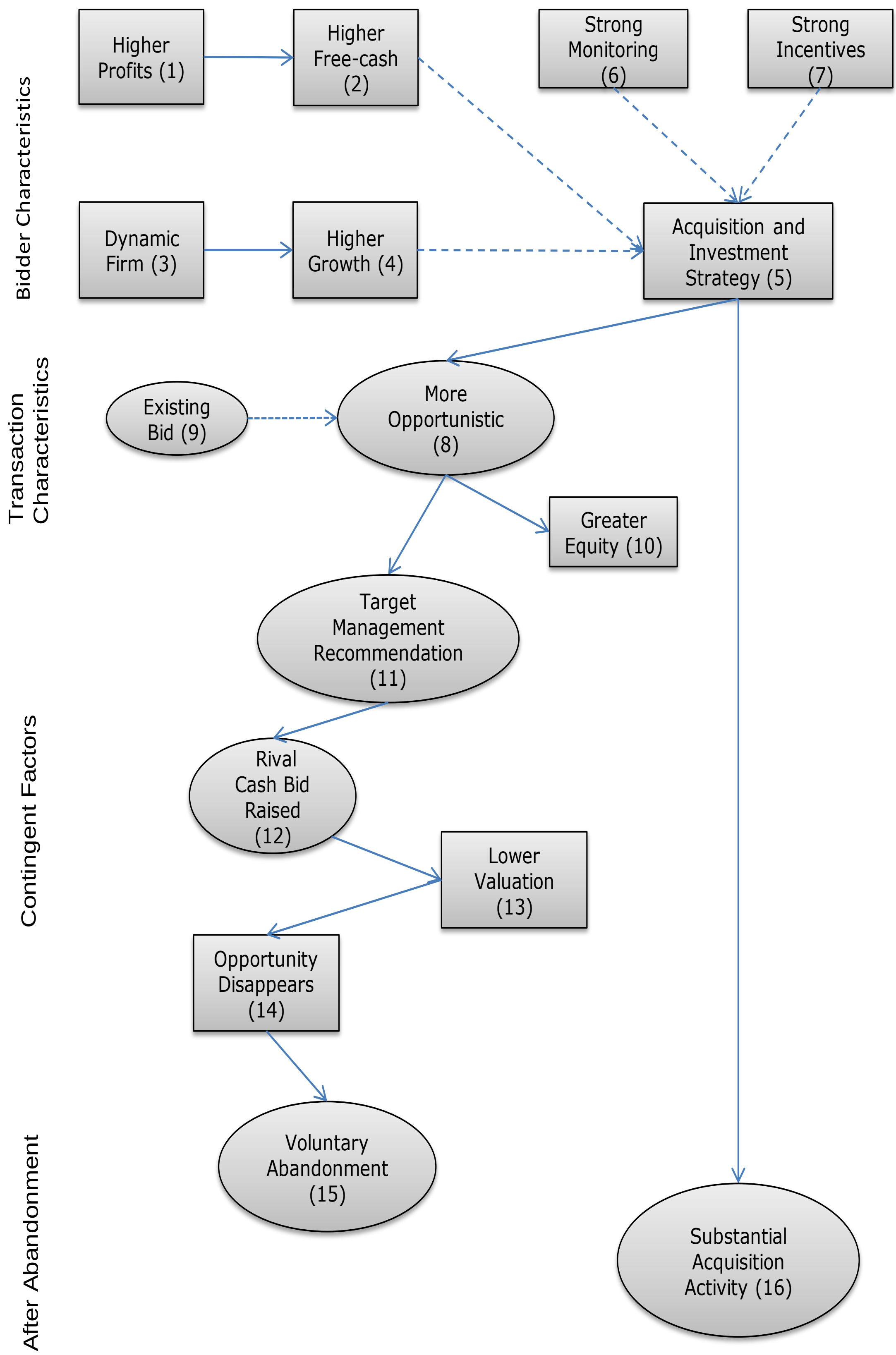
This abandonment was one of those transactions that MIC was not able to complete. This pathology of abandonment was localised and related to the immediate bidding process.

3.46 After Abandonment

There is no verification that the effects of this pathology are significant in the aftermath of the bid. In this case, events after abandonment were related to the long term strategy of promoting growth in the bidder rather than a disciplinary process stemming from the causal mechanisms producing abandonment.

It is only the presence of the higher cash offer and the value/financing which caused the target management to switch their recommendation. Then, this causal path interacts with the opportunistic nature of the transaction to remove the opportunity for MIC and cause abandonment.

Figure 6.7: Proposed Causal Network for MIC



3.5 The Case of PTH

3.51 Case History

On 16/10/2003, PTH made a hostile bid for the Target. The intention of the bid was to gain control of another company, GRO, in which the Target had a 29.34% stake. GRO had property assets which PTH wished to acquire.

PTH was a property investment company. It had been incorporated for 72 years, engaging in a variety of activities. However, since 1980, it had traded exclusively in property. The company had expanded slowly, purchasing properties and acquiring other property investment companies. The company achieved a full listing on the London Stock Exchange in 1994, but by 2003, it was still a relatively small company with a market capitalisation of £26.69mn.

Its corporate governance characteristics show it was a mature company with a board structure which comprised more than 50% of NEDs. The dispersed outside shareholding suggests weak monitoring, but the Chairman/Chief Executive held 25% of the share capital, indicating strong incentives for him to pursue acquisitions fulfilling shareholders' interests. Indeed, the presentation and tone of the annual report suggests firm control exercised by the chairman / chief executive. The strategy of the company was consistent with shareholder value. The annual report prior to the abandoned bid was explicit about the company's goals,

> "Utilising our experience in the real estate sector [the mission] is to make as much money (real profits) as possible, and grow the net assets of the Company with the capital we have available to us…"
>
> (Company Annual Report, 2003)

PTH was profitable, generating significant free cash. The company accounts show that this was committed to substantial capital and financial investment spending (a real value equivalent to 16.3% of total assets in 3 years prior to abandoned bid). These investments left little free cash (-7% of net assets at the time of the bid). There is no evidence of significant acquisition activity in the pre-bid period.

The bid for the Target was part of a contest for control of GRO. Having acquired Target, given its resultant holdings in GRO, PTH would have had effective control of the latter. The bid was financed using cash, valuing Target at 577p per share. At the same time as making the bid for Target, PTH put forward a resolution to replace the directors of GRO with their own directors at the AGM. This bid was rejected by the target board with the statement:

> "(The Bidder) is making an opportunistic attempt to secure control of the company without paying an appropriate premium."
>
> (RNS Announcement, 24/10/2003)

The resolution to replace the directors was defeated at the AGM. On the same day, PTH raised its cash offer for the Target by 27.5% to 735p per share. Target board immediately recommended the revised bid, paving the way for PTH to control GRO.

However, only ten days later, a rival joint venture emerged involving a private equity group and two directors of the Target. They offered 760p per share. Given the substantial stake of the two directors in Target, this rival bid was immediately declared unconditional. PTH immediately withdrew its offer. PTH sold its stake in Target for a profit of £450,000. On completion of the deal, the joint venture was obliged under the takeover code to make a bid for GRO. This they did successfully in 2004.

After abandonment, PTH continued to trade its property portfolio to generate returns. This involved buying and selling properties – in the year after the abandoned bid, the firm sold its headquarters in central London for £8.8mn. However, while bids were made for other small property companies, none were completed. In addition, there were no significant management changes in the aftermath of abandonment. The only significant financial restructuring was a substantial reduction in gearing equivalent to 69.2% percentage points in the gearing percentage.

3.52 Causal Network Narrative

The disciplinary sequence after abandonment involving the significant decrease in gearing after abandonment meant PTH was categorised as a 'least-likely' case, whereby the abandoned acquisition did not play a governance role. Hence, it was anticipated that its causal network would be very different from the typological disciplinary network. Therefore, the causal network suggests a different causal process, driven by specific bidder characteristics, transaction characteristics and contingent factors in the bidding process, which did not have a lasting impact. Appendix 2h demonstrates the coding of primary and secondary data for PTH, using the templates derived from the conceptual framework. This was used to produce the causal network diagram, reflecting the underlying mechanism present in this case. This causal network diagram is illustrated in figure 6.8. The causal network narrative which explains the mechanisms underpinning the diagram is presented in the following sections. The numbers in brackets relate each part of the causal network narrative to the corresponding characteristic or factors illustrated in the causal network diagram.

3.53 Bidder Characteristics

Evidence suggests PTH was a mature (1), profitable company (2), generating substantial free cash (3). The free cash was used for substantial capital and financial investment spending, rather than acquisition spending. This derived from opportunities for substantial organic growth (4) and a desire to pursue it, to generate higher profits. This is evidenced by the direct mission stated in the Company's annual report. However, the strategy did not preclude acquisitions in the future. Hence, while the higher free cash and high growth were independent, they combined to determine the strategy to be pursued by PTH.

PTH's corporate governance characteristics demonstrate strong monitoring and strong incentives for managers. Despite achieving a listing on the London Stock Exchange in 1994, the directors, and particularly the Chairman / chief executive, retained a significant ownership and control stake in the firm. Therefore, there was no separation of ownership and control and the bid would have been unlikely to damage shareholders' interests. This pattern is anticipated in such a least-likely case. The abandoned bid in this case was not likely to have had a governance role. Indeed, there is no evidence these corporate governance characteristics played any role in the abandoned bid's causal mechanism. Other characteristics and events were significant.

There is evidence of a nested causal path from the bidder's strategy to pursue any investments (5) which produce a high level of profits. This was done primarily using capital and financial spending, but also acquisitions where appropriate. In addition, a nested causal path can be traced from its strategy to the activities of the company after abandonment involving its continued investment and, unsuccessful, acquisition strategy.

3.54 Transaction Characteristics

A localised causal chain can be traced from the strategy of the company before the abandoned bid to the target of the bid. The Target was a major shareholder of GRO, another property investment company. PTH was pursuing the property assets of GRO, consistent with their strategy of making property investments from which it could generate profits. The bid was opportunistic (6), used as leverage in the contest for control for GRO. If PTH's attempt to gain control of GRO directly by replacing directors failed, the acquisition of the Target would enable it do it indirectly. Another characteristic of the bid was related to PTH's strategy. The firm was a property investment company, so focused on that activity – investing in and managing property assets. There is no evidence of diversification. The contest for control, of which the abandoned acquisition was an instrument, involved highly related property companies. However, there is no evidence to suggest the extent of the industrial relatedness of the Target was a link in the causal chain to abandonment. Additionally, the decision to use cash was not related to the opportunistic nature of the transaction, or the strategy being pursued by PTH. With such a small bidder (market capitalisation of £26.69mn), with ownership and control of PTH concentrated in the hands of the management, particularly the chairman and chief executive, the use of equity would have diluted their position in the firm. Hence, they would prefer the use of cash instead (Chang, et al., 2009). This is particularly the case with real estate firms, which rely on debt financing to maintain managements' control.

3.55 Contingent Factors in the Bidding Process

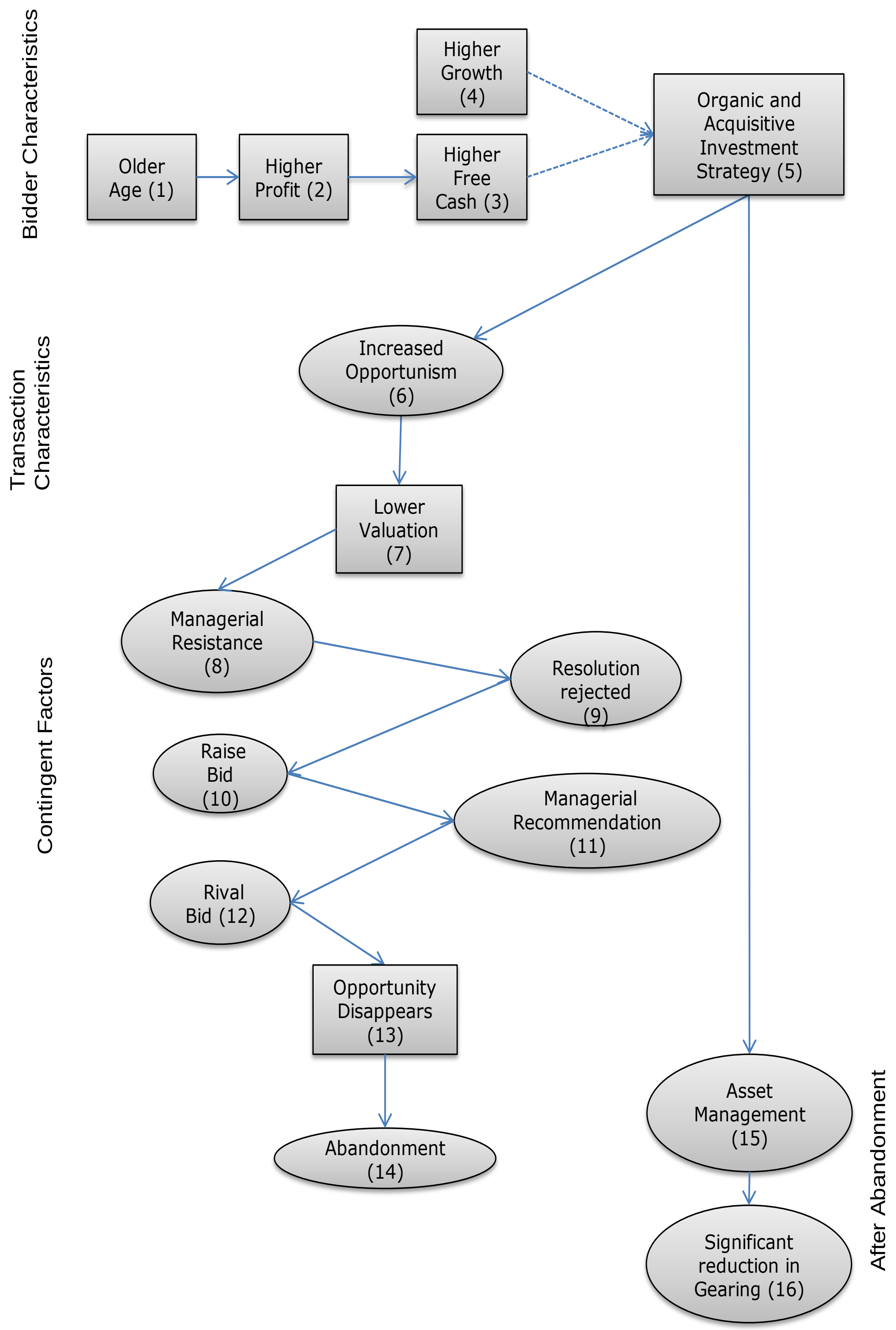
The opportunistic nature of the bid led to opposition from Target management (8), derived from the perceived low valuation placed by the offer on Target (7). There began a nested causal path leading to abandonment. After the resolution to oust the directors of GRO was rejected (9), PTH raised its offer (10). This price was recommended by the board of the Target (11) which suggests the higher premium and cash were now acceptable. This implies the earlier managerial resistance was motivated by shareholder value, rather than managerial intransigence. In addition, no valuation issues arose at this stage of the bidding process, suggesting the bid was a 'fair value'.

The critical contingent factor in this abandoned bidding process was the higher rival cash bid (12) which was immediately declared unconditional. It also suggests that the emergence of the rival bid was defensive. In order to maintain control of GRO, they were forced to seek a 'white knight' in the form of the private equity firm to aid their bid for Target through an MBO. Since the directors themselves were major shareholders, the bid was immediately declared unconditional, causing PTH's bid to lapse. The opportunity disappeared (13) and the bid was abandoned (14).

3.56 After Abandonment

After abandonment, PTH sold its stake in the Target for a substantial profit. However, the evidence suggests that the causal path ends there. Neither the transaction characteristics nor the contingent factors in the bidding process had any causal role in the further activities of the bidder after abandonment. PTH made a number of unsuccessful bids for individual property assets and companies, but continued to manage its portfolio of property assets to generate return (15). The only significant change in the bidder was the substantial reduction in gearing in the three years after this abandoned bid, an outcome not consistent with discipline (16). This evidence does not imply a governance process after abandonment, but a meandering strategy consistent with the goals of enhancing shareholder value.

Figure 6.8: Proposed Causal Network for PTH



4. Summary and Conclusion

This chapter has presented and discussed the findings of the Causal Process Tracing (CPT) for each case. Case histories have been presented. The findings of the analysis of each case has been described. From this, causal networks have been derived, illustrating the underlying causal mechanisms of each case. Causal network narratives describe these underlying causal mechanisms.

None of the most-likely cases revealed a causal network consistent with the proposed typological disciplinary network. This suggests the proposed network needs refining in the light of this, albeit limited, evidence. In two of the cases, WHI and FUT, there is evidence that the causal path of abandonment had an impact subsequently, leading to disciplinary changes in the firms. In these cases, evidence suggests the abandoned acquisitions had a disciplinary impact, shaping the subsequent strategic direction of the firms concerned. In these cases, the bidders' characteristics were compounded by the identity of particular targets to reveal information, particularly uncertainty, surrounding the bidders' strategies. Consequently, strategic changes were made.

In the six remaining cases, the events after abandonment can be separated from the causal mechanisms of abandonment. In these cases, the abandoned bid arose from the long-term strategies of the bidders – consolidation, growth-seeking, asset-seeking. However, the pathology of abandonment was localised. Abandonment revolves around the price offered by the bidding firms – in all of these cases, the firms don't offer a high enough price. The circumstances which produce this differ from case to case. In some cases, the low offer price is compounded by a high equity component, creating uncertainty around a bid. This led to managerial resistance in some cases. In all of the cases, the bidders lost out to a higher rival cash bid, which they were unwilling to match. In these cases, it is evident that the process of abandonment had no lasting impact. The firms moved on and pursued different strategies to achieve their goals.

The next stage of the research involves cross-case analysis in order to develop some meta-causal networks involving abandoned acquisitions. This will help to answer the research questions proposed in chapter 3. These are particular meta-causal mechanisms – pathologies of abandoned acquisitions - which apply to particular groups of cases, yet allow for specific processes and interactions to differ from case to case. Consequently, the research can contribute to knowledge by identifying the conditions under which specified outcomes, disciplinary or otherwise, occur and the causal mechanisms through which they occur.

Chapter Seven: Cross-Case Analysis - Proposed Pathologies of Abandoned Acquisitions

1. Introduction

A novel aspect of this research involves the development of a conceptual framework which characterises the underlying mechanisms of abandoned acquisitions as the interaction of antecedent characteristics, interceding factors producing different outcomes afterwards. Within the context of this framework a typological 'disciplinary' causal network is proposed whereby abandoned acquisitions play a governance role. Analysis of the fieldwork interviews and secondary documentation involved the novel application of casual processing methods to answer the questions, which the research attempts to address. This facilitates the testing of configurations of variables proposed in the typological disciplinary causal network, and revising and refining them in the light of empirical observations. In contrast, where the outcomes were not consistent with discipline, and hence, the causal mechanisms may not be disciplinary, the research can contribute to knowledge by proposing alternative causal mechanisms revealed in cases where abandoned acquisitions may not play a governance role.

Chapter five discusses the case-selection process separating the cases into 'most-likely' and 'least-likely' cases. This is consistent with selecting on the dependent variable (Miles and Huberman, 1994). Chapter six discusses the findings of the 'Within-case' analysis. This chapter discusses the findings of the 'Cross-case' analysis, which builds on the within case analysis. The cross-case analysis compares the causal configurations of cases together, using prediction-outcome displays and cross-case networking (George and Bennett, 2005). Distinctions and similarities across the cases were identified. The causal configurations for these outcomes were compared across the cases to identify common or distinctive characteristics and factors so that cases can be clustered together, fragments of the causal networks derived and 'meta- causal configurations' proposed. From this, the research makes a contribution to knowledge by developing preliminary meta-causal networks; contingent generalisations which summarise the underlying mechanisms identified in different types of abandoned acquisitions. These meta-causal networks – pathologies – demonstrate the conditions under which specified outcomes occur and the causal mechanisms, pathologies, through which they occur.

Some of the companies demonstrated sequences of changes after abandonment consistent with a disciplinary governance process. While some cases demonstrated aspects of the proposed typological configuration, none revealed a matching causal network. This suggests the actual progress of bidders post-abandonment is less predictable than existing dominant theory suggest. More attention is required to be given to the factors at play in actual failed bids and how they interact in the causal mechanisms of abandonment. It is hoped that this research can assist in highlighting some of these key characteristics and factors, and their interactions. It is accepted that, given the limited scale of the research, these findings will be tentative, proposals to be taken forward in further research. Through analysing these key factors, this research proposes two distinct types of causal networks in abandoned acquisitions, experienced by the cases investigated. One type of network is proposed which characterises a causal mechanism where abandoned acquisitions played a governance role and have a significant impact subsequently - termed 'strategic uncertainty'. A second type of causal network is proposed where cases revealed a very different pathology. These cases of abandoned acquisitions had no governance role – termed 'valuation uncertainty'. This aspect of the research answers the second set of research questions, making a contribution to our knowledge of the underlying mechanisms of abandoned acquisitions. The questions are:

> What is the nature of the underlying mechanisms in abandoned acquisitions which produced post-abandonment discipline of bidders' managers?
>
> What is the nature of the underlying mechanisms in abandoned acquisitions which did not produce post-abandonment discipline of bidders' managers?
>
> To what extent are the mechanisms different?

The chapter proceeds as follows. Each fragment of the causal networks will be discussed separately. Section 2 will discuss the antecedent bidder characteristics. Section 3 will discuss transaction characteristics and Section 4 will discuss contingent factors in the bidding process. Section 5 will present the proposed meta-causal configurations based on the within-case and cross-case analysis. Section 6 is the conclusion.

2. Antecedent Bidder Characteristics

The typological disciplinary network proposes compound causation between two nested causal paths in relation to antecedent characteristics (see chapter three for a description of this typological network). Firstly, older, more mature assets produce low organic growth opportunities for a firm. Secondly, higher profits generate higher free cash. Under the proposed network, these compounded casual paths create the necessary conditions for acquisitions driven by managerial preferences, and hence, the need for discipline. However, these are not sufficient conditions for acquisitions driven by managerial preferences. These factors need to be reinforced by the scope provided by weak corporate governance characteristics relating to monitoring and managerial incentives. Under the proposed network, these causal characteristics act in tandem to produce the scope and opportunity for acquisitions driven by managerial preferences. Consequently, abandoned acquisition play a governance role, where the proposed value-destroying' bid is stopped, producing post-abandonment discipline. Therefore, it is anticipated that most-likely cases should exhibit such antecedent characteristics.

However, the analysis shows that there are no distinctive differences between the pattern of characteristics for most-likely disciplinary cases and least-likely non-disciplinary cases. Two of the three most-likely disciplinary cases (WHI and FUT) demonstrated a nested causal path running from high profits to high free cash, consistent with the typological disciplinary framework. In WHI's case, this path was compounded by the low growth prospects of its mature assets in pubs and brewing. In both cases, the causal paths led to stated growth strategies. Indeed, there is evidence from both cases which suggests the senior managers felt they had to do something with the free cash. A quotation from the director of FUT highlights the matter:

> "There was a glorious period … where the company was debt-free, with a rising amount of net cash. So, the question throughout those three years; what the devil are we going to do with it?"

The thinking suggests pressure from shareholders to invest the free cash to generate higher returns through growth. Indeed, when this point about free cash was put to a corporate lawyer in a contextual interview, they stated:

> "…shareholders won't tolerate a large amount of free cash."
>
> (Interview with corporate lawyer)

This is consistent with traditional finance theory. Either free-cash is paid out to shareholders as dividends or used for productive investment, anticipating positive net present values. So, high free cash will produce high internal investment and high external investment (acquisitions). The danger is that managers, in a drive to retain control of free cash, will pursue excessive acquisitions – producing negative net present values (Jensen, 1986).

There are similarities between this pattern of antecedent characteristics and that exhibited by some of the least-likely cases. Several of these firms (TRG, MIC and PTH) reveal a nested causal path from high profits through high free cash to a strategy of acquisition investment for growth similar to that exhibited by WHI and FUT. MIC stated clearly in its annual report before their abandoned bid,

> "…there will be no payment of dividends. Profits will be reinvested to finance acquisitions."
>
> (Company Annual Report)

One of the other least-likely firms, TRG, shows the same pattern of bidder characteristics as WHI, particularly the lack of internal growth opportunities and the need to pursue acquisitions to drive higher growth. Press reports prior to TRG's abandoned bid intimated that the firm was considered "stale" (press report), lacking internal investment opportunities. Similarly, analyst's reports emphasised that WHI's traditional brewing and pub assets offered low growth potential. Apart from these two companies, poor growth prospects are not significant characteristics of the remaining firms, across both groups of cases. The remaining firms which exhibited a nested causal path from high profits to high free cash, revealed high internal growth prospects. In all of these cases, the abandoned acquisitions could be interpreted as attempts to pursue investment to use free cash to generate higher growth. Hence, while free cash may be a necessary condition, it is not sufficient, on its own, to trigger an acquisition pursuing managerial preferences. It needs to be configured with other distinctive characteristics to produce a disciplinary process.

In contrast, the remaining most-likely case, CAT, which was subsequently acquired, exhibited very different characteristics from those proposed by the typological disciplinary network. It was young, unprofitable, and suffering liquidity problems. However, this pattern is not unique. CAT shared these characteristics with REG, which entered administration within three years of abandonment. However, the firms did not share other characteristics. CAT operated in a dynamic business environment, with high organic growth prospects. Meanwhile, REG demonstrated other characteristics consistent with the typological disciplinary network. It was operating in a mature sector, with few growth opportunities from its existing assets. This led to a strategy of consolidation:

> "We were finding organic growth more and more difficult to get, therefore, consolidation became an obvious picture."
>
> (Interview with REG's Director)

Indeed, some of these characteristics are similar to WHI and TRG, suggesting REG may have had similar problems at the time of its abandoned bid – particularly a low growth potential. Meanwhile, CAT was in a young industry, exhibiting growth potential. However, the firm was experiencing funding constraints, a repeated concern expressed in a number of annual reports both, before, and after the abandoned bid:

> [CAT] "…will continue to consider these sources (revenue streams and equity finance), though there can be no assurance that the company can generate significant revenue nor that equity finance will be available on acceptable terms or at all."
>
> (Company annual report)

This influenced its policy of "strategic interaction" before the abandoned bid, where finance considerations were a crucial factor in CAT's decisions. The director commented:

> [The model] "…required a lot of scale and therefore quite a lot of money to get things, if not all the way to the market, to a point where you could retain significant value before bringing in a partner."

The findings indicate that no distinctive pattern emerges for these characteristics for the different families of cases. This suggests these characteristics, while necessary, are not sufficient contingent characteristics, differentiating cases where abandoned acquisitions played a governance role to ones where abandoned acquisitions did not play a governance role.

In addition to the scope that free cash provides, the typological disciplinary framework proposes that weak corporate governance characteristics provides bidders' managers with the discretion to pursue acquisitions driven by managerial and not shareholders' interests. It is proposed in the typological disciplinary network that weak monitoring and weak incentives act in a compound causal relationship with free cash to produce such bids. As a result, it would be anticipated that different patterns of corporate governance characteristics for bidders which experience post-abandonment discipline from those which don't.

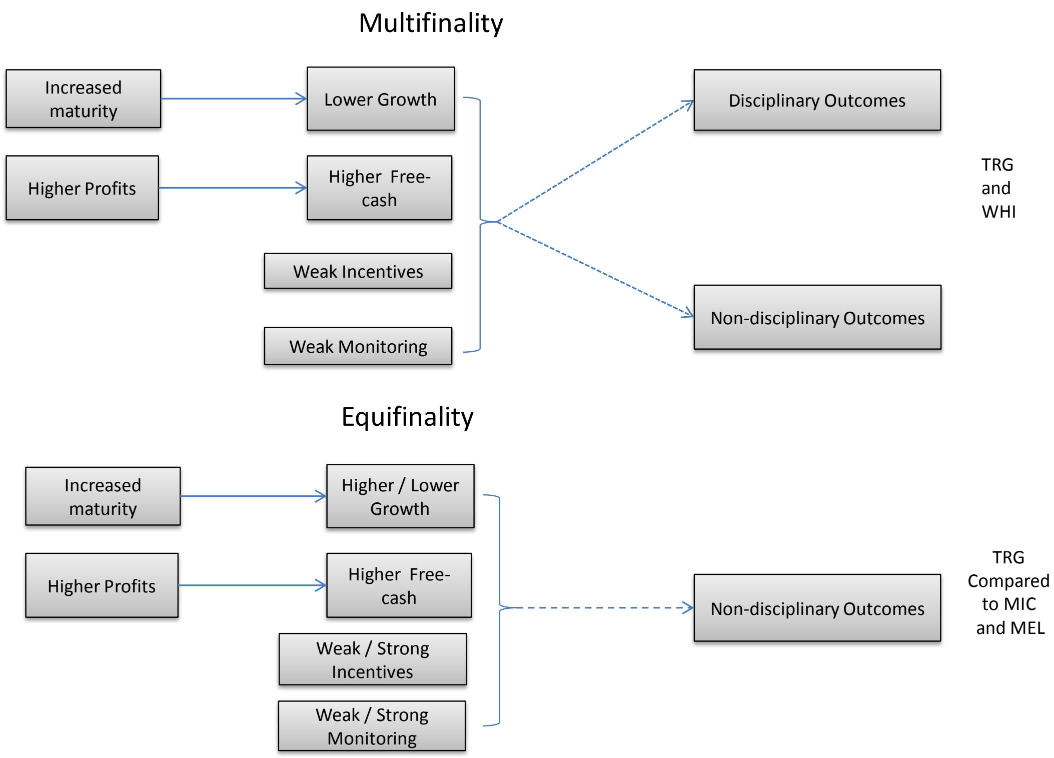
The findings of the analysis suggest a pattern, but again, there is no clear separation between the characteristics of the most-likely and least-likely cases. All of the most-likely disciplinary cases exhibited weak incentives for managers, through insignificant share ownership. However, only WHI demonstrated weak board and shareholder monitoring. However, TRG, a least-likely case exhibited similar weak monitoring and weak incentives creating the discretion necessary for bids driven by managerial interests. Hence, the corporate governance characteristics of both of these cases were consistent with the anticipated antecedent bidder characteristics for the typological disciplinary network. All of the remaining least-likely cases exhibited the strong corporate governance characteristics - strong monitoring and strong incentives for executive directors - anticipated in cases without disciplinary outcomes. This is consistent with Cornett et al. (2004) who found that managerial shareholding is associated with higher bidder returns, anticipating positive gains. Here, in a different way, this research supports these findings, Significant managerial shareholding is unlikely to have disciplinary consequences afterwards.

Therefore, in this fragment of the causal network, the cases most consistent with the typological disciplinary network are WHI and TRG, firms with very different outcomes. FUT shared many similar characteristics with WHI and TRG. However, it demonstrated strong monitoring provided by an independent board and a concentrated ownership structure. CAT's very different set of antecedent characteristics suggests that the characteristics proposed in the typological network may not be the only ones which are necessary to produce a disciplinary process through an abandoned acquisition. One interpretation is that the disciplinary network may have a variety of possible configurations of bidder characteristics as antecedent characteristics. Another interpretation is that CAT's acquisition after abandonment was not disciplinary, and so, the abandoned acquisition was not part of a disciplinary process.

These fragments of the firms' causal networks are illustrated in figure 7.1. The figure illustrates evidence of multi-finality in the causal networks of abandoned bids. This is demonstrated in cases WHI and TRG. Firms with very similar antecedent characteristics experienced very different outcomes after abandonment. This suggests anticipated bidder characteristics – high profits, high free cash, low growth and weak governance - while necessary, are not sufficient to indicate a governance role for abandoned acquisitions, producing disciplinary outcomes subsequently. They need to be configured with appropriate patterns of transaction characteristics and contingent factors in the bidding process to create a disciplinary causal mechanism in abandoned acquisitions. This suggests the critical juncture distinguishing disciplinary and non-disciplinary causal mechanisms lie in these characteristics and factors and not antecedent bidder characteristics. These fragments of the causal networks are discussed in sections 3 and 4.

In addition, the figure shows there is evidence of equi-finality in this fragment of the causal mechanisms of abandoned acquisitions. For example, TRG shared similar non-disciplinary outcomes with MIC and MEL - engaging in substantial acquisitions after abandonment. However, its antecedent characteristics in relation to corporate governance characteristics and anticipated growth potential are very different.

Figure 7.1 Fragment of Causal Networks (Bidder Characteristics)



3. Transaction Characteristics

The typological disciplinary causal network proposes that acquisitions driven by managerial preferences may be evidenced by excessive diversification (unrelated targets), offering higher premiums and financed with cash (retaining free cash). However, none of the most-likely cases exhibited these characteristics. Instead, the most-likely cases demonstrated patterns for these characteristics which were not only different from the proposed disciplinary network, but the same as the pattern for the majority of the least-likely cases. In general, all of the cases showed consistency in these transaction characteristics. Therefore, these were not critical characteristics, distinguishing disciplinary causal mechanisms from non-disciplinary causal mechanisms across these cases of abandoned acquisitions.

Firstly, in all of the cases, the bidding firms were attempting to acquire related targets – indeed targets in the same industry sector - emphasising the synergistic benefits to be derived from the acquisitions in their bid documents. In fact, it seemed standard to make such claims in the bid documents. The director of CAT mentioned this in an understated manner:

> "…standard one about synergy, avoiding duplication, [pauses], PLCs have a lot of corporate governance baggage which costs money and the merger removes those costs."

In all of the cases, most-likely and least-likely, the related target could be traced to the rationale for the bid and the bidder's strategy. If a bid was part of a growth strategy, the identity of the target was consistent with that (cases TRG, MIC, MEL, PTH and FUT). If a bidder's strategy was to achieve cost savings through consolidation, then the bid was consistent with this (Cases REG and WHI). In CAT's case, there were several objectives – growth and synergies, particularly financial synergies. Again, there is no distinction between most-likely and least-likely cases.

Secondly, the literature suggests the means of payment, particularly the use of cash-financing, compounded with appropriate bidder characteristics, may convey information to investors about the motives of managers (Gregory, 2005). This may trigger a disciplinary process in the bidders. There is little evidence of this pattern in these cases. In fact, PTH, the one company which used solely cash as a means of payment endured no significant disciplinary changes after abandonment. The remaining bidding firms, whether most-likely or least-likely, used equity as the major element of financing. This lack of distinction suggests financing was not a critical factor in itself in revealing information about excessive free cash, and hence, trigger a disciplinary process. The evidence suggests different factors were important in the financing decision. In some cases, evidence suggests the use of equity-financing was motivated by opportunism (Weston et al. (2004). Firms were exploiting their "share power" – using overvalued equity to acquire assets for a lower real value. This is consistent with the findings of Shleifer and Vishny (2003). Invariably, the payment of cash involves drawing facilities - debt. A number of the firms expressed concern about debt levels, in a way that echoes the conclusions of Gadhaum et al. (2003). For instance, the director of FUT commented:

> "we should use as much of our share power as possible, and by doing that we will not incur any further bank debt…My feeling is that debt is more dangerous…The proportion of debt to profits (is crucial), because if you get that wrong, that gives far too much power to the banks".

In addition, rather than being unconcerned about the offer price and premium, as the disciplinary causal network proposes, most of the bidders expressed concern about over-paying. This includes both cases most-likely to have a disciplinary network and those least-likely to have a disciplinary network. 'Opportunism' was a term used frequently by interviewees. Opportunities arose and bids were made. Several comments by interviewees illustrate the point:

"It [the bid] was too good an opportunity to let slip by. Too good an opportunity to miss."

(Interview with CAT's Director)

"I don't recall exactly what the share prices were, but if you track the target's share price … you'll see it had come-off quite a lot. So there was an opportunity for us to offer a significant premium to their shareholders in order to make them happy."

(Interview with REG's Director)

"We're always looking at our competitors, to see what they are doing … in this case, could we think about acquiring them."

(Interview with FUT's Director)

In the contextual interviewees with a regulator, it was agreed that opportunism is important in the timing of bids:

"There is a short window of opportunity before a company falls into other hands. They [bidders] lose a potential opportunity to acquire the assets."

(Interview with Regulator)

The analysis suggests this opportunism was an important aspect of all of the cases, indicating a compound relationship between price and the means of payment in the causal mechanisms which led to abandonment. This is discussed further in section 4.2 below.

A transaction characteristic not included in the typological framework became important in WHI's causal mechanism. This was not present in the causal mechanisms of the other cases. This unique feature of WHI's bid was the non-standard condition attached to the bid - the proposed sale of its brewing assets to satisfy the regulatory requirements under the Beer Orders Act (1989). The causal network for WHI suggests this was a critical contingent characteristic of that bid which distinguishes it from the other cases. The proposed sale of brewing had a nested causal chain deriving from the strategy of WHI to generate higher growth from its pub assets. Its mature pub assets had a low organic growth potential. This issue is not unique to WHI. REG and TRG were also firms struggling to achieve organic growth:

"We were finding organic growth more and more difficult to get, therefore, consolidation became an obvious picture."

(Interview with REG's Director)

However, WHI's case can be distinguished by the competition regulations which influenced decision-making around the bid. The maturity of the market, and its concentrated nature meant competition-related legislation in the Beer Orders Act (1989) existed. This forced WHI to include the non-standard condition. It is at this point that WHI's causal network separates from TRG's, which led to a very different experience for both companies in the bidding process and explains the differential outcomes after abandonment. The non-standard condition was a critical factor in WHI's causal process to abandonment. No such conditions were evident in TRG's case, producing a very different causal process (this is discussed further in sections 4 and 5 below).

4. Contingent Factors in the Bidding Process

Ultimately, all of the bids were abandoned because the bidders decided not to proceed, but the process by which this happened was very different. In fact, the cases show the complexity of bidding processes referred to by Weston el at. (2004). Despite this, the cross-case analysis discerned two general causal mechanisms, replicated across the different cases of abandoned acquisitions. This enables cases with similar patterns to be classified. Each of these patterns is discussed below.

4.1 Strategic Uncertainty revealed in the Bidding Process

Two of the three most-likely cases (WHI and FUT) involved the referral of their bid to the Competition Commission as the trigger for abandonment. This may suggest there is something distinctive about a bidding process involving competition problems which leads to disciplinary outcomes afterwards. However, their industry's positions were very different. Despite this, the causal mechanisms producing changes after abandonment exhibited some similarities.

There were several factors in WHI's case absent from FUT's. These factors interacted to cause abandonment and contributed greatly to the disciplinary changes in WHI subsequently. The unique casual path experienced by WHI can be traced to this case's critical distinguishing feature - the condition of the transaction, in which WHI planned to divest its brewing assets. This non-standard condition was caused by the regulatory environment in which WHI operated. This created a lot of uncertainty around the bid and its rationale. The use of equity was unrelated to the rationale for the bid and the resulting non-standard condition, but, it compounded the uncertainty surrounding the bid. The uncertainty led to share selling, decreasing the firm's share price and reducing the implied value of the bid.

> "What normally happens is that a bidder's share price goes down because shareholders are concerned about a bid, and particularly that bidders will overpay. With a cash bid, it doesn't matter, but if its paper, it certainly does. Clearly, a share price going down decreases the value of a deal.
>
> (Interview with Corporate Lawyer)

A further compounding factor was the presence of a rival bidder, continually issuing press releases questioning the proposed sale of brewing by WHI, and its implications for competition. Furthermore, the revelation of information about WHI's difficult negotiations with the competition authorities, added to the uncertainty. All of these factors interacted in a compound fashion to exacerbate the uncertainty surrounding the bid. So, while uncertainty didn't trigger abandonment, it contributed greatly through the compound causal influences exerted by these factors.

In the aftermath of abandonment a market analyst commented, "…strategic development is probably going to be away from brewing and pubs". This indeed happened. In the 18 months after abandonment there was a strategic restructuring of the company, with the brewing division and the pub estate divested and the recouped funds returned to shareholders. This suggests the process of abandonment and the uncertainty created by the abandoned bid did reveal information, but not about the intentions of managers to pursue their own preferences. Instead, information was revealed about the WHI's strategic direction. The abandonment played a governance role in disciplining managers into restructuring and re-orientating the firm, in order to pursue a strategic direction acceptable to shareholders. With too many uncertainties, the firm needed to reconsider not only the role of this particular acquisition in its strategy, but, its actual strategy. This had to be done in the context of the industry and the resulting regulatory environment, which left little room for growth in brewing and pubs within the same company. The divesting of brewing and pubs was a disciplinary response to information revealed in the bidding process about WHI's strategy. It enabled more focused governance, not only in brewing and pubs, but in WHI itself. It could focus on its strategy of developing its leisure business.

In contrast to WHI's causal pathology, FUT's exhibited little uncertainty. There was no rival bidder, no non-standard conditions, and little suggesting that competition concerns would be a problem. Indeed, evidence suggests the referral of the bid to the competition authorities was a surprise. FUT's director commented:

> "We were therefore very surprised that it was announced within the prescribed timetable that this matter would be referred to the Competition Commission."

Despite this major difference in their causal mechanisms, events surrounding FUT after the abandonment of its bid revealed a causal pathology similar to WHI's. It was only after abandonment that uncertainty arose. However, the evidence suggests this was linked to the abandoned bid. In FUT's case, there was no immediate disciplinary response to abandonment. FUT's response to abandonment was to restructure the deal and pay cash for cherry-picked assets of the target. However, the nature of this transaction meant it had to be paid for using cash, financed by debt. This was done despite the concerns expressed by the director about debt financing. However, FUT's director justifies this because they feared losing the opportunity:

> "At the time, we immediately held a senior meeting in the company and we recognised we could walk away…"
>
> "So we were concerned that from under our nose, assets that we thought were effectively ours would disappear."

This is further evidence of the opportunism present in decision-making around acquisitions. It was only after a few months, when the CEO of FUT proposed a "further, yet larger bid", that concerns were raised by fellow directors. This proposal acted in a compound fashion with the higher debts to create uncertainty among the CEO's fellow directors. FUT's director revealed:

> "The assets of [Target] which we cherry-picked, whichever way you look at it, they either underperformed or, and/or, we paid too much for them. So, sticking all of that together, so our £22mn [profit] was dropping and the £5mn (profit) from [target's] assets wasn't there and dropping, and we paid too much, so suddenly the debt-to-profit figure didn't look good."

FUT's director commented that there was a concern,

> "…senior management would become over-extended and the chief executive had his credibility eroded."

The proposal of this later acquisition, compounded by the higher debt levels, created strategic uncertainty. This instigated the disciplinary process in FUT whereby the CEO was replaced and significant asset disposals conducted. Board members combined different strands of information to make judgements about the effectiveness of the CEO's strategy. This is similar process to the one modelled by Hirschleifer and Thakor (1994, 1998) for target firms in abandoned acquisitions. In this case, it is observed in a bidding firm, supporting the concept of a disciplinary process.

The strategic uncertainty is similar to WHI's causal pathology. However, in WHI's case the revelation of information happened during the public phase of the acquisition process and the strategic uncertainty relating to the bid was raised by external scrutiny – outside shareholders, market analysts and press reports. The striking aspect of FUT's process is that the later acquisition proposal was not made public. It was stopped before any public process developed. The proposal by the CEO, coupled with the higher debt burden associated with the previously restructured deal, prompted an internal disciplinary process. This suggests that solely examining the public bidding process may only provide a partial picture of evidence of discipline. Discipline may be imposed at any point of the bidding process, from the initial proposal, during the private phase, through the public phase by internal and / or external governance mechanisms. There is no evidence from these cases to indicate at what point governance may be imposed. But, the evidence suggests it may be related to internal or external monitors' uncertainty about the rationale for the bid. It may depend on qualitative aspects of monitoring within these companies enabling the identification of acquisition proposals which may not be in shareholders' interests and need to be abandoned. This was supported by a corporate lawyer interviewed:

> "If a bid is in the offing, bidder shareholders get onto management. Ask them what they are up to? What are they doing?"
>
> (Interview with lawyer)

This scrutiny, either internal or external, is conducted in the context of information revealed by other characteristics or factors. Together, these lead to doubts about an acquisition's strategic rationale, cause abandonment and instigate a subsequent disciplinary process. This reveals aspects of the causal mechanisms by which abandoned acquisitions played a governance role in these cases. Based on the common patterns of these cases a disciplinary meta-causal network involving key factors in these cases can be proposed. This is discussed in section 5.1.

4.2 Valuation Uncertainty in the Bidding Process

The remaining cases exhibited a replicated pattern, involving contingent factors in the bidding process, based around the offer price. A low offer price with insufficient acceptances, ultimately led to voluntary abandonment. But a number of different configurations of factors contributed to different causal networks around valuation in specific cases. A prominent aspect of these causal mechanisms was that, unlike strategic uncertainty, events in the bidding processes had little impact subsequently. Hence, the causal networks of these cases revealed a localised pathology for abandonment. The causal processes stopped at abandonment. The experience of these bidders after abandonment were not determined by the abandoned bidding processes, but by other factors. Actually, the causal networks of these abandoned acquisitions appear like branches of the bidders' main strategic paths.

The localised causal paths derived from the opportunistic nature of the bids highlighted in section 3 above. Valuation arises in all of these cases as the critical contingent factor in abandonment. In a contextual interview a corporate lawyer highlighted the difficulties which arise in determining the price of a publicly quoted company.

> "Target shares are just like antiques. £100 today, £110 tomorrow, £150 the day after that. The bidding price is not an exact science. Advisors suggest traditionally to offer a premium of 30%, but a premium to what. Average (price) over previous year. Yesterday's? The calculation of what price can be offered is just a mirage. It is crude!"

> "The absolute value of a company does not drive bidding. At best, you are guessing what it (a company) is worth. What bidders are really doing is seeking a recommendation at a particular price, irrespective of what it's worth."

This creates pricing uncertainty. Consequently, bidders have a rough rule of thumb in determining the price to bid in order to generate a positive rate of return. But, the price offered must generate an opportunity to produce a positive rate of return (Weston et al, 2004). However, the cases experiencing this particular pathway demonstrated that, while the initial price offered by bidders may achieve a positive rate of return, contingent events in the bidding process eroded the opportunity. The firms didn't offer a high enough price, demonstrated by the contingent factors which arose in the bidding process.

The evidence also suggests the use of equity was opportunistic too. The majority of cases which exhibited this causal path decided to use either wholly or partly equity-financing. As the discussion in section 3 above suggests, the firms were attempting to use their "share power" in order to acquire assets relatively cheaply (Shliefer and Vishny, 2003). Hence, the combination of price and equity exhibited a relational causal process to create 'valuation uncertainty'. However, in the cases which experienced this causal path, the valuation uncertainty was exacerbated by one, or more additional contingent characteristics. In several cases, the relative low offer price and equity financing exposed the bid to managerial resistance, which focused on these issues as the crux of their defence. This is evidenced by the following statements by some of the target managers in response to bids:

> "The bidder is making an opportunistic attempt to secure control of the company without paying an appropriate premium."
>
> (RNS announcement by PTH's target)

> "The bid does not represent a 'fair value'
>
> (RNS announcement by REG's target).

> [Using equity means], "…given the relative size of the companies, the upshot of a takeover would be to give the target's shareholders replacement shares in their own company."
>
> (RNS announcement by MEL's target)

In the cases with managerial resistance, a higher rival cash bid emerged as the target management sought to increase the price their shareholders received. These events suggest that target managers were driven by shareholders' interests and not their own entrenchment. As the UK regulator commented, even if there is managerial resistance:

> "If the target is happy, it may allow the bid to run on. It may attract a higher price."

Therefore, even if an initial bid was recommended, the target management tended to leave their options open, allowing the possibility for a rival bid. For instance, in TRG's case, once the possibility of a rival bid emerged, the target management stated, "…any proposal would be judged on its merits." In several cases (TRG, PTH and CAT), once a higher rival bid emerged, the target management were content to switch their recommendation in the pursuit of higher value for shareholders. These rival cash bids were more attractive to target shareholders, consistent with previous research that higher cash bids are more likely to be successful (Sudarsanam, 1995). Target shareholders prefer the certainty of cash, evidenced by the more positive share price reactions to cash bids compared to equity or cash/equity bids (Savor & Lu, 2009). As one corporate lawyer observed: [Target]

> "Shareholders take any cash offer, within limits, no matter what the board says."

This helps to explain why some hostile bidders (REG and PTH) withdrew their bid rather than incur the costs of pursuing a hostile process. In the presence of rival cash management buyouts (MBOs) these firms felt it would be too costly to succeed. For instance REG's director commented:

> "…they were quite obviously planning a 'take-private' transaction…[pause]…and this was being lined up at the same time as we were going through our process…Well, we went to see the top 5 or 6 shareholders and we presented our case to them and they seemed reasonably comfortable with it, but nobody was prepared to give us irrevocable undertakings, which is what you want to get. All the shareholders wanted was a maximum 'cash-out', which is ultimately what they got."
>
> (Interview with REG's director)

In CAT's case, several unrelated causal events had a detrimental effect on the value of the bid because of the decision to use equity-financing. One factor was a portfolio decision by a US financial institution to start selling the company's shares. The second was a negative commercial announcement. Again, the use of equity compounded the impact of these contingent events on the value of the bid. An opportunistic cash bid by a rival firm completed the causal configuration, which interacted with the opportunistic nature of CAT's bid to produce voluntary abandonment. CAT's director commented:

> "The amount of cash that we would have had to put in to make it stand-up against the rival offer would have undermined the arguments for the bid. The deal wouldn't have made sense."
>
> (Interview with CAT'S director)

When a higher rival bid emerged, removing the opportunity, CAT abandoned its bid.

Therefore, in these cases, contingent factors arose which eroded the opportunity. Consequently, the bidders either withdrew their bid or allowed it to lapse and "walked away." They did not raise their offer price. These contingent events were compounded by the opportunistic nature of a bid, leading to abandonment. Either firms withdrew their bid before making a rule 2.5 announcement or allowed it to lapse after making a rule 2.5 announcement. The firms moved on. Several quotations illustrate the decision-making process:

> "…it was not in shareholders' interests to raise its offer". (MIC)
>
> Company wanted, "…the right deal at the right price." (TRG)
>
> their '…conditions had not been met and it would allow its offer to lapse.' (MEL)
>
> "We couldn't make it work at that price. It wouldn't have been profitable at that price." (REG)

The voluntary abandonments do not suggest that managers were intent on pursuing bids at whatever cost, but hoping to make opportunistic returns on acquisition investments. Abandonment avoids the 'winner's curse'. In the cases of MIC and MEL, the managers held significant blocks of shares in the firms, supporting Anderson et al.(2004), who suggest that such managers are unlikely to suffer from hubris.

These bids had a clear rationale, consistent with the bidders' strategies. Indeed, events after abandonment can be traced back to the companies' strategies before abandonment, but not transaction characteristics or contingent factors in the bidding process. As a result, this causal pathology is very different from that revealed for WHI and FUT. Indeed, REG's director suggested a sense of relief at abandonment:

> "…running a takeover can have a big impact. From the point of view of abandonment, there can be positive impact. Okay, that didn't happen. Let's lick our wounds and get back to what we know best."

For instance, in CAT's case, when the bid failed, the evidence suggests funding constraints were the major causal factor in future strategies. This eventually caused the company to be bought by another firm, "…at the right price." Hence, the nature of the subsequent acquisition does not appear disciplinary, but part of strategic interaction among firms in the industry to take CAT's R&D forward to the marketplace. The director of CAT commented:

> "I wouldn't over-emphasise the impact of abandonment. Strategy meanders! An event happens and leads to a particular strategy. Something else happens and this takes the company off in another direction."

Indeed, this description is consistent with the other companies which did not experience outcomes after abandonment consistent with discipline. This includes TRG, MIC and MEL. Indeed, MEL directors stated:

> "…the failure of one such bid therefore had no impact on the company or lasting effects…"

All three firms pursued significant acquisitions after abandonment. Indeed, despite having very similar antecedent characteristics to WHI, TRG experienced very different outcomes after abandonment. This was largely down to the different nature of the contingent factors in abandoned bidding process. This will be discussed further in section 5.

Meanwhile, the rationale for REG's bid was to achieve consolidation in their sector and this characterised their actions after abandonment. This involved making bids, but also receiving bids, as the REG's director revealed:

> "We had a subsequent bid in 2006 which we got pretty close to selling. The bid was allegedly at 1.23 (per share), which we would have been delighted with…"

The failure to achieve the necessary consolidation, by acquiring another firm or being acquired, meant that REG was forced eventually to go into administration.

Based on the common patterns of these cases a meta-causal network, involving the interaction of these different causal characteristics and factors interacting, can be proposed. This is discussed in section 5.2.

5. Causal Pathologies

The interrogation of the cases revealed interesting results. Individual cases had distinctive qualities and this demonstrates the messiness of economic life, which validates the approach to the analysis of abandoned acquisitions adopted in this work. The causal process tracing has enabled the research to identify two distinct 'groups' of cases.

One group had causal networks involving a combination of characteristics and contingent factors, suggesting abandoned acquisitions played a governance role, leading to disciplinary changes subsequently. However, these causal networks suggest different combinations of characteristics and contingent factors to the typological disciplinary network. This suggests the underlying disciplinary causal mechanism did not work in the way proposed. As a result of analysis, this research can propose a tentative network of characteristics and contingent factors which appeared to produce disciplinary outcomes. This configuration is discussed in section 5.1 below.

The second group had causal networks demonstrating combinations of characteristics and contingent events whereby abandoned acquisitions did not perform a disciplinary governance role. A configuration of characteristics and contingent factors demonstrating this underlying causal mechanism is discussed in section 5.2 below. Some of the cases across both groups shared similar characteristics, but, they had specific critical contingent factors, which were crucial elements in distinguishing the different natures of the causal mechanisms of these abandoned acquisitions.

5.1 Strategic Uncertainty

The first configuration suggests a causal pathology in which abandoned acquisitions play a governance role. This is evident from the revealed configurations for cases WHI and FUT. This is termed 'strategic uncertainty'. The cases exhibited consistent antecedent characteristics. A nested causal path was revealed from higher profits, to higher free cash to the pursuit of growth, resulting in the abandoned bid. These characteristics are consistent with the disciplinary causal network. Hence, they were necessary antecedent characteristics for a disciplinary process. However, the analysis suggests these characteristics were not sufficient in these cases. Many of the cases, particularly TRG, which did not experience disciplinary outcomes after abandonments, demonstrated these antecedent characteristics – evidence of multi-finality. Acquisitions were a way to achieve higher growth, particularly in WHI and TRG's cases, where the maturity of their existing assets offered limited growth opportunities. These antecedent characteristics did not reveal evidence of a poorly conceived acquisition, requiring termination and a strategic reconsideration. Hence, in the proposed pathology, these antecedent characteristics are configured with particular transaction characteristics and contingent factors in the bidding process. It is this configuration which suggests the abandoned acquisition plays a disciplinary governance role.

There is nothing distinctive in the monitoring and incentives provided in WHI and FUT compared to the firms who experienced very different causal pathologies in their abandoned acquisitions. Hence, the presence of significant ownership blocks, independent boards and significant managerial incentives did not signal which firms provide the scope for managers to pursue acquisitions furthering their own interests. Hence, these characteristics have been excluded as important elements in this causal pathology. However, qualitative aspects of monitoring by the board and active shareholders are important. Therefore, such monitoring is included as a causal characteristic in the proposed network.

The two cases which indicated this pathology had certain transaction characteristics which revealed information about the uncertain merits of the bids in the context of the companies' strategies. In WHI's case, the uncertainty arose because of the non-standard conditions proposing the sale of the firm's traditional brewing assets. The proposed sale of these core assets led to significant uncertainty both inside and outside the firm about its strategic direction. In FUT's case, it was the identity of a proposed target which created concerns within the board of directors about its growth strategy. Therefore, in both cases, internal and/or external monitors combined their own information about the firms' strategies, characteristics and industry context, with that provided by the transaction characteristics of the bids (sale of brewing assets / larger target). They used this to judge that the proposed acquisition was not worthwhile. This is consistent with Hirschleifer and Thakor's model (1994, 1998). In addition, in WHI's case specifically, the use of equity financing compounded the strategic uncertainty, transmitting it to the value of the bid.[1]

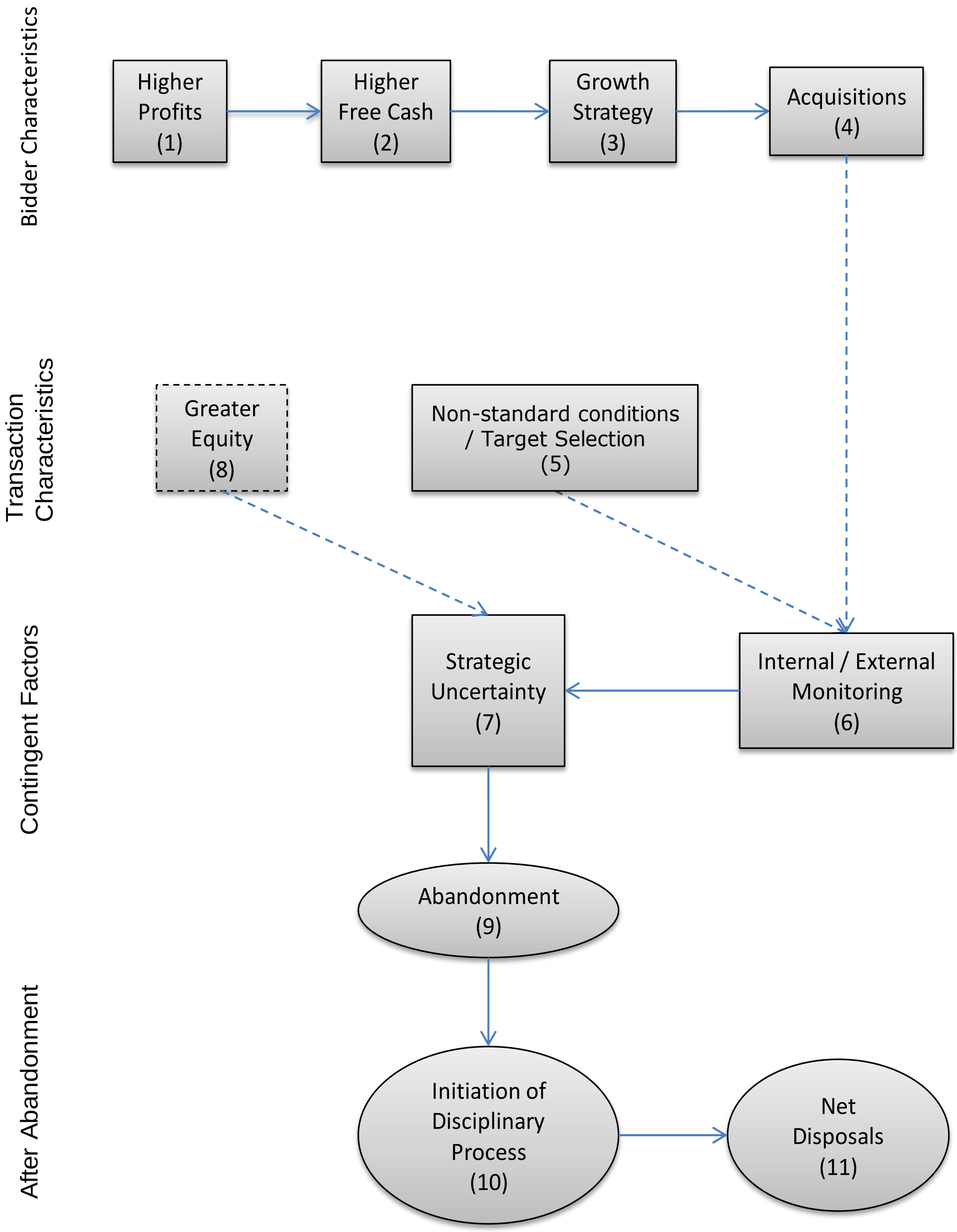
As a result of the strategic uncertainty highlighted by internal or external monitoring, the acquisitions were abandoned, followed by sequences of discipline, ending in different strategies being adopted by both firms (strategic reorientation for WHI / organic growth for FUT). The sequences of change for both firms after abandonment ended with significant asset disposals.

5.11 Strategic Uncertainty – Causal Network Narrative

These cases suggest a refined causal network for the disciplinary pathology developed as part of this research. This is illustrated in figure 7.2. The key for the figures is shown at the end of section 5. A nested causal path runs from higher profits (1) to higher free cash flow (2) to the pursuit of higher growth (3). This produces more acquisitions (4). However, information revealed by certain transaction characteristics (5) about the role of the bid in the strategies of the firms, is combined with information about the strategies of the firms by internal / external monitors (6). This raises strategic uncertainty regarding the bids (7). Greater equity financing compounds the uncertainty by transmitting it to the value of the bid (8). The acquisition is abandoned (9), producing a disciplinary sequence afterwards (10), ending in significant net disposals (11).

[1] The compound causal influence of equity financing is not restricted to this proposed pathology. It also has an important role to play in the second pathology of abandoned acquisitions discussed in section 5.2 below.

Figure 7.2: A Causal Pathology for an Abandoned Acquisition: Strategic Uncertainty



5.2 Valuation Uncertainty

In contrast to the first pathology, the second one suggests a causal network where abandonment does not play a governance role. This pathology was evident in the causal networks for cases CAT, TRG, MIC, MEL, REG and PTH. These firms exhibited different configurations of antecedent characteristics. Some were very young, some mature. Some had substantial profits with high free cash producing a growth strategy through acquisitions. Others were not profitable, suffering liquidity problems resulting in very different strategies. Therefore, the cases demonstrating this causal pathology illustrated equi-finality in their causal mechanisms. Different combinations of antecedent characteristics produced the same outcome.

Despite the very different configurations of antecedent characteristics, the causal networks of these cases displayed great similarities in their configurations of transaction characteristics and contingent factors. These similarities surrounded concerns about the price offered. The price offered was not high enough to complete the acquisition. The critical contingent characteristic of these abandoned acquisitions was the decision about the initial price offered. The price offered is based on opportunism. Firms took advantage of an opportunity that presented itself.

Uncertainty about the value of the bid was compounded by the choice of equity financing. The decision to use equity financing was based on opportunism. Firms were using their "share power" (overvalued equity) to acquire assets at an effective discount (Shliefer and Vishny, 2003). In some cases, the price and means of payment led to managerial resistance, which produced higher rival cash bids. However, a higher rival cash bid did not require managerial resistance as an interceding variable. Cases without managerial resistance also had higher rival cash bids as compounding factors in their causal networks. This shows that target shareholders prefer the certainty of cash to the uncertainty of equity. In CAT's network, the decision to use equity financing compounded the impact of negative commercial information on the value of its offer. Consequently, this causal pathology is called 'valuation uncertainty'.

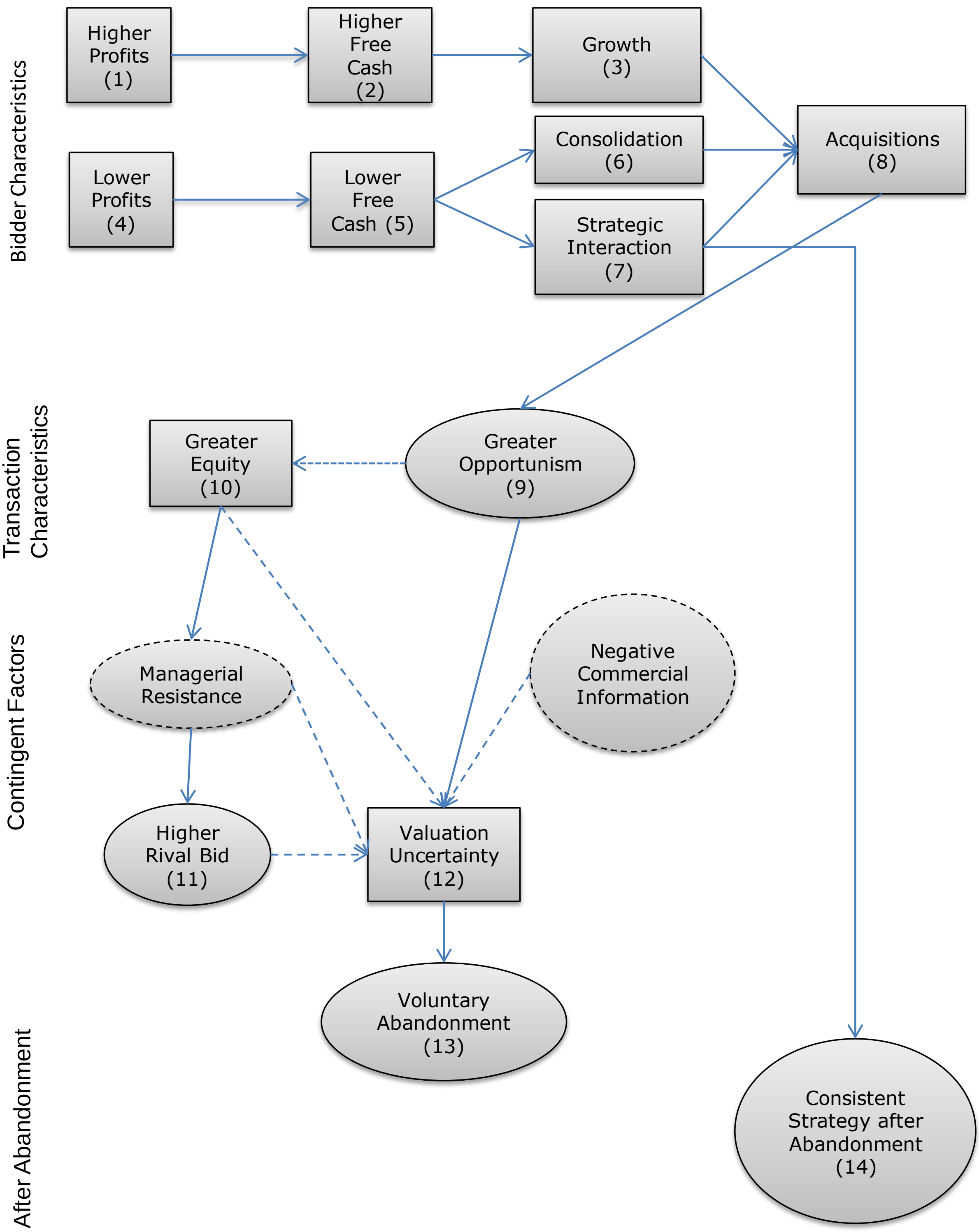
In all of the cases, the causal network ended with voluntary abandonment related to price. Once a higher rival cash bid emerged, the opportunity disappeared and the firm's abandoned their bids, searching for alternative opportunities to exploit. The firms did not want to pay too high a price, avoiding the winner's curse (Roll, 1986). There is no suggestion that the bidders got the price wrong. However, the difficulty of pricing listed target firms accurately was discussed in section 4.2 above. In these cases, the firms got the price wrong, trying to shade it to increase the returns. The danger with such a decision is that it increases the likelihood that a bid will not be accepted (Weston el al, 2004).

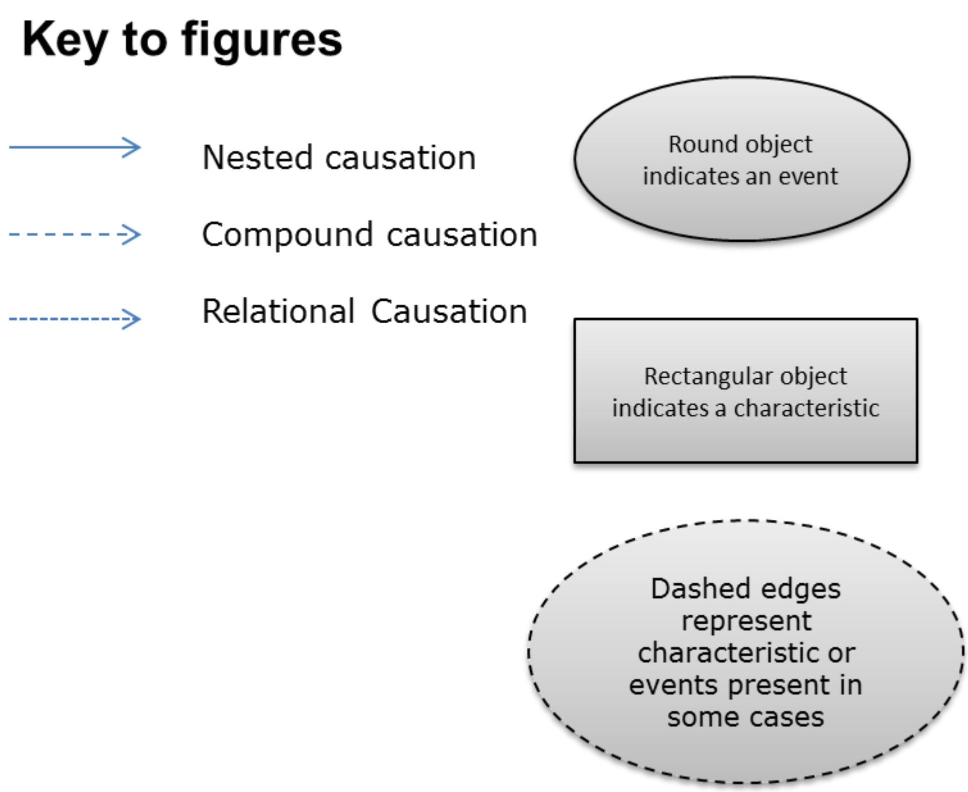
In these causal mechanisms, the abandoned acquisitions had no significant impact on the bidding firms. Indeed, after abandonment, the distinctive characteristic which determined their activities after abandonment was their strategies before the abandoned bids. Indeed, CAT, which was subsequently acquired after abandonment – an expected disciplinary outcome – exhibited a causal mechanism consistent with 'valuation uncertainty', not 'strategic uncertainty'. In CAT's case, despite subsequent events, there is no evidence suggesting, being acquired, was discipline arising out of the abandoned bidding process.

5.21 Valuation Uncertainty – Causal Network Narrative

An alternative causal network can be derived illustrating this proposed pathology. In cases consistent with this network, abandoned acquisitions do not play a governance role. This is shown in figure 7.3. A nested causal path runs from either higher profits (1), to higher free cash (2) to a growth strategy (3) through acquisitions (8). On the other hand, lower profits (4) producing lower free cash (5) and alternative consolidation strategies (6) through acquisitions (7). Lower profits (4) and lower free cash (5) also produce a strategy of interaction with related firms (7). Greater opportunism (9) leads to a lower valuation (12) and also greater equity financing (10), compounding the lower valuation (12). Higher rival cash bids (11) exacerbate the valuation uncertainty (12), removing the opportunity for the bidder and leading to voluntary abandonment (13). Managerial resistance and negative commercial information can be part of the causal mechanism, accentuating the valuation uncertainty. However, the pathology of abandonment is localised. The events after abandonment are not traced to the causal process of abandonment. Instead, in such cases, the actions after abandonment (14) are determined by the strategies before abandonment. If the strategy was one of growth (3), then the actions after abandonment are consistent with that – evident in cases MEL, MIC, TRG, PTH. If the strategy was one of consolidation, then the actions after abandonment are consistent with that – evident in case REG (6). If the strategy involved a variety of interactions with other related firms (7), then the actions after abandonment are consistent with that – evident in case CAT.

Figure 7.3: A Causal Pathology for an Abandoned Acquisition: Valuation Uncertainty





6. Conclusion

The research has analysed abandoned acquisitions in a novel way using causal process tracing. The findings suggest that, in certain circumstances, an abandoned bidding process may play an important governance role. In other circumstances, abandoned acquisitions do not play a governance role. This research contributes to knowledge by proposing two distinct types of meta-causal mechanisms derived from the analysis of the cases of abandoned acquisitions investigated. These are proposals showing how, and in what circumstances, different causal mechanisms produce different outcomes, disciplinary or otherwise. One disciplinary meta-causal network demonstrates a tentative causal network which is a refined version of the typological disciplinary network. In this network, the abandoned acquisitions play a governance role. Certain characteristics and factors interact in a causal mechanism producing 'strategic uncertainty' surrounding the bid. In these cases, this prompted abandonment and disciplinary changes after abandonment - notably, net disposals. In addition, this research proposes an alternative type of meta-causal network. This is represented by a different set of causal configurations revealing 'valuation uncertainty' in a bid. Such abandoned acquisitions have a limited pathology, based on the opportunistic nature of bidding, and so, have no significant impact on bidders after abandonment. The chapter has highlighted key factors identified in the cases investigated, illustrating these different causal mechanisms. It is accepted that, given the small number of cases investigated, these findings are intentionally provisional. More work needs to be done to refine further the causal mechanisms present in abandoned acquisitions. This can help delineate further, the nature of the causal mechanisms in abandoned acquisitions, learning more about the ways they perform a governance role.

Chapter Eight: Conclusion

1. Overview

This thesis has been structured around an empirical investigation of the experience of bidding firms in abandoned acquisitions.

Theoretical Contribution: Existing research suggests that, in certain circumstances, abandoned acquisitions may have a governance role. However, there has been little work analysing how, and in what circumstances, abandonment performs this role, especially concerning bidding firms. This research has addressed this complex issue, by developing a multi-dimensional conceptual framework to analyse the causal mechanisms of abandoned acquisitions. This is absent from much previous work.

Research Methods: This research has used Causal Process Tracing (CPT) method, not previously employed in this literature. This method enabled the analysis of detailed qualitative information, in the context of the conceptual framework, in a way alternative, wholly statistically-based approaches cannot. This has enabled the research to complement these studies, refining existing theoretical explanations surrounding the governance role of abandoned acquisitions.

Empirical Findings: The empirical investigation has produced some exciting findings, enabling the proposal of two causal pathologies; how, and in what circumstances, abandoned acquisitions exhibit a particular pathology. These propose configurations of variables which deepens existing explanations about the governance role of abandoned acquisitions. Two pathologies can be proposed. A disciplinary pathology can be traced to causal mechanisms characterised by strategic uncertainty, raised by information revealed during the bidding process. An alternative pathology termed ‘Valuation Uncertainty’ can be traced to causal mechanisms surrounding price.

Policy Implications: The conceptual and empirical innovations which have been utilised enabled the analysis of the complex interactions of characteristics and factors, which are important for the path of acquisitions. Existing theories do not explain these interactions adequately. The refined understanding that this research design offers can contribute to enhancing mechanisms of corporate governance.

This chapter discusses each of these aspects. Section 2 will provide a summary of the research findings. Sections 3 and 4 will explain the significant contributions of the research to both academic debate and the practice of mergers and acquisitions respectively. Section 5 will discuss the limitations of the research, together with aspects of the acquisition process and abandonment which require further examination. Final reflections on the research are presented in section 6.

2. Research Objectives and Findings

This thesis has sought to make a contribution to the field of corporate governance and acquisitions. It has aimed to extend the theoretical understanding of the governance role of abandoned acquisitions in disciplining self-interested managers of bidders. Research objectives were derived from this aim:

I. To identify the impact that abandoned bids can have on bidding companies.
II. To investigate the causal mechanisms of abandoned acquisitions.
III. To ascertain, how, and in what circumstances abandoned acquisitions have a disciplinary effect.
IV. To ascertain how, and in what circumstances abandoned acquisitions do not have a disciplinary effect.

In order to address the research objectives, there was a need to investigate how different characteristics and variables interact, producing different causal mechanisms of abandonment and providing guidance on the subsequent experiences of bidders.

In order to meet the aim and objectives, the research was divided into two sets of research questions. The first set addressed objective one, by asking whether changes in certain aspects of activity after abandonment were, or were not, consistent with discipline. The novel aspect of this analysis was that the conceptualisation of the experiences of bidders after abandonment was broadened and deepened by developing a number of sequences of changes in bidders after abandonment. By characterising the period after abandonment in this way, the research traced the experience of bidders after abandonment in a novel manner. This traced in a detailed way, the nature of the different processes – disciplinary or non-disciplinary - which happened after abandonment.

This analysis has produced a number of interesting findings, showing the idiosyncrasies associated with the impact of abandonment. There was little consistency in the sequences of changes in bidders after abandonment. Despite this, patterns can be discerned. There were great similarities between variables across a number of cases with disciplinary outcomes and cases with non-disciplinary outcomes, particularly asset acquisitions and asset disposals. Arising after abandoned acquisitions, asset disposals as a disciplinary outcome, were always the outcome of a number of sequences consistent with discipline, involving primarily changes in strategy and management changes. Alternatively, significant asset acquisitions were experienced in a number of cases. In some cases, significant asset acquisitions occurred after similar sequences which produced asset disposals. Both scenarios could be interpreted as disciplinary, producing different outcomes. However, in other cases, asset acquisitions occurred without any associated changes, weakening the disciplinary interpretation of this outcome.

As a result of this interpretation, these results suggest that certain variables, normally categorised as disciplinary by the existing literature, were not always part of a disciplinary process. Firstly, the acquisition of ownership blocks was present in many cases, triggering different sequences. Some of the sequences produced disciplinary outcomes. However, some did not. Secondly, the replacement of a CEO may not be a disciplinary outcome. Indeed, in many cases it was an interceding variable, not an outcome. The evidence suggests such replacement was part of a number of different sequences after abandonment. It could be proposed that, if such replacement is disciplinary, it needs to be followed by changes in strategy and significant net disposals involving the unravelling of the previous CEO's actions. On the other hand, if the replacement of the CEO is not disciplinary, no further changes occur or it is followed by substantial acquisitions afterwards. Another interpretation is that the acquisitions (by a new CEO) could be part of a change of vision, and part of a disciplinary process. More analysis needs to be conducted on these sequences after abandonment, to learn more about the situations in which the replacement of the CEO is disciplinary.

The second set of research questions built on the first set. These addressed objectives two, three and four. This focused on an investigation into the causal mechanisms of abandoned acquisitions, analysing the ways in which firm characteristics, transaction characteristics and contingent events interact to produce abandonment and changes afterwards. A typological theory was proposed, containing a certain configuration of characteristics and contingent factors within abandoned acquisitions interacting to cause abandonment, triggering disciplinary changes in the bidding company after abandonment (see chapter three). A typological disciplinary causal mechanism would involve a 'nested' causal chain from increased age to higher profits to substantial free cash. A related causal path will run from increased maturity of assets producing low growth opportunities. These 'related' causal paths create the antecedent conditions for acquisitions fulfilling managerial preferences. In the proposed disciplinary pathology these characteristics are 'compounded' by weak corporate governance characteristics - weak monitoring and weak incentives within the firm – providing the opportunity for a transaction reflecting managerial preferences. A nested causal path runs from these antecedent characteristics to certain transaction characteristics (decreased industrial relatedness, cash financing, with higher premiums). The causal mechanism proposes that these characteristics reveal negative information during the bidding process about the intentions of the management which leads to voluntary abandonment. This produces a disciplinary process after abandonment. In addition, in cases without disciplinary outcomes, the anticipated causal processes will be different.

Building on the analysis of the experiences of bidders after abandonment, a selection of 'most-likely' (disciplinary) and 'least-likely' (non-disciplinary) cases was made. Two most-likely cases exhibited causal mechanisms whereby the abandoned acquisitions played a governance role producing post-abandonment discipline. These cases have enabled the refining of the proposed typological causal mechanism. The bidding firms displayed consistent characteristics – high free cash, with low growth prospects – and sought an opportunity to grow by acquiring another firm. The identity of the target and its role in the strategy of the bidder were the crucial transaction characteristics in these mechanisms. However, while necessary, these were not sufficient conditions to cause abandonment. The disciplinary nature of the process is contingent on the interaction between these characteristics and others. The information is aggregated with information provided by other characteristics about the bidder (proposed sale of brewing, increased debt burden), producing strategic uncertainty about the merits of bids in the context of companies' strategies. This uncertainty leads to abandonment and a disciplinary response through a change in strategy and net disposals. However, the disciplinary impact is not for pursuing self-interest, but making poor strategic decisions.

In most instances, the least-likely cases exhibited causal mechanisms which were consistent with their non-disciplinary process after abandonment. The causal mechanisms did not play a governance role. Indeed, in these cases, the abandoned acquisition produced no impact on strategy, asset restructuring or financial restructuring. Any changes after abandonment were determined by the characteristics and strategy of the bidder before abandonment. The pathology of abandonment was localised, relating to the inadequate price offered by the bidder – termed 'valuation uncertainty'. However, this, while necessary was not sufficient to cause abandonment in the cases examined. An inadequate price was configured with one or more additional factors to produce abandonment – equity financing, target managerial resistance, higher rival cash bidders and negative commercial information. In all of the cases, the bidders were not prepared to raise their price, abandoning their bid. There is no evidence that causal mechanisms of abandonment influenced subsequent events. Hence, afterwards, they sought alternative opportunities. In most of the cases, they were able to pursue alternative opportunities. As one director concluded:

> "…I wouldn't over-emphasise the impact of abandonment. Strategy meanders! An event happens and leads to a particular strategy. Something else happens and this takes the company off in another direction."
>
> (Interview with director of CAT)

These cases illustrated another important aspect of the market for corporate control. Target shareholders and managers are motivated by gaining the highest possible price for their company. Target managers have a duty to achieve the highest possible price. If they and their shareholders think they can receive a higher price, particularly paid in cash, they will wait. If they receive a higher bid, target management are prepared to switch their recommendation. This happened in several of the cases, suggesting these target managers were acting in line with their duty to enhance shareholders' wealth.

Another important finding related to classifying outcomes after abandonment. Consistent with theory, the subsequent acquisition of CAT was classified as a disciplinary outcome. However, the detailed fine-grained analysis of CPT suggests this was not a disciplinary outcome. There is little evidence of a link between the subsequent acquisition and the abandoned bid. Instead, CAT experienced a localised pathology involving valuation uncertainty. Indeed, CAT's managers supported the subsequent acquisition, suggesting it was a good outcome for shareholders. This suggests that researchers must be careful in categorising an outcome as disciplinary, and proposing an association between two events – in this case abandonment and subsequent acquisition. It is important to derive a clear causal connection between the two events. In this case, CPT has enabled an apparent association between abandonment and subsequent acquisition to be discounted, demonstrating the validity of the approach which has been taken in this thesis.

3. Academic Contributions

The thesis has sought to make a contribution in the field of corporate governance and abandoned acquisitions. Cumulatively, the thesis was structured to meet the aim and objectives of the research. Within several elements of the research, academic contributions have been made; conceptual innovations, pioneering application of research methods and exciting findings through the fieldwork. This section details each of these contributions in the context of the wider research on this topic.

This thesis was also an opportunity to complement existing research by analysing abandoned acquisitions using a different approach. With case study analysis, this research has been able to analyse the causal processes of abandoned acquisitions and their aftermath in a detailed manner, addressing different questions and producing important, novel findings, identifying causal pathologies of abandoned acquisitions. This deepens understanding of abandoned acquisitions and their aftermath.

Much of the existing literature is fragmented. The existing theoretical and empirical literature has explored various aspects of the acquisition process and its impact on the firms involved, including the impact of acquisitions on the firms concerned using ex-ante share price studies and ex-post accounting studies, across a large sample of acquisitions. These studies have attempted to determine whether economic or managerial motives dominate the acquisition decision (Powell and Stark, 2001; Savor and Lu, 2009; Gregory, 2005; Bild et al., 2006). Similar approaches have been used to determine whether economic or managerial motives dominate the abandonment decision (Taffler and Holl, 1991; Limmack, 1994; Franks and Mayer, 1996; Lehn and Zhao, 2006; Savor and Lu, 2009). In these studies, a large number of firm characteristics, transaction characteristics and contingent factors in the bidding process have been used as control instruments. These have been used to distinguish the differing impacts of acquisitions across companies in an effort to test the different theories. These include the pre-bid performance of targets and bidders in hostile and friendly bids, to test the disciplinary hypothesis (O’Sullivan and Wong, 1998; Agrawal and Jaffe, 2003); the corporate governance characteristics of bidders and targets, to distinguish economic and managerial motives (Holl and Kyriazis, 1997; O’Sullivan and Wong, 1998; Huson et al., 2001, Bange and Mazzeo, 2004; Kini et al., 2004; Perry and Shivdasani, 2005; Chen et al., 2007), and transaction characteristics such as the means of payment (Schiefer and Vishny, 2003; Chang et al., 2009), industrial relatedness (Peltier, 2004) and bid premium (Franks and Mayer, 1996). Since managerial resistance is important to the probability of abandonment (Wong and O’Sullivan, 2001), studies have investigated this extensively (Holl and Kyriazis, 1996).

However, there had been little attempt to link the causal process of abandonment and its aftermath, particularly analysing how, and in what circumstances, different configurations of variables cause abandonment and disciplinary changes after abandonment. Linking the two aspects and identifying different configurations of variables is one of the contributions of this thesis to the academic debate surrounding abandoned acquisitions.

This detailed analysis involved blending the existing disparate elements of the theoretical and empirical literature to 'fine-tune' the nature of the causal mechanisms which subsequently produce differential impacts on bidders; bidder characteristics (Jensen, 1986; O'Sullivan and Wong, 1998; Kini et al., 2004; Gregory, 2005; Wright et al, 2002; Perry and Shivdasani, 2005; Paul, 2007); transaction characteristics and contingent factors in the bidding process (Hirschleifer and Thakor, 1994, Holl and Kyriazis, 1996; Officer, 2003; Arnold and Parker, 2007; Branch et al., 2008; Kummer and Steger, 2008); changes in bidders after abandonment (Mitchell and Lehn, 1990; Denis & Serrano, 1996; Franks and Mayer, 1996; Boone, 2000; Lehn and Zhao, 2006).

Drawing together these strands of the literature has required conceptual innovations in framing the analysis of abandoned acquisitions; both in measuring the impact of abandonment on bidders and characterising the causal mechanisms of abandoned acquisitions. The development of a novel, multi-dimensional conceptual framework, blending existing theories of acquisitions and corporate governance, has enabled the research to characterise the complex interactions between multiple characteristics and factors which arise in abandoned acquisitions. It was proposed that certain configurations of these groups of variables would signal a causal mechanism which has a disciplinary pathology, producing a disciplinary process after abandonment. This was distilled into the typological disciplinary pathology. Alternative configurations of these variables would signal a causal mechanism which has no disciplinary pathology, producing no evident disciplinary outcomes after abandonment.

This thesis has shown that this new conceptualisation is a valid framework, useful as a structure for further research on abandoned acquisitions and the acquisition process. It complements large-n statistically-based frameworks in several ways. Firstly, statistical studies on this topic have revealed a range of possible variables which influence abandonment and its aftermath. This framework complements this work by enabling a fine-grained, multidimensional analysis of relationships between independent variables and outcomes. It facilitates the identification of detailed causal processes, contingencies accounted for and the complex interplay between the full range of possible factors investigated. This can be done most effectively in small-n comparative case studies. Such studies avoids concerns about data availability across a sample, and degrees of freedom limitations, present in statistical analysis involving small-n studies. Secondly, the interrelationships between variables which can only be identified through CPT can inform the design and conduct of large-n statistical research. This can test the relationships in a wider sample, enabling statistical generalisations to be made. This iterative interaction of small-n qualitative research and large-n statistical research produces a richer, deeper and fuller understanding of abandoned acquisitions. Indeed, it is hoped that the findings of this thesis will be used in this way.

Using this framework, the fieldwork part of the research has involved identifying and exploring most-likely cases, to investigate the proposed disciplinary pathology, refining theoretical conceptions of the governance role of abandoned acquisitions in the light of empirical evidence. Conversely, counterfactual least-likely cases were analysed to investigate alternative causal mechanisms (Richards, 2009). The analysis has produced some important findings, providing detailed insights into the underlying mechanisms in abandoned acquisitions - the conditions under which specified outcomes occur and the causal mechanisms through which they occur. These are contingent generalisations which deepens existing theoretical explanations regarding the causal mechanisms of abandoned acquisitions (see section 2 of this chapter). These propose configurations of variables, showing how they interact in different types of causal mechanisms.

Firstly, a causal mechanism through which abandoned acquisitions play a governance role is proposed. The findings are important to the study of acquisition activity because they provide a more fine-tuned explanation of how, and in what circumstances, abandoned acquisitions play a governance role. Information revelation is important in this causal mechanism in a way which supports Hirschleifer and Thakor's (1998) assertions regarding target firms. The disciplinary nature of this process is characterised by information aggregation provided by the configuration of bidder characteristics, the identity of the target and implications of the acquisition (sale of core assets or increased debt). This configuration creates strategic uncertainty. Managers are forced to abandon the bids because of the uncertainty created. The detailed analysis in this research reveals that the discipline imposed afterwards is not for pursuing self-interest, but pursuing poor strategic decisions.

Secondly, a causal mechanism through which abandoned acquisitions do not play a governance role is proposed. This causal mechanism is consistent with previous evidence surrounding the influence of the bid premium on whether a bid is abandoned or not (Holl and Kyriazis, 2004). This research adds to previous work by demonstrating the complex nature of interactions between bidder characteristics, transaction characteristics and contingent factors which produces abandonment. Acquisitions are highly opportunistic. Any configurations of characteristics and factors which remove opportunities mean bidders are either unwilling, or unable, to pay the necessary premium. An inadequate price was configured with one or more additional factors to produce abandonment – equity financing, target managerial resistance, higher rival cash bidders and negative commercial information. In all of the cases, the bidders were not prepared to raise their price, abandoning their bid.

In addition, this thesis has added to knowledge about the experience of failed bidders by conceptualising the impact of abandonment differently. Much existing research focuses on analysing the impact of abandonment on the wealth of shareholders of bidding firms, either through changes in share prices or accounting measures of performance. As chapter two demonstrated, studies have shown conflicting results. Consistent with the multi-dimensional framework adopted, the conceptualisation of impact was broadened and deepened by developing a number of sequences of changes in bidders after abandonment. These sequences comprised a number of qualitative changes derived from the corporate governance literature; organisational changes (Pickering, 1983), management turnover (Huson et al., 2001; Lehn and Zhao, 2006), asset restructuring (Thompson et al., 2000; Perry and Shivdasani, 2005) and financial restructuring (Stulz, 1990) and whether bidders become acquisition targets themselves (Mitchell and Lehn, 1990). By characterising the period after abandonment in this way, the research has traced the experience of bidders after abandonment in a novel manner, identifying, in a more thorough way, the nature of the different processes – disciplinary or non-disciplinary - which happened after abandonment.

Furthermore, an empirical method not utilised before in the analysis of abandoned acquisitions, but, which complemented the conceptualisation of the bidding process, was employed. The detailed investigation enabled by causal process tracing (CPT) allowed the analysis of the complex mechanisms of abandoned acquisitions. This method, used extensively in history, politics and international relations, had not been utilised to analyse acquisitions. CPT has been crucial in capturing the subtleties and nuances involved in the causal mechanisms anticipated by the conceptual framework. CPT has enabled this research to analyse the complexity of the interaction of firm characteristics, transaction characteristics and contingent factors in the bidding process which produces different outcomes in bidders after abandonment. These insights would have been difficult to achieve with statistical analysis. Following this pioneering work, further research is needed, replicating the use of CPT in abandoned acquisitions, to develop and refine its application in this intriguing area of mergers and acquisitions.

Also important to capturing the nuances of abandoned acquisitions have been the sources of evidence. The triangulation of documentary sources, particularly Regulatory News Service (RNS) statements, with data from interviews with the directors of bidding firms, regulators and corporate lawyers, has been vital to drawing out the timing and significance of interactions between variables in the bidding process. This research has demonstrated the usefulness of such sources in the analysis of abandoned acquisitions.

4. Contribution to Policy and Practice

The refined understanding that this research design offers can contribute to enhancing mechanisms of corporate governance. Specifically, the research highlights several issues of interest to policy-makers and practitioners in acquisitions. The regulation of the acquisition process in the UK, through the Takeover Code, places great emphasis on information revelation. Accurate information plays an important role in UK stock markets for making appropriate investment decisions, providing finance to those who will use it most effectively. This research has shown that information revelation is important in a bidding process. However, in the cases investigated, it is a triangulation of information, revealed in particular situations, which is used by non-executive directors, shareholders and market analysts to make judgements about the benefits from an acquisition. The implications of these findings for policy are that more effort should be made to enhance the flow of information that is revealed in the bid process about bidding companies.

Furthermore, the evidence raises questions about the centrality of shareholder dispersion and managerial incentives in providing effective corporate governance. Indeed, the research has revealed that the process of monitoring and intervention is more nuanced than the general metrics recommended by the Takeover Code and Combined Code imply. It is the qualitative aspects of monitoring provided by directors, shareholders and market analysts which were important in the two cases where abandonment played a governance role. This is consistent with the increased emphasis placed on shareholder 'activism' in the Combined Code in the UK. Such active monitoring and engagement before, during and after acquisition should have a positive effect on acquisition decisions, producing enhanced shareholder value.

5. Suggestions for Further Research

This research suggests that, in some cases, the limits placed on firms by the lack of organic growth available in their industry, produced the need for acquisitions. In one case, this produced contingent problems related to regulation which contributed to the uncertainty surrounding the bid. Industry characteristics can contribute to abandonment, but require changes in strategy afterwards because of the need to find different strategies to pursue growth (the case of WHI). Additional research could analyse further the interaction between industry characteristics and bidder characteristics in producing bids.

The evidence raises questions about the centrality of shareholder dispersion and managerial incentives in providing effective corporate governance. These measures were not significantly different for the two sets of cases – 'most-likely' disciplinary case and 'least-likely' non-disciplinary cases. Boards or shareholders intervened in bids to force abandonment. Indeed, the research revealed that the process of monitoring and intervention was more nuanced than anticipated. It is the qualitative aspects of monitoring which were important in the two cases where abandonment played a governance role. The evidence suggests that information revealed by a bid – through target or non-standard conditions - was weighed by monitors with other information about bidders, in judging the benefits to be derived from a particular transaction. This is consistent with Hirschleifer and Thakor (1998). This area requires further work. More needs to be understood about the specific circumstances in which boards / shareholders intervene to force abandonment. In addition, the nature of their intervention needs to be investigated. By doing this, the role of boards and shareholders in disciplining managers, both during and after the acquisition process, can be more clearly understood.

In none of the cases was abandonment viewed negatively. In the cases experiencing valuation uncertainty, the market for corporate control enabled resources to be allocated to the highest bidder – those who claimed to be able to use the target's resources most efficiently. But, the failed bidders in these cases – those not able or willing to pay a higher price – did not view abandonment negatively. They 'walked away' from the acquisition, pursuing alternative opportunities. Some, like MEL's management were indifferent about failure. Others, like REG's management said they were relieved, though this could be ex-post rationalisation. In the cases experiencing strategic uncertainty, the abandoned acquisitions played a governance role. The investments were effectively scrutinised by monitors, either board or external monitors. Abandonment in these cases had a positive impact, preventing an uncertain acquisition being completed, but also initiating a disciplinary sequence producing improvements in the use of resources by the firms.

Further work on the impact of abandonment on bidding firms could produce greater clarification in classifying sequences of changes in bidders after abandonment. This thesis has classified sequences as disciplinary and non-disciplinary, determined by the final outcomes. Further work could investigate why similar sequences of changes after abandonment produce very different outcomes. This could further deepen our knowledge of the nature of discipline imposed after abandoned acquisitions.

6. Final Reflections

Acquisition activity remains an important aspect of corporate activity in developed economies, particularly those with active markets for corporate control like the UK. Acquisitions receive a lot of attention in both academic studies and the media. However, despite the vast literature on acquisitions, there are many aspects which are understood only partially. Abandoned acquisitions represent a significant aspect of acquisition activity which has been under-researched. This thesis has proposed the refinement of existing conceptions concerning the governance role of abandoned acquisitions. The methodological approach has revealed the complex nature of the interactions between the causal variables in different cases. It has shown, in a detailed manner, the mechanisms through which abandoned acquisitions play a governance role in disciplining managers to pursue actions in the interest of shareholders. These valid methods need to be replicated in further work to assess the significance of the interactions of characteristics and contingent factors. Further research which enhances the understanding of the underlying mechanisms of the acquisition process will help the practice of managers and policy towards improved corporate governance which is reflected in enhanced shareholder wealth.

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Appendix One: Email / Letter to Interviewees

Dear XXXX,

I am currently doing research into abandoned corporate takeovers in the UK. My PhD thesis is investigating the role of abandoned corporate takeovers in corporate governance. I rang your company telephone number today and was told that I could email you directly at this address.

One of cases I am interested in is the bid by XXXX for XXXX in XXXX. As a director of XXXX at the time, you can provide a uniquely detailed and subtle perspective on abandoned takeovers and their aftermath that will greatly enhance my research findings and contribute to our understanding of the corporate governance role of takeovers generally.

There are specific issues that I want to address in the interview including:

- The activities of the company in the period before the abandoned bid.
- The terms of the bid, particularly the use of equity as a means of payment.
- The effect of target managerial resistance on the bidding process.
- The effect of rival bids on the bidding process.
- The causes of abandonment.
- How abandonment affected management decisions subsequently, if at all.

A project such as this inevitably raises significant issues about **research ethics**. My research will be conducted fully in accordance with the guidelines laid down by Nottingham Trent University, which require that I conduct interviews and manage the information gained very carefully. The guidelines are shown below.

I am hoping I could do the interview in early / mid November if that is possible, and Mondays, Thursdays or Fridays are good for me. Though, of course I am grateful for any time you can spare so will be as flexible as possible.

Thank you for your help.

Yours sincerely,

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Research Ethical Guidelines

1. The information above outlines the project but if you wish to know more about it, please ask.

2. Each interview will be tape-recorded and/or recorded by hand. All information obtained will be confidential, held securely and accessed only by myself. In the thesis and all subsequent outputs from the project, pseudonyms will be used to identify both companies and interviewees.

2. Unless you give express permission, I shall not identify you by name in any subsequent outputs from the project. These will, primarily, take the form of a doctoral thesis, and academic journal articles preceded by conference papers.

4. During the interview, if there is any question you do not wish to answer, you may do so without any reason needing to be given. If you wish to terminate the interview at any stage, again you can do so without needing to explain that decision.

5. It is an important part of my research project that I interview individuals involved in several abandoned takeovers. Adopting a key principle from the Radcliffe Guidelines, which govern interviews with the UK Civil Service, I shall not use information in such a way that relations between or within firms and individuals are damaged: the aim is thus to ensure the written outputs do not embarrass any individual or organisation, for example through seeking to determine individuals or organisations being 'right or wrong' in any issue.

Appendix Two: Coding Templates for Causal Process Tracing

a) Case WHI

b) Case FUT

c) Case CAT

d) Case TRG

e) Case MEL

f) Case REG

g) Case MIC

h) Case PTH

a) Case WHI

Table a1: Bidder Characteristics

Characteristic	Codes	Evidence	Revealed Codes and Comments
Age	'young' 'mature'	100 years old. (FAME Database)	'mature' Mature company originating in the brewing sector. Diversified into other related sectors.
Board Monitoring	'strong' 'weak' Proportion of NEDs on board greater than 50%	64% of board were NEDs. (Company Annual Report)	'strong' Suggests strong monitoring by the board. No corporate governance issues.
Ownership Structure	'concentrated' 'dispersed' 'strong' 'weak' 'Non-institutional' 'institutional' 'blocks'	Widely dispersed shareholding. No institutional or non-institutional ownership blocks. (Company Annual Report)	'dispersed', 'weak' Suggests a weak incentive to monitor by outside shareholders.
Managerial Incentives	'weak' 'strong'	At time of abandoned bid, managerial shareholding was 0.69%. (Company Annual Report)	'weak' According to Agency theory, suggests poor incentives for managers to pursue shareholders' interests.
Acquisitiveness	'acquisitiveness' 'growth'	Acquisitions of 10.85% of Net Assets in three years prior to abandoned bid. Investment expenditure equivalent to 20% of Net Assets in three years prior to abandoned bid.	'acquisitiveness' 'growth' Substantial amount of cash was generated by brewing and pubs. However, data on free cash data implied all of it was committed. Used to

Characteristic	Codes	Evidence	Revealed Codes and Comments
		Free cash flow is -5.45% of net assets. (Company Annual Report and authors calculations)	finance acquisitions and investment in leisure and hospitality sector. Little used to finance investment in brewing.

Table a2: Transaction Characteristics

Characteristic	Codes	Evidence	Revealed Codes and Comments
Bid Rationale	'synergy' 'consolidation' 'related' 'unrelated' 'managerial inefficiency'	"Strategic and financial benefits that will be derived from combining these brands will enhance shareholder value significantly." Extend strategy of "UK hospitality-based, out-of-home leisure". Firm could: "…grow its share of those segments of the expanding UK leisure market that are consistent with its core skills and experience." (Bid Document) Bid document refers to 'cost savings'. (RNS Announcement, 25/5/1999)	'Asset-seeking' 'consolidation' 'related' Seeking related assets. Target's pub estate. Looking to extend its pub estate. Use of an acquisition reflected the maturity of the market. Lack of organic growth opportunities meant the need for an acquisition to drive growth.
Means of Payment and Price	'cash' 'debt' 'equity' 'share power' 'uncertainty'	Predominantly an equity-financed bid. 99% of financing from WHI's share. £2.3 bn valuation of the Target (Bid Document)	'equity' 'share power' Bidder looking to use its share power to acquire assets.

Characteristic	Codes	Evidence	Revealed Codes and Comments
Merger or Acquisition	'recommended' 'unrecommended'	A friendly bid. Favoured by board of target. (RNS announcements)	'recommended'
Conditions	'acceptances' 'Non-standard conditions'	Standard 90% acceptances. Usual approval of both groups of shareholders. In addition, WHI stated in the bid document that it: "…will separate its brewing interests following completion of the acquisitions." (Bid Document)	'Non-standard condition' The proposed acquisition would take it above the threshold established by the Beer Orders Act (1989). Hence, WHI, aware of the regulations, decided it would separate off its brewing interests. This was viewed as a radical step. Deal considered so important that the firm was forced to include this condition. It hoped the action would enable it to overcome the regulatory issues.

Table a3: Contingent Factors in the Bidding Process

Contingent Factor	Codes	Evidence	Revealed Codes and Comments
Valuation	'fair value', 'undervaluation', 'opportunistic', 'means of payment', 'premium'.	Initially, no concerns were raised about the value of the offer. Share price fell by 4.7%, reducing the value of the bid. The value of bid questioned when share price declined, since the rival bid was worth more. WHI raised the value of its bid to £2.8bn.	'fair value' Initially, no concerns were raised about the offer price, but once the uncertainty surrounding the sale of its brewing interests arose, the share price declined, causing valuation concerns.

Contingent Factor	Codes	Evidence	Revealed Codes and Comments
		(RNS Statement, 2/7/1999)	
Target Management Reaction	‘friendly’, ‘hostile’, ‘shareholder value’, ‘management entrenchment’.	A friendly bid. Target Board continually supported WHI’s bid: The Target had rejected a rival bid, highlighting the uncertain aspects. In contrast, WHI’s bid offered Target shareholders, “better value, speedier completion, greater certainty”. (RNS Statement, 23/6/1999)	‘friendly’ ‘shareholder value’
Information about Bidder	‘positive information’, ‘negative information’, ‘commercial’ ‘financial’, ‘management’, ‘share price effect’.	Bidder made the suggestion that their brewing interests would be sold to overcome regulatory issues. It was viewed as “thinking the unthinkable”. (Press report, 25/9/1999) The deal was considered so important that the company was prepared to do it. Rival bidder and other pub-chains were concerned about the concentration in brewing that would result if brewing was sold to an existing supplier. There would only be three remaining brewers in the sector. They would have the power to restrict choice by dictating supply terms. Other pub chains wanted to stop WHI being able to dispose of brewing. The rival bidder stated (the bid):	‘negative information’ ‘management’ ‘share price effect’ Viewed as well-managed and well-regarded. Incapable of pursuing acquisitions. Uncertainties surrounding the bidding process leads to share price decline. Institutional investors concerned that there was too many uncertainties and conditions attached to the purchase. WHIT shares less than two-thirds of their high-point in 1999.

Contingent Factor	Codes	Evidence	Revealed Codes and Comments
		“..raises significant regulatory issues.” (RNS Announcement, 23/6/1999) Poor liaison with the competition authorities. Poor management of the bid process. (Press Reports)	
Information about Target	‘positive information’, ‘negative information’, ‘commercial’, ‘financial’, ‘management’, ‘share price effect’.	NONE	
Rival Bid	‘rival bid’, ‘cash’, ‘premium’.	Rival private equity bidder offering cash. Target had rejected the rival offer. Lots of uncertainty surrounding the rival bid. (RNS Statements) An aggressive bidder who conducted vociferous opposition to WHI’s bid. Rival bid forced WHI to continually reiterate the benefits of its bid to shareholders. Bidder CEO commented: “In a nutshell our agreement is superior in	‘rival’ ‘cash’ A rival cash bidder. ‘aggressive’ Aggressive rival able to use tactics to thwart WHI. A vociferous takeover contest. Use of regulatory news announcements to put case to shareholders and criticise the rival bid.

Contingent Factor	Codes	Evidence	Revealed Codes and Comments
		every respect for Target shareholders.” (RNS Statement, 25/5/1999) A few weeks later, after another exchange of RNS statements, WHI emphasised the, “superior value, greater certainty and quicker completion”. (RNS Statement, 24/6/1999)	
Competition Issues	‘competition problems’, ‘referral to competition commission’.	Competition problems were a concern from the start. Company tried to allay concerns by proposing to sell brewing business. This created opposition among pub-chains. Emphasised by rival bidder. (The bid): “…raises significant regulatory issues”. (RNS Statement, 23/6/1999) WHI countered that the rival bid raised similar regulatory issues. Success of rival bidder would, “…lead to a substantial increase in the market power of (Rival)”. WHI attempted to get a referral of the rival bid. (RNS Statement, 28/6/1999) Held talks with the OFT, but reports suggest they did not manage the relationship well. OFT suggested there were issues of concern, but	‘competition problems’ ‘referral to competition authorities’

Contingent Factor	Codes	Evidence	Revealed Codes and Comments
		bidder suggested otherwise. (WHI) has had discussions with the OFT and supplied all information which the OFT has requested." (RNS Statement, 25/6/1999) Bid was eventually referred. "Concentration of off-licenses in some areas and brewing was anti-competitive." (RNS Announcement, 15/7/1999)	
Nature of Abandonment	'withdrawn', 'lapse', 'voluntary' involuntary'.	Bid was referred to competition authorities. Board' "…will not proceed with the transaction or therefore with the inquiry". Worried about the impact on the rest of the business. "Commercial effects…of the long delay imposed by the Secretary of State's decision." (RNS Statement, 15/7/1999) Further, WHI raised concerns about competition policy in this area: "…it (WHI) has serious concerns about the implications for competition policy which arise from this decision." (RNS Announcement, 15/7/1999)	'lapse' 'voluntary' Bidder realised that the bid was dead. Not just referral to the competition authorities, but the strategies and restructuring needed to make bid work created too many uncertainties. Concerned about the direct and indirect costs of trying to engage with the OFT.

Table a4: Post- Abandonment

Dimension	**Codes**	**Evidence**	**Revealed Codes and Comments**
Strategic Changes	'strategic review' 'new direction', 'reorientation'	"Strategic development is probably going to be away from brewing and pubs – they are caught in a bit of bind as to how to resolve the situation there in the long term … but the company does have quite important strategic issues to address". (Press Report, 25/9/1999) "Good progress was made towards Whitbread's objective of becoming the UK's leading leisure company." (Company Annual Report)	'strategic review' 'reorientation' A need for a new strategic direction. Move away from brewing – low growth to higher growth leisure sectors - hotels, restaurants.
Management Changes	'replacement' 'discipline' 'shareholder activism'	NONE	
Asset Restructuring	'disposals' 'consolidation' 'acquisitions' 'Growth' 'shareholder activism'	Acquisition of Hotel Group The disposal of the Brewing interests in May 2000. Sale of the Pubs & Bars division in 2000. Net Disposals equivalent to 6.9% of Net Assets in three years after abandonment. Majority occurred within 18 months.	'acquisitions' and 'disposals' Consistent with a disciplinary process involving strategic re-orientation.

Dimension	Codes	Evidence	Revealed Codes and Comments
		WHI returned 75% of the net proceeds to shareholders. (Correspondence with Director, Company Annual Report)	
Subsequently Acquired	‘takeover talks’ ‘takeover bids’ ‘discipline’ ‘shareholder activism’	None	N/A
Financial Restructuring	‘borrowing’ ‘dividends’ ‘discipline’ ‘liquidity’ ‘shareholder activism’	Returned 75% of net proceeds from sale of pubs and bars to shareholders. (Company Annual Report)	‘dividends’ ‘excess cash’ Disposed of low growth sector. Realised value returned to shareholders. Consistent with disciplinary process involving returning excess cash to shareholders.

b) Case FUT

Table b1: Bidder Characteristics

Characteristic	Codes	Evidence and Sources	Revealed Codes and Comments
Age	'young' 'mature'	21 years old. (FAME Database)	'mature' No significant issues there. Mature company. Developing a new sector.
Board Monitoring	'strong' 'weak' Proportion of NEDs on board greater than 50%	66% of board are NEDs. Conforms to Combined code at the time. (Company Annual Report)	'strong' Strong monitoring. No governance problems.
Ownership Structure	'concentrated' 'dispersed' 'weak' 'strong' 'Non-institutional' 'institutional' 'blocks'	One institution with 21.12% of share capital. Three other institutions with more that 5% of capital. Several others with over 3% of share capital. (Company Annual Report)	'concentrated', 'strong' Strong monitoring. In 2001, may have had an influence in replacing the board and 'downsizing' the company.
Managerial Incentives	Significant proportion of shares owned by managers.	1.61% of share capital. (Company Annual Report)	Insignificant holdings by managers. According to agency theory, there were poor incentives for managers.
Acquisitiveness	'acquisitiveness' 'growth'	Published data suggest a substantial acquisition programme in pre-bid period. A growth in real assets of 18.9%. Substantial average free cash of 11%.	'acquisitiveness' 'growth' Substantial amount of free cash, with debt being paid-off. A growth

Characteristic	Codes	Evidence and Sources	Revealed Codes and Comments
		(Company Annual Reports and author's calculations) The Director commented: "… from May 2003, the company engaged in a small number of bolt-on acquisitions, cash acquisitions. But, after all that, we still had a substantial amount of cash." (Interview with Director)	strategy developed to utilise free cash.
Strategy		"In 2001, company was close to the edge of a cliff. Overstretched, with a small management team operating in more than a dozen countries with a ludicrous amount of debt. We fired half the board, half the staff. A new chairman came in and I came in as the new finance director in November 2001." "There was a glorious period … where the company was debt-free, with a rising amount of net cash. So, the question throughout those three years; what the devil are we going to do with it?" (Interview with Director) Growth strategy initiated by chief executive and announced in Annual Report a year before the abandoned bid. Targeted a, "… doubling of the size of the company within five years". (Company Annual Report, 2004)	'growth' A rising amount of cash. Quotation - "What the devil are we going to do with it?" Echoes idea of a need for growth. Market forces bring pressure to drive higher growth. The underlying logic: "We must do something. This is something. Therefore we must do this."
Performance	'profitable' 'not profitable' 'free cash'	Substantial profits. "…we still had a substantial amount of cash."	'profitable' 'free cash'

Characteristic	Codes	Evidence and Sources	Revealed Codes and Comments
		(Interview with Director) Substantial free-cash 11.1% of net assets. (Company Annual Report and author's calculations)	

Table b2: Transaction Characteristics

Characteristic	Codes	Evidence	Revealed Codes and Comments
Bid Rationale	'synergy' 'consolidation' 'related' 'unrelated' 'managerial inefficiency'	There was a dynamic business environment. A mature market, but opportunities for organic and acquisitive growth. (Company Annual Report) "It was perfectly natural from a competitive point of view. We're always looking at our competitors, to see what they are doing. Are there assets to out-trade or lessons to learn from them? Or in this case, could we think about acquiring them. So, the general proposition was let's have a look at this smaller company, (the target) and see if it's in a strong or weak position. From the analysis of the publicly available information, I believe, if memory serves me correctly, it was having a tough time…" An acquisition between two of the three major firms in the UK market would enable significant synergies to be realised, generating increased scale and financial strength.	'synergy' 'consolidation' 'related'

Characteristic	Codes	Evidence	Revealed Codes and Comments
		In addition, "…a serious of announcements suggested it (the Target) was getting into serious trouble. In no particular order, there was a profits warning, debt was going up and not down, they replaced their chief executive and finance director. Things you would not expect to happen in a matter of weeks." "So, given our general position, our cash position which was positive for three years, our profit position. We thought we should have a serious look at this company." (Interview with Director)	'opportunism' FUT seeking opportunities to grow. The Target is such an opportunity. It was in trouble, so there is an opportunity to acquire it at a favourable price.
Means of Payment and Price	'cash' 'debt' 'equity' 'share power' 'uncertainty'	The bid was equity-financed - 10 FUT shares for every 83.25 Target shares. There was a partial cash alternative. Equity offer means that Target shareholders "…can share in financial and commercial improvements." This creates uncertainty for target shareholders compared to a cash bid. (Bid Document on RNS, RNS Statement by Target, 14/2/2005) "we should use as much of our share power as possible, and by doing that we will not incur any further bank debt. My feeling is that debt is more dangerous. Very easy to say this in 2010, but debt is more dangerous than people think." "The proportionate of debt to profits (is crucial), because if you get that wrong, that gives far too much power to the	'equity' 'share power' FUT was using its share power to acquire assets. 'debt' The firm wanted to avoid using debt. They were concerned about the impact that debt would have on the firm's financial position. The firm would have an unsustainable debt burden.

Characteristic	Codes	Evidence	Revealed Codes and Comments
		banks, mainly because the company has weakened itself rather than strengthened itself…So, from a lowpoint of 20p, at the time of our rights issue, through to the end of 2004 when it was about 80p, a quadrupling of the share price…we were trying to use as much of share power…" (Interview with Director)	
Merger or Acquisition	'recommended' 'unrecommended'	The bid was recommended by target management. An inducement fee was included to encourage Bidder to make an offer. If offer was withdrawn, Target would pay Bidder the sum of £300,000. (Bid Document)	'recommended' 'shareholder value' Target board in favour of bid.
Conditions	'standard' 'non-standard'	Standard conditions to bid. (Bid Document)	'standard conditions'

Table b3: Contingent Factors in the Bidding Process

Contingent Factor	Codes	Evidence	Comments
Valuation	'fair value', 'undervaluation', 'opportunistic', 'means of payment', 'premium'.	The implied premium was 35.5%. It features strongly in the recommendation that the bid represented a "fair value". The target directors have been advised, and consider that the terms of the offer to be "fair and reasonable". This takes into account the "commercial assessments of target directors". (Bid Document)	'fair value' No evidence that there was an issue with the value of the bid.

Contingent Factor	Codes	Evidence	Comments
Target Management Reaction	‘friendly’, ‘hostile’, ‘shareholder value’, ‘management entrenchment’.	Target firm was in favour of the acquisition. Target CEO stated, the offer: “…represented a fair value for shareholders.” (RNS Announcement, 14/2/05)	‘friendly’ ‘shareholder value’ New management team in Target were looking to sell the assets for as much as possible to create shareholder value.
Information about Bidder	‘positive information’, ‘negative information’, ‘commercial’ ‘financial’, ‘management’, ‘share price effect’.	None	No other information emerged during the bidding period about the bidder.
Information about Target	‘positive information’, ‘negative information’, ‘commercial’, ‘financial’, ‘management’, ‘share price effect’.	The Target announced that it was re-launching some magazine titles during the currency of the bid. (RNS announcement, 11/3/2005)	‘positive information’ ‘commercial’
Rival Bid	‘rival bid’, ‘cash’,	There was no rival bid. If a rival bid had have arisen and been accepted, this would have triggered the payment of	A rival bid didn’t emerge during the bidding process, but, concern about a

Contingent Factor	Codes	Evidence	Comments
	'premium'.	the inducement fee. (Bid Document) "We were concerned that it was a possibility." "You don't know what the other side is up to between times. They could be courting two parties. So, we didn't think there was a major risk, but we acknowledged there was a risk." "Then and now, as with the vast majority of takeover deals, the standard conditions is that if a bid is referred, it lapses. They (the target) was in a desperate situation, our perception was that someone else would come along and potentially move quite quickly and buy for a cheap price some of the more valuable magazines and assets. It was something we could believe would quite quickly be a reality." "So we were concerned that from under our nose, assets that we thought were effectively ours would disappear." (Interview with Director)	potential rival bid was crucial to the change in approach adopted after the bid was referred to the Competition Commission.
Competition Issues	'competition problems', 'referral to competition commission'.	The bid documents highlight the potential competition issues. Following the acquisition, Bidder would become the "3rd largest consumer magazine publisher in the UK. "2nd largest UK publisher of special interest consumer magazines." A combination of the magazine portfolios would enable Bidder to have increased scale and financial	'competition problems' 'referral to competition commission' Given the nature of the sector and the fact that the acquisition was between two firms within the sector, there was

Contingent Factor	Codes	Evidence	Comments
		strength. (Bid Document) OFT commented that Bidder and Target operated in the same or adjacent sectors. On that basis, the OFT would investigate whether the bid would be referred. (RNS Statement, 15/2/2005) "So, we engaged with our lawyers, did a serious amount of work to see if there were any areas of overlap … in our view, after consultation, was that there was an extremely small chance, no guarantees, but there was an extremely small chance, having met the OFT officials of having the bid referred to the Competition Commission." "We were therefore very surprised that it was announced within the prescribed time table that this matter would be referred to the Competition Commission." (Interview with Director) Two months later, the OFT referred the bid to the Competition Commission for investigation. The basis of the referral was "…supply of certain special interest consumer magazines in the UK." "Combination of the largest supplier of consumer games magazines in the UK, with its largest competitor may be expected to lead to a substantial lessening of competition in the UK."	a potential for competition issues, and so, it arose. This was the major contingent factor in abandonment.

Contingent Factor	Codes	Evidence	Comments
		(RNS Statement, 14/4/2005) "Then and now, as with the vast majority of takeover deals, the standard conditions is that if a bid is referred, it lapses." (Interview with Director)	
Nature of Abandonment	'withdrawn', 'lapse', 'voluntary' involuntary'.	"It is not in … bidder's … shareholders' interests to pursue the bid". "We have instructed the OFT to cancel the referral as we do not see it in our interests to pursue the bid." (RNS Statement, 14/4/2005) "So, suddenly at the end of March 2005, we were left with the situation were our plan was in shreds, and with the benefit of hindsight we should have walked away." "At the time, we immediately held a senior meeting in the company and we recognised we could walk away and the consequence of that would be to write-off of professional fees in the normal way." "We were sitting there thinking we have been very public about this. We have identified the assets that were making money." "So we were concerned that from under our nose, assets that we thought were effectively ours would disappear. And	'lapse' 'involuntary' Standard condition to allow the bid to lapse. No other significant trigger to abandonment, but forced another course of action on the bidder, which had more serious consequences.

Contingent Factor	Codes	Evidence	Comments
		so we hatched a plan which was essentially, and with hindsight we shouldn't have done, but we all sat around and tried to cherry-pick the assets." (Interview with Director)	

Table b4: Post- Abandonment

Dimension	Code	Evidence	Revealed Codes
Strategic Changes	‘strategic review’ ‘new direction’, ‘reorientation’	“At the time, we immediately held a senior meeting in the company and we recognised we could walk away…” “We thought we would decide the ones we want and the price we would pay…We made the mistake of coming up with this so called cherry-picked list of about 44 titles and negotiated a price with them of £30.5 mn in cash.” “the assets of (Target) which we cherry-picked, whichever way you look at it, they either underperformed or, and/or, we paid too much for them. So, sticking all of that together, so our £22mn (profit) was dropping and the £5mn (profit) from (target’s) assets wasn’t there and dropping, and we paid too much, so suddenly the debt-to-profit figure didn’t look good.” The growth strategy “…led to a worry that the senior management may become over-extended and the chief executive had his credibility eroded. The decision to move from an acquisition strategy to an organic mode in 2006.” (Interview with Director)	‘strategic review’ No immediate review. Initially, the deal was restructured. Only after the CEO proposed another, bigger acquisition, were concerns raised.
Management Changes	‘replacement’ ‘discipline’	CEO was replaced in the year following the bid. (Company Annual Report) “Debt was a factor (in the change in strategy), but there is another reason, and it is not a matter of public record, but	‘replacement’ ‘discipline’ Proposed a ‘value-destroying’ acquisition.

Dimension	Code	Evidence	Revealed Codes
		if you scratch your head long enough you would work it out, given the chief executive left shortly afterwards … within weeks of us acquiring the assets of the target, he (the chief executive) was keen for (Bidder) to seek to acquire a yet larger deal, of a significant multiple of the abandoned deal in an overseas company, which in my opinion would have killed the company. And he (the CEO) put himself in a minority of one (of the board). (Interview with Director)	Raised concerns among other board members about strategic direction of the company. This initiated a disciplinary process which started with the removal of the CEO.
Asset Restructuring	'disposals' 'consolidation'	Net Disposal equivalent to 4.9% of net assets. (Company Annual Report and author's calculations) The growth strategy "…led to a worry that the senior management may become over-extended and the chief executive had his credibility eroded. The decision to move from an acquisition strategy to an organic mode in 2006…" (Interview with Director)	'disposals' 'consolidation' Part of the retrenchment after the replacement of the CEO.
Being Acquired	No Issues	No issues	N/A
Financial Restructuring	'borrowing'	62 percentage point rise in gearing compared to pre-bid level. (Company Annual Report) "…and from that moment, to this day, we have been in debt." (Interview with Director)	'borrowing' No evidence that increased debt was part of bonding. Instead, it was part of the restructured deal.

c) Case CAT

Table c1: Bidder Characteristics

Characteristics	Codes	Evidence	Revealed Codes and Comments
Age	'young' 'mature'	Company was 10 years old at time of bid. Biotechnology sector (FAME database)	'young' Young company in a young sector.
Board Monitoring	'strong' 'weak' Proportion of NEDs on board greater than 50%	Meets the requirements of Combined Code at the time with 50% of board being NEDs. (Company Annual Report, 2003)	'strong' Suggests strong board monitoring.
Ownership Structure	'concentrated' 'strong' 'dispersed' 'Non-institutional' 'institutional' 'blocks'	A reasonably concentrated structure. 4 institutional ownership blocks held a total of 31% of share capital. (Company Annual Report, 2003)	'concentrated' 'strong' 'institutional' Suggests strong monitoring by outside shareholders.
Managerial Incentives	'strong' 'weak' Significant proportion of shares owned by managers	Managers held 2% of total share capital. Insignificant proportion of shares owned by managers. (Company Annual Report, 2003)	'weak' Weak incentives provided to managers.
Acquisitiveness	'acquisitiveness' 'growth'	"We (the bidder) already had some joint ventures and licensing arrangements." "For instance, in the year before the bid for … target…, Bidder…had a failed bid for another company. If that had	'acquisitiveness' 'growth' Already made an aborted bid for another company in previous year.

Characteristics	Codes	Evidence	Revealed Codes and Comments
		have succeeded, then the bid for …target…would probably never had happened." (Interview with director)	
Strategy	Acquisition Strategy	I think there was the belief in the strategy … that drug development was a statistical game. There would be lots of drug development that would fail and for that model to work, companies need a broad span of business and funnel down into one successful product. It was a model that required a lot of scale and therefore quite a lot of money to get things, if not all the way to the market, to a point where you could retain significant value before bringing in a partner." We were, "seeking partners to exploit the technology, either through joint ventures, licensing or indeed acquisitions. We (the bidder) already had some joint ventures and licensing arrangements. This was part of that strategy." "We talked to everyone. It was the nature of the industry to do deals with others." Annual reports demonstrate examples of licensing and joint ventures. (Interview with Director)	Not really an acquisition strategy, but a broader strategy of engagement with potential partners to exploit the resources of the company. This industry involves a lot of strategic interaction. Acquisition activity is part of broader strategy that involves constant interaction between companies. Companies attempt to spot opportunities for beneficial collaboration.
Performance	'profitable' 'Not profitable' 'free cash'	Average pre-bid return on capital employed was -10.8%. (Company Annual Reports and author's calculations)	'Not profitable' The company was a young company in its early growth phase. Lots of cash raised, but committed to R&D. Not profitable.

Table c2: Transaction Characteristics

Characteristic	Codes	Evidence	Revealed Codes and Comments
Bid Rationale	'synergy' 'consolidation' 'related' 'unrelated' 'managerial inefficiency'	Sharing portfolio of assets and financial resources key. The enlarged group would create strong synergies with a stronger and broader product portfolio. Stronger development and discovery capabilities and financial resources to build pipeline and drive further growth. (Bid Document) The Director Commented: The Company was "…seeking partners to exploit the technology, either through joint ventures, licensing or indeed acquisitions." "A prerequisite, hold-on, a necessary condition, but not a sufficient condition was cash. There were lots of companies with interesting portfolios of assets and no cash. To find a company with an interesting portfolio and some cash was rare." "In 2000, what looked like a bubble and was a stock market bubble, an enthusiasm for biotech companies. Two of the big exponents at the time were …the bidder and target. The two companies funded aggressively. Bidder raised, we raised £93mn in March 2000, GOS raised over £100mn in November." "We talked to everyone. It was the nature of the industry to do deals with others."	'synergy' The sharing of the portfolio of assets and financial resources key. So, synergistic benefits were important- particularly cash. This had an influence in the choice of the means of payment (see below). Another issue that arose was 'opportunism'. This was not viewed negatively. The bid was an opportunity to bring together resources. Had to be taken despite the risks. This involved a range of relationships with other companies.

Characteristic	Codes	Evidence	Revealed Codes and Comments
		"It (the target) just happened to become available and just happened to fit into the strategy. That's how we came to it." "…it was an opportunity that won't come around again. It (the bid) was too good an opportunity to let slip by. Too good an opportunity to miss." (Interview with Director)	
Means of Payment and Price	'cash' 'debt' 'equity' 'share power' 'uncertainty'	The bid was an all-equity one. Offering 0.362 CAT shares for each target share. Valued target at 195.5p per share. A 28.2% premium. (Bid Document) "The rationale for the bid would be undermined if cash were used. If it were, the enlarged company would have cash resources that were substantial, but were insufficient to meet the bidders' needs going forward. Funding issues were an on-going problem and it would have compounded the funding problem. A prerequisite, the way of doing this was with shares. Keep cash to invest in the business to fund investments rather than returning it to shareholders." (Interview with Director) This phrase is used in a series of annual reports: "…will continue to consider these sources (revenue streams and equity finance), though there can be no assurance that the company can generate significant revenue nor that equity finance will be available on	'equity' 'funding problem' 'liquidity' The use of equity as the means of payment was a liquidity issue. Keep cash in enlarged business to take forward. Firm continually referred to funding issues. This suggests financial weakness at this stage of the company's development where product development has not reached the stage where the company was self-financing.

Characteristic	Codes	Evidence	Revealed Codes and Comments
		acceptable terms or at all." (Company Annual Report, 2003) "The other concern was, (pause), you're open to the possibility of a rival cash offer. Cash is more attractive as a consideration than paper. It offers more possibilities, more opportunities, for the acquirer. Its textbook stuff that you're more vulnerable to someone coming in and offering cash. We did look around, but didn't think that anybody intervening with cash was likely." (Interview with Director)	
Merger or Acquisition	'recommended' 'unrecommended'	The bid was recommended. It was a merger. The bid was recommended by the target management. The Target chairman, stated that the equity bid means that shareholders 'will benefit from the strengthened opportunities for the combined company.' (RNS Announcement, 24/1/2003) The target shareholders will have 36% of merged group. They will share in future company growth. The combined firm will have "greater financial strength", "greater flexibility", in meeting future funding requirements. (RNS Announcement, 24/1/2003) The Bidder director commented: "It was a merger, but I think the distinction between a takeover and merger is an arcane one." "Structurally whether this was done as a scheme rather than a merger	A merger of companies at the same stage of development. Suggests that the merger was part of the growth and development of the industry, particularly consolidation among the many start-up firms that emerged at the outset of the industry. Target Shareholders encouraged to accept the bid in order to share in the future benefits provided by the merging of the two companies resources.

Characteristic	Codes	Evidence	Revealed Codes and Comments
		doesn't make a great deal of difference. So, it started with an informal approach and informal discussions. Bidder…was the larger in terms of scale and market capitalisation, but it was better to present it as a merger rather than a takeover." (Interview with Director)	
Conditions	'acceptance conditions' 'standard conditions' 'non-standard conditions'	90% acceptance condition (Bid Document)	'Standard conditions'

Table c3: Contingent Factors in the Bidding Process

Contingent Factor	Codes	Evidence	Revealed Codes and Comments
Valuation	'fair value', 'undervaluation', 'opportunistic', 'means of payment', 'premium'.	Bidder director comments: "The equity bid was at a 28.2% premium to target's current share price. The merger viewed as beneficial to both parties. At outset, the price and terms was not considered a problem." (Interview with Director) "Pretty much after (the bid was announced) there was a	At the outset, bid viewed as a 'fair value'. 'undervaluation' The gradual share price decline happened before the announcement of negative information. It suggests that the sell-off by the US institution

Contingent Factor	Codes	Evidence	Revealed Codes and Comments
		constant decline in the share price. We attributed this to… a US financial institution… selling shares, and the price had been drifting down. This meant that the value of the bid drifted down to a point where the value of the offer was equivalent to underlying cash in …the target.” (Interview with Director) It was then that the rival bid emerged. Then, “3-4 weeks after RIVAL’s announcement that we announced …the royalty dispute. The share plummeted, losing £1 in a day. In terms of the outcome of the offer, you can speculate what would have happened, but the cataclysmic decline put a nail in the coffin of the bid.” (Interview with Director)	was associated with a portfolio decision on their part. This reduced the value of the bid to the extent that valuation issues arose. Supports the idea that equity bids are in a weak position. A situation the director of the bidder acknowledged. Commented on by advisors as well. Then, rival bid emerged. Finally, the announcement of negative information about the bidder reduced the share price to the extent that the value of the bid was no longer viable.
Target Management Reaction	‘friendly’, ‘hostile’, ‘shareholder value’, ‘management entrenchment’.	“The CEO…He hadn’t been long in post. He looked at Target’s portfolio and felt that if you looked at Target’s portfolio, the bid was a good outcome for them.” (Interview with Director) The Target’s chairman, stated that the equity bid means that shareholders ‘will benefit from the strengthened opportunities for the combined company.’ (RNS announcement, 24/1/2003)	‘friendly’ ‘shareholder value’ Target management focusing on what’s best for shareholders. They stated that the merger was in the best interests of Target shareholders.

Contingent Factor	Codes	Evidence	Revealed Codes and Comments
		The Target's shareholders will have 36% of merged group. They will share in company growth. The combined firm will have "greater financial strength", "greater flexibility", in meeting future funding requirements. (RNS announcement, 24/1/2003) Keep that view throughout, Even after the rival bid, Target management believed bid enabled their shareholders to enjoy "future benefits". (RNS announcement, 14/3/2003) Eventually forced to switch recommendation in interests of shareholder value. (RNS announcement, 14/4/2003)	
Information about Bidder	'positive information', 'negative information', 'commercial' 'financial', 'management', 'share price effect'.	The announcement of the royalty dispute happened in the middle of the bid process. The uncertainty regarding the extent of royalties due to bidder led to a 17% drop in its share price. This decreased the value of the bid to 168p per share, creating an opportunity for rival bid. (RNS Announcement, 14/3/2003) "…the cataclysmic decline put a nail in the coffin of the bid." (Interview with Director)	'negative information' 'commercial information' 'share price effect' The revelation of negative commercial information led to the share decline in share price. As quotation from bidder management suggests, this illustrated the weak position of equity bids such as this.

Contingent Factor	Codes	Evidence	Revealed Codes and Comments
Information about Target	'positive information', 'negative information', 'commercial', 'financial', 'management', 'share price effect'.	NONE	N/A
Rival Bid	'rival bid', 'cash', 'premium'.	Rival bid was a cash offer that was in fact at a discount to the initial bid. However, given the slide in bidder's share price, it was seen as competitive. RIVAL admitted that the bid was "opportunistic", "taking advantage of the situation to acquire assets at a discount." (RNS announcement, 26/2/2003) "It was no surprise that someone took advantage of the share price decline." "RIVAL's bid existed. It was a cash bid, a competitive bid. Institutional investors are attracted to cash. They prefer cash to paper." "There might have been comments from analysts that started about the time of RIVAL's bid, that putting in some cash would help, but in our view that would be self-defeating." (Interview with Director)	'cash ' No premium. 'opportunistic' Rival bidder seizing an opportunity when it arose. Offered cash which is attractive to institutional investors who prefer cash to paper.

Contingent Factor	Codes	Evidence	Revealed Codes and Comments
		The target never recommended RIVAL's bid, seeking alternative options once it became clear that Bidder was not prepared to raise its price. None were forthcoming. Eventually the management recommended that shareholders should accept RIVAL's offer in the absence of others. (RNS Announcements)	
Competition Issues	'competition problems', 'referral to competition commission'.	NONE	
Nature of Abandonment	'withdrawn', 'lapse', 'voluntary' involuntary'.	Bidder made a Rule 2.5 announcement, so posted documents. (RNS Announcement, 7/2/2003) 30% acceptances received, but once share price started to decline, no further acceptances received. (RNS announcements) Once target switched recommendation, the bid was bound to lapse. (RNS announcement, 14/4/2003)	'lapse' 'involuntary' Insufficient acceptances. Unable to raise value of bid because of liquidity issues. Equity bid susceptible to share price declines.

Table c4: Post- Abandonment

Area	Codes	Evidence	Comments
Strategic Changes	'new direction', 'reorientation' 'shareholder activism'	"Target was not the only strategy. It was one particular strategy. The failure of that bid enabled the company to adopt a different strategy. A strategy it was able to execute and execute successfully- a strategy to cement a very large alliance with a single party. Leverage value of platform by charging for access to someone with downstream expertise to pull products through." "Well, if we'd completed the merger, we'd have been presented with this set of possibilities (hand movement to the left signalling one set of possibilities). The fact we didn't do the merger, meant we were presented with a different set of possibilities (hand movement to the right signalling another set of possibilities)." "Well, it did in the sense that it meant a change in strategy. The deal with GOS would have taken the company in a particular direction. The failed bid meant a new strategy. However, I wouldn't over-emphasise the impact of abandonment. Strategy meanders! An event happens and leads to a particular strategy. Something else happens and this takes the company off in another direction." (Interview with Director)	'new direction' This suggests that companies have a number of different possible strategies. They underplay the impact of abandonment in a negative sense. It just meant the company had to get on with an alternative strategy to generate shareholder value. Not tied to any particular strategy. Happy to adopt different strategies.
Management Changes		NONE	

Area	Codes	Evidence	Comments
Asset Restructuring		NONE	
Being Acquired	'takeover talks' 'takeover bids' 'discipline' 'shareholder activism'	The company entered into several alliances in the period after abandonment. One of these involved the selling of 19.3% stake to a downstream company. This eventually led to a takeover of the company by this company. (Company Annual Report) On the subject of takeover talks, the director stated: "We talked to everyone. It was the nature of the industry to do deals with others. For instance, shortly after the abandoned bid, we did a deal with the market leader. The deal was a hugely important deal for us. It brought in £40mn. This was an example of strong links. The deal changed control aspects of the relationship between the two companies. It satisfied their (market leader's) needs. It was an opportunity, we were already partners, so there was a high degree of trust." "We recognised it (the takeover) was a possibility. The partner… had access to our technology on a preferential basis. Their position within the strategic alliance with us was of great significance. We could only allow one company in such a position. There was no other partner." "We recognised at the time that the possibility of being bought out at the right price was a satisfactory outcome for shareholders."	'takeover talks' 'takeover bid' The director underplays the significance of takeover bids. Discussions with other companies happening all the time. Not a major issue. They made bids. They received bids. They were comfortable about that. There is no sense subsequent bids were disciplinary. Being acquired at the right price was part of maximising shareholder value. So was acquiring another company at the right price. Little support for Mitchell and Lehn (1990)

Area	Codes	Evidence	Comments
		(Interview with Director)	
Financial Restructuring	'Equity issues' 'borrowing' 'dividends' 'discipline' 'liquidity' 'shareholder activism'	There were frequent references to financing issues in the company's accounts in the three years after the abandoned takeover, in the same way as before the abandoned bid. The director commented: "There was no immediate financial constraints. At the time of abandonment, the company was financial strong. Looking ahead, the company was down to three years cash, so the company was relatively comfortable. However, the joint venture and legal success (over the royalty dispute) alleviated the cash problems." "… it was further recognised that the company stood up on its own terms. It was a success. It generated products. This would have been taken forward … within the parameters of the strategic alliance." (Interview with Director)	'liquidity' 'equity issues' The company certainly had liquidity problems since they weren't generating sufficient revenues to fund projects going forward. In order to alleviate liquidity problems, the company had to sell tranches of shares to outside groups to bring in finance. The director admitted this by stating the joint venture and the resolution of the legal dispute helped with liquidity, but they would have been happy to remain independent had the opportunity to be acquired not arisen.

d) Case TRG

Table d1: Bidder Characteristics

Characteristic	Codes	Evidence	Revealed Codes and Comments
Age	'young' 'mature'	52 years old. (FAME Database)	'mature' Theory suggests that such a mature company can be susceptible to value-destroying bids.
Board Monitoring	'strong' 'weak' Proportion of NEDs on board greater than 50%	37.5% of boards are NEDs. (Company Annual Report)	'weak' According to theory. Weak governance. Suggests poor monitoring by the board.
Ownership Structure	'concentrated' 'dispersed' 'Non-institutional' 'institutional' 'blocks'	5 institutions held a total of 50% of share capital. No outside non-institutional shareholders. (Company Annual Report)	'concentrated' 'institutional' Consistent with governance codes. Replacement of managers two years previously suggests shareholder activism.
Managerial Incentives	'weak' 'strong' Significant proportion of shares owned by managers	Insignificant shareholdings by managers. 0.02% of share capital. (Company Annual Report)	'weak' Illustrates weak incentives for managers
Acquisitiveness	'acquisitiveness' 'growth'	Little evidence of acquisitiveness in previous few years. Net acquisitions of less than 1% of total assets in three years prior to bid. However, there was a high level of investment spending equivalent to 33% of net assets. (Company Annual Report)	No acquisitions. No evidence of growth strategy. Lots of restructuring signified by the high level of capital spending.

Characteristic	Codes	Evidence	Revealed Codes and Comments
Strategy		Two years previously, company had been considered a "basket case". The management of the company was replaced. New team conducting restructuring and reorientation. Turned into a "half-decent company". Market analysts considered company "stale". The bid was their first major acquisition since new management came in. (Press report, 18/11/03) "The company had lost its way. It had dissipated its efforts in too many brands in this market…the popular catering market," (Interview with Executive Chairman, Sunday Telegraph, 11/1/04) "The idea (of restructuring) was to bring focus." (Interview with Executive Chairman, Sunday Telegraph, 11/1/04)	Strategy had been to turn around the company. Comment that company was "stale" suggests a lack of opportunities for the company through internal growth, so external growth was the alternative option.
Performance	'profitable' 'not profitable' 'free cash'	Average pre-bid performance was 6.7% Free cash of 3.4% of net assets. (Company Annual Report)	'profitable' 'free-cash'

Table d2: Transaction Characteristics

Characteristic	Codes	Evidence	Revealed Codes and Comments
Bid Rationale	'synergy' 'consolidation'	It was proposed that the merger would create a company with a strong growth potential and a leading position in	'synergy' 'related'

Characteristic	Codes	Evidence	Revealed Codes and Comments
	'related' 'unrelated' 'managerial inefficiency'	the UK dining market. The market viewed that there was strong complementarities between the companies' portfolios – Bidder in out-of-town restaurants; Target in high-street chains. (Bid Document) Acquisition of Target was an opportunity to buy entrepreneurial flair. Target management viewed as bright entrepreneurs in the sector. "Inevitably, you look around at what else is happening. To us, the most admired competition on the high street was (the Target)." (Interview with Executive Chairman, Sunday Telegraph, 11/1/04)	Consistent with growth strategy. 'opportunism' 'entrepreneurship' Consistent with the characteristics of the bidder at the time of the bid.
Means of Payment	'cash' 'debt' 'equity' 'share power' 'uncertainty'	A part cash / share offer: 40% cash; 60% equity. (Bid Documents)	'cash' 'equity' Give target shareholders some cash, but also a stake in the enlarged company.
Merger or Acquisition	'recommended' 'unrecommended'	Extremely friendly. The target management recommended the deal. "The founders are looking for an exit for their investment and have been selling shares in the company, holding 16% at the time of the bid. They would be joining the board of the enlarged group." (Press report, 20/11/2003)	'recommended' As substantial shareholders, Target managers looking to cash in gains from growth of company. Target directors to be joining the board. Have an incentive to

Characteristic	Codes	Evidence	Revealed Codes and Comments
		Indeed, Managing director of TRG left during the bid period. (RNS Announcement, 1/12/2003)	encourage growth of the company.
Conditions	'Acceptances' Non-standard conditions'	90% acceptances required (Bid Document)	'Acceptances' Nothing unusual about such a high level of required acceptances. No other non-standard conditions.

Table d3: Contingent Factors in the Bidding Process

Contingent Factor	Codes	Evidence	Comments
Valuation	'fair value', 'undervaluation', 'opportunistic', 'means of payment', 'premium'.	Several weeks into the bid process, doubts were raised by market analysts about whether the merger would be completed. It forced the companies into issuing a statement that "…due diligence had been materially completed." "Terms substantially agreed." (RNS Statement, 11/12/2003) Investors Chronicle advised: "Target shareholders ought to hold out for a tasty slice of the action to reflect what they're bringing to the table." Bidder should, "…sweeten offer by lifting cash element to 50% and providing a clearer rationale for synergies."	'undervaluation' Evidence suggests concerns among investors about the value of the bid. There was a view that the bidder needed the target more than the target needed the bidder and requires the bidder to increase the value of its bid.

Contingent Factor	Codes	Evidence	Comments
		(Investor's Chronicle, 21/11/2003)	
Target Management Reaction	'friendly', 'hostile', 'shareholder value', 'management entrenchment'.	Initially friendly. The target management recommended the deal. They would be joining the board of the enlarged group. (RNS Statement, 10/1/2004) However, once potential rival bids emerged, the target commented that "any proposal would be judged on its merits." (RNS Statement) When rival formal bid arises, Target directors switched recommendation to that higher cash bid (RNS Announcement, 13/2/2004)	'friendly' Initially friendly. Target management, as major shareholders viewed the acquisition as an opportunity for exit that would enable the managers to move onto another project. 'shareholder value' Content to accept a higher offer if one emerges. Indeed, may have been attracted by possibility of a cash bid. Enable an unambiguous exit for the target managers.
Information about Bidder	'positive information', 'negative information', 'commercial' 'financial', 'management', 'share price effect'.	Strong Christmas trading reported by Bidder. (Press Report, 10/1/2004)	'positive information' 'commercial' "Raises mood" for the bid.
Information about Target	'positive information', 'negative information', 'commercial', 'financial', 'management', 'share price effect'.	Market comment highlights the skills and entrepreneurial flair of Target. Strong Christmas trading reported by Target. (Press Report, 10/1/2004)	'positive information' Target viewed as an attractive proposition. Press comment and trading statements reiterates that point.

Contingent Factor	Codes	Evidence	Comments
Rival Bid	'rival bid', 'cash', 'premium'. 'trade'. 'switched recommendation'	Another rival bidder views the target's books. The target commented that "any proposal would be judged on its merits." RNS Statement, 10/1/2004) A rival cash bid emerged from a private equity group at a substantial premium to TRG's bid. The rival bidder had previous acquisition experience in the sector. The target board commented that an offer is "extremely attractive" at that level. It took a few weeks for a formal bid to emerge. Eventually, the rival bidder was given a 'Put-up or shut-up' deadline by the Takeover Panel. (RNS Announcement, 3/2/2004) On the deadline, a formal bid is announced. Target directors withdrew their support for TRG's bid and switched recommendation to higher rival bid. (RNS Announcement, 13/2/2004)	'cash' 'premium' 'switched recommendation' Suggests that target managers prepared to accept the highest possible bid at an acceptable premium. Switch their recommendation to the higher bid. Interested in maximising the value to their shareholders through a cash exit. 'opportunism' Bid by TRG signalled the availability of the Target and rival bidder saw an opportunity to acquire Target.
Competition Issues	'competition problems', 'referral to competition commission'.	The merger "was given clearance by the Office of Fair Trading". (RNS Announcement, 19/1/2004)	No competition problems arising from the bid.

Contingent Factor	Codes	Evidence	Comments
Nature of Abandonment	'withdrawn', 'lapse', 'voluntary' involuntary'.	Company made a 2.5 announcement, so documents were posted. 47% acceptances received. Needed 90% acceptances. Quite substantial proportion collected up to the point where rival bid emerged and recommendation switched. After that, very few further acceptances. (RNS Statements between 26/1/2004 and 3/2/2004) CCR allowed their bid to lapse stating that: "Overpaying would have jeopardised their position. Wanted the right deal at the right price." (RNS Statement, 13/2/2003)	'lapse' 'involuntary' Insufficient acceptances. Wanted to pursue the bid, but was not prepared to pay too high a price. Wouldn't raise their bid price.

Table d4: Post-Abandonment

Dimension	Codes	Evidence	Revealed Codes and Comments
Strategic Changes	'strategic review' 'new direction', 'reorientation'	"Financing, part of which was to finance the abandoned takeover is viewed as a launch pad to developing…the Bidder." (RNS Announcement, 13/2/2004)	'launch pad' could be interpreted as a new start. Searching for alternative growth opportunities. No evidence of governance changes.
Management	'replacement'	No replacement of CEO or other changes at board	No discipline or shareholder activism.

Dimension	Codes	Evidence	Revealed Codes and Comments
Changes	'discipline' 'shareholder activism'	level. (Company Annual Report)	
Asset Restructuring	'high disposals' 'consolidation' 'high acquisitions' 'Growth' 'shareholder activism'	Net Acquisitions equivalent to 53% of Net Assets acquired in the three years after abandonment. (Company Annual Report)	'high acquisitions' 'growth' Not consistent with discipline. Consistent with growth strategy revealed by abandoned bid and reiterated after abandonment.
Being Acquired	'takeover talks' 'takeover bids' 'discipline' 'shareholder activism'	None	
Financial Restructuring	'borrowing' 'dividends' 'discipline' 'liquidity' 'shareholder activism'	Gearing reduced by 55.5 percentage points compared to pre-bid period. (Company Annual Report)	'low borrowing' No evidence of higher gearing to bond managers to shareholders interests. Used free cash to reduce debt burden.

e) Case MEL

Table e1: Bidder Characteristics

Characteristic	Codes	Evidence	Revealed Codes and Comments
Age	'young' 'mature'	Incorporated in 2003. 1 year old at time of abandoned bid. (RNS)	'young'
Board Monitoring	'strong' 'weak' Proportion of NEDs on board greater than 50%	Small board of four. Only one NED- a proportion of 25%. (Company Annual Report)	'weak' Reflecting the age and size of the company as a cash shell.
Ownership Structure	'concentrated' 'dispersed' 'Non-institutional' 'institutional' 'blocks'	Eight institutions held 63.3% of shares at the time of the abandoned bid. (Company Annual Report)	'concentrated' 'strong' Consistent with corporate governance codes.
Managerial Incentives	'strong' 'weak' Significant proportion of shares owned by managers	Executive Directors held 7.4% of shares in the company. A significant block. (Company Annual Report)	'strong' Strong incentives to pursue value-enhancing acquisitions.
Acquisitiveness	'acquisitiveness' 'growth'	A young company so no trail of evidence regarding acquisitions. (RNS)	n/a
Strategy		The stated strategy of the company was to: "acquire companies whose performance could	Clear acquisition strategy to turnaround the performance of companies. Evidence of a

Characteristic	Codes	Evidence	Revealed Codes and Comments
		be improved by better management." (Bid Document)	governance role.
Performance	'profitable' ''free cash'	In short period of trading had made an operating loss of -1.04%. Performance of the management team at previous company (WAS), where they suggested that shareholders received a return of 18% per annum over a 12 year period. (Bid Document)	Not reflective of activity since the company was a cash shell. Performance of previous company suggests a focus on shareholders.

Table e2: Transaction Characteristics

Characteristic	Codes	Evidence	Revealed Codes and Comments
Bid Rationale	'synergy' 'consolidation' 'related' 'unrelated' 'managerial inefficiency'	In their bid document, MEL included a "damning indictment" of the performance of Novar's board in delivering shareholder value, particularly criticising the new CEO. "Your board has already destroyed a great deal of value simply through the poor running of the business." (Bid Document)	'unrelated' 'managerial inefficiency' Consistent with strategy of turning around poorly performing companies.
Means of Payment	'cash' 'debt' 'equity' 'share power' 'uncertainty'	Part share / part cash offer. 1 MEL share and 45p in cash, valuing Target at 140-150p per share. (Bid Document)	'equity' 'share power' Consistent with the use of share power to acquire target. Target shareholders can enjoy any post-acquisition growth.

Characteristic	Codes	Evidence	Revealed Codes and Comments
Merger or Acquisition	'recommended' 'not recommended'	Bid was a tender offer. There was no discussion. Target management were hostile. Highlighted that the management were committed to shareholder value They would consider offers for the company, but the value and structure of this offer "'undervalued (Target)". (RNS Announcement, 4/11/2004)	'not recommended' Hostility consistent with a 'disciplinary' acquisition.
Conditions	'standard' 'non-standard'	Anticipated 90% acceptance condition (Bid Document)	'standard'

Table e3: Contingent Factors in the Bidding Process

Contingent Factor	Codes	Evidence	Revealed Codes and Comments
Valuation	'fair value', 'undervaluation', 'opportunistic', 'means of payment', 'premium'.	Part share / part cash offer. Valued Target at £1.40-£1.50. A 17% premium on Target's share price. Target management resistance focused on the value of the bid and the terms of the deal, particularly the means of payment. (Bid Document) "Given the relative size of the companies, the upshot of a takeover would be to give Target's shareholders replacement shares in their own company." Target management rejected bid, advising shareholders to take no action. "MEL's offer fails to reflect the true value of the	'undervaluation' 'means of payment'

Contingent Factor	Codes	Evidence	Revealed Codes and Comments
		company." "MEL management would take a substantial chunk of the upside of any future value creation." (RNS Statement, 29/11/2004)	
Target Management Reaction	'friendly', 'hostile', 'shareholder value', 'management entrenchment'.	Target management were hostile. Highlighted that the management as committed to shareholder value They would consider offers for the company, but the value and structure of this offer 'undervalued (Target)'. Target's continued defence focused on the terms of the deal, emphasising that it undervalued the company. (Various RNS Announcements between 4/11/2004 and 13/12/2004) For example, they stated (the offer): "…deprived shareholders of a substantial element of the upside we are confident we can deliver." (RNS statement, 29/11/04)	'hostile' 'shareholder value' Hostility focused on price and the means of payment.
Information about Bidder	'positive information', 'negative information', 'commercial' 'financial', 'management', 'share price effect'.	Negative information reported by Target management about how MEL's management would benefit from future performance through the means of payment. (RNS Announcement, 10/11/2004) Other positive information emphasised. Strong performance of management team at previous company was highlighted- Growth of 18% p.a. over 12 years. (Bid Document)	'negative information about management' 'positive information about performance'

Contingent Factor	Codes	Evidence	Revealed Codes and Comments
Information about Target	'positive information', 'negative information', 'commercial', 'financial', 'management', 'share price effect'.	Information revealed about the poor performance of the Target. A need for the Target to improve performance. (Bid Document)	'negative information' 'commercial' 'management'
Rival Bid	'rival bid', 'cash', 'premium'.	Target's management would consider offers. Bid a "…catalyst for a number of other parties to express interest in the group's business." 'White knight' emerges. A recommended cash bid of £1.85. A substantial premium to MEL's offer. Rival's offer is considered more attractive. (RNS Announcement, 13/12/2004)	'rival bid' 'cash' 'premium' Target management sought an alternative offer. More attractive than MEL's offer. Higher value and financed by cash. Attractive to shareholders.
Competition Issues	'competition problems', 'referral to competition commission'.	No Competition Issues.	
Nature of Abandonment	'withdrawn', 'lapse', 'voluntary' 'involuntary'.	4.1% acceptances from Target shareholders. Very low. Allowed bid to lapse stating: their '…conditions had not been met and it would allow its offer to lapse.' (RNS Announcement, 20/12/2004)	'lapse' 'voluntary' Not prepared to raise bid and overpay.

Table e4: Post-Abandonment Changes

Dimension	Concept	Evidence	Revealed Codes and Comments
Strategic Changes	'strategic review' 'new direction', 'reorientation'	None The directors tend to underplay the impact of the abandonment. The abandoned bid as one of many options and "…the failure of one such bid therefore had no impact on the company or lasting effects…" (Correspondence with Directors by author)	
Management Changes	'replacement' 'discipline' 'shareholder activism'	None	
Asset Restructuring	'disposals' 'consolidation' 'acquisition' 'Growth' 'shareholder activism'	Several large acquisitions were pursued in the months after abandonment. Restructuring conducted. (RNS Announcement, 21/4/2005)	'acquisitions' In line with strategy of improving performance in Target companies. Purchased firms and restructured them to realise value.
Subsequent Acquisition	'takeover talks' 'takeover bids' 'discipline' 'shareholder activism'	None	
Financial Restructuring	'borrowing' 'dividends' 'discipline'	Large increase in gearing percentage immediately after abandoned bid to fund the large acquisitions.	'borrowing' 'liquidity'

Dimension	Concept	Evidence	Revealed Codes and Comments
	‘liquidity’ ‘shareholder activism’	Increased gearing of 112 percentage points. (Company Annual Report)	No evidence the increase in gearing is a disciplinary response. Part of the financing associated with the acquisition strategy of the company.

f) Case REG

Table f1: Bidder Characteristics

Characteristics	Codes	Evidence	Comments
Age	'young' 'mature'	14 years old at time of bid. (FAME Database)	'young' A young company in late night drinking sector.
Board Monitoring	'strong' 'weak' Proportion of NEDs on board greater than 50%	Only 33% of board are NEDs. (Company Annual Report)	'weak' Weak monitoring. According to theory illustrates weak governance. Did not conform to the Combined Code. This suggests this could have been a contributory factor in poor performance before abandonment – the governance issues referred to by Director in interview.
Ownership Structure	'concentrated' 'dispersed' 'Non-institutional' 'institutional' 'blocks'	No non-institutional blocks. Some institutional blocks held. Largest block is 9.9%. Then, one at 9.33%. 2 @ 6% approximately. Others at 3% level. (Company Annual Report)	'dispersed' 'institutional' Despite this, some evidence of shareholder activism with replacement of managers in the year before abandoned bid.
Managerial Incentives	'strong' 'weak' Significant proportion of shares owned by managers	About 1% of share capital held by managers. (Company Annual Report)	Poor incentives. Theory suggests this could have been a contributory factor in the poor performance and governance issues referred to by Director in interview.
Acquisitiveness	'acquisitiveness'	Not acquisitive. Had net disposals in three	'Not acquisitive'

Characteristics	Codes	Evidence	Comments
	'growth'	years prior to bid of 14.9%. (Company Annual Report and author's calculations)	'Low growth' Struggling. Net disposals show a need for consolidation. There was a lack of growth opportunities.
Strategy		A Director commented: "The previous year, the bidder had got itself into a lot of trouble. Performance issues, issues of governance and that sort of stuff. The previous management team had been removed and myself and chairman came in, having just sold a business, to try and restore its fortunes…" (Interview with Director) "…obvious that Bidder and a number of other players in the sector were sub-scale. The overheads were too big for the type of business, not getting the benefits of purchasing power, not getting the benefits of marketing power." "We were finding organic growth more and more difficult to get, therefore, consolidation became an obvious picture." (Interview with Director)	New managers brought in to turn things around. It was managers' view that problems for company (see acquisitiveness and performance) were derived from a lack of scale in the industry. Needs consolidation to achieve scale. Strategy in company was pursued to achieve that.
Performance	'profitable' 'not profitable'	Average ROCE in three years before abandoned bid was 0.456%.	'not profitable' Company struggling with low profitability.

Characteristics	Codes	Evidence	Comments
	'free cash'	(FAME Database and author's calculations)	There was a lack of organic growth

Table f2: Bid Characteristics

Characteristic	Codes	Evidence	Revealed Codes and Comments
Bid Rationale	'synergy' 'consolidation' 'related' 'unrelated' 'managerial inefficiency'	"…it was always obvious that Bidder and a number of other players in the sector were sub-scale. The overheads were too big for the type of business, not getting the benefits of purchasing power, not getting the benefits of marketing power. And there was quite a number of small players around, not many of whom had been publicly quoted, target being one, there were others, and the bidder was predominantly late night drinking, and we had a good look at one or two of the other operators and came to the conclusion that…the target… had the best strategic fit with us." "We did the same things. We bought the same things, so purchasing power; we could reduce the purchasing overhead." "…a hell of an amount of research went into identifying that there were synergistic benefits to be had there. For both sets of shareholders, it was an obvious solution." " I don't recall exactly what the share prices were, but if you track (Target's) share price in early 2005, you'll see it had	'synergy' 'consolidation' Consistent with Bidder's strategy. A need for consolidation in the industry.

Characteristic	Codes	Evidence	Revealed Codes and Comments
		come-off quite a lot. So there was an opportunity for us to offer a significant premium to their shareholders in order to make them happy." (Interview with Director) The Target's share price had fallen from 760p at the start of 2005 to 573p by the beginning of May. A decrease of 23.3%. (Data from Perfect Analysis Database)	 'opportunism' Target is only the Plc available, so bidder sees an opportunity to acquire target. Share price had declined creating an opportunity to acquire company more cheaply. Combined with use of equity, use share power.
Means of Payment	'cash' 'debt' 'equity' 'share power' 'uncertainty'	Equity Bid Informal Offer 820p per share Partial cash alternative – up to 30% of offer price. (RNS announcement, 8/6/2005) "Just to minimise the amount of cash going out of the business. But it wasn't necessarily all, it wasn't all shares. I can't remember the exact mix, but it was enough to be tempting for the targets' shareholders to get some cash out of it as well as get some growth in paper." "It was a good enticement, but the percentage (of cash) was not too much." (Interview with Director)	'cash' 'share power' 'liquidity' Suggests the use of share power in bidding, but also evidence of liquidity constraints.
Merger or Acquisition	'recommended' 'unrecommended'	Target rejected the bid publicly, stating that the bid undervalued their company, it was primarily share-based and lacked strategic fit.	'unrecommended'

Characteristic	Codes	Evidence	Revealed Codes and Comments
		(RNS Statement, 8/6/2005) Bidder sought a recommendation, but it was not forthcoming. (RNS statement 8/6/2005)	
Conditions	'standard conditions' 'non-standard conditions'	Bidder did not make a 2.5 announcement. Withdrew bid. "…regrets the decision by the (Target's) board not to cooperate with (REG's) proposal, which I believe would have increased value for both groups of shareholders. However, we are not prepared to overpay." (Quote from Chief Executive in RNS statement, 18/7/05) The bidder director commented: "Lenders want to avoid hostility because it makes the bid more costly." (Interview with Director)	'standard' Bidder wanted to avoid hostility. Did not post documents and commit to the bidding process.

Table f3: Contingent Factors in the Bidding Process

Contingent Factor	Codes	Evidence	Revealed Codes and Comments
Valuation	'fair value', 'undervaluation', 'opportunistic', 'means of	Proposal was "…principally share based". "…significantly undervalues Target." (RNS statement, 8/6/05)	'undervaluation' 'means of payment' Terms of the bid and valuation,

Contingent Factor	Codes	Evidence	Revealed Codes and Comments
	payment', 'premium'.	Market sentiment agreed. To succeed, an offer would have to be at least 950p per share, or possibly above £10 per share. (Press report, 8/6/05) The revised offer of 975p per share with an enhanced share element was not considered high enough. It was rejected by the target management after consultation with key shareholders and advisors. (RNS statement, 13/7/05) "…it got to the point, well, we had raised our bid on three occasions and in the end we decided that this was getting too rich for us, we can't make this work and we were really surprised by the ultimate 'take-out' price (£10.75)." "We couldn't make it work at that price. It wouldn't have been profitable at that price. As it turned out, this must be a matter of public record. (renamed Target) as it became, has gone through two restructurings because the level of debt was too high." (Interview with Director)	related to the means of payment were continually questioned throughout the bidding process.
Target Management Reaction	'friendly', 'hostile', 'shareholder value', 'management entrenchment'.	Unsolicited bid. Target management did not recommend the bid. A clear rejection. The bid undervalued the company and was 'share-based'. 'There was little strategic fit between the two very different businesses'. (RNS Statement, 8/6/2005) Bidder sought a recommendation, but it was not forthcoming.	'hostile' 'shareholder value' Resistance was focused around maximising shareholder value. According to bidder managers,

Contingent Factor	Codes	Evidence	Revealed Codes and Comments
		Even a revised offer of 975p per share was rejected. (RNS Statement, 12/7/2005) Bidder felt, "The resistance was partly emotional because that (take-private) is what they wanted to do, but it was also, it also ended up in a bidding process, which. Well, we went to see the top 5 or 6 shareholders and we presented our case to them and they seemed reasonably comfortable with it, but nobody was prepared to give us irrevocable undertakings, which is what you want to get. You wanted to get a certain percentage of irrevocables, but we couldn't get that. It became quite obvious that there was a bidding process going on. All the shareholders wanted was a maximum 'cash-out', which is ultimately what they got." (Interview with Director)	the Target's shareholders thought they could receive a higher cash bid.
Information about Bidder	'positive information', 'negative information', 'commercial' 'financial', 'management', 'share price effect'.	Strong trading. Trading ahead of original expectations. Like-for-like sales up 2%. In London up 6%. (RNS Announcement, 2/7/2005)	'positive information' 'commercial' Positive information, but it had little bearing on the bidding process.
Information about Target	'positive information',	Bidder was given a "put-up or shut-up" deadline by Takeover panel.	'management information' 'negative information'

Contingent Factor	Codes	Evidence	Revealed Codes and Comments
	'negative information', 'commercial', 'financial', 'management', 'share price effect'.	(RNS Statement, 23/6/2005) Strong criticism of target management by Bidder. Inconsistent approach. Asking for such an ultimatum, while at the same time conducting a "public auction." (RNS Statement, 13/7/2005)	
Rival Bid	'rival bid', 'cash', 'premium'.	During the bidding process. Target revealed that it was in conversation with three other bidders. All revealed as private equity groups offering cash. Unsolicitied offer by bidder had "put the company in play." (RNS Statement, 18/7/2005) One of the rival bids progresses to a formal offer, after REG withdrew its offer. This is an MBO financed by private equity. £10.70 per share. Cash offer 10% above Regent's offer. (RNS Statement, 8/9/2005) "…it became obvious that there was a rival bid and it was not a trade player. It was a 'take-private' and that was quite obvious." (Interview with Director)	'rival bid' 'cash' 'premium'
Competition Issues	'competition problems', 'referral to	None	

Contingent Factor	Codes	Evidence	Revealed Codes and Comments
	competition commission'.		
Nature of Abandonment	'withdrawn', 'lapse', 'voluntary' involuntary'.	Bidder withdrew its bid highlighting the lack of negotiation on the part of Target's management. It withdraws the bid on the understanding that if an offer arose, they would reserve the right to raise their offer. (RNS Statement, 18/7/05) "…regrets the decision by the (Target's) board not to cooperated with (REG's) proposal, which I believe would have increased value for both groups of shareholders. However, we are not prepared to overpay." (Quote from Chief Executive in RNS statement, 18.7.05) "…it got to the point, well, we had raised our bid on three occasions and in the end we decided that this was getting too rich for us, we can't make this work and we were really surprised by the ultimate 'take-out' price." "It is a clear mathematical point where you clearly say where there is a point where you cannot make it work." The successful price was £10.70. "We couldn't make it work at that price. It wouldn't have been profitable at that price. As it turned out, this must be a matter of public record. The target had gone through two restructurings because the level	'withdrawn' 'voluntary' Withdraws bid voluntarily. Does not allow itself to be drawn into a bidding war and paying too high a price. The implication of this comment is that the bidder overpaid, suffering the winner's curse.

Contingent Factor	Codes	Evidence	Revealed Codes and Comments
		of debt was too high.” “There are a number of things. Running a takeover is enormously time-consuming. There is real danger of taking your eye off the ball. The senior team, that’s everything they do for several months and there is a danger that the business suffers as a result of that. So, running a takeover can have a big impact. From the point of view of abandonment, there can be positive impact. Okay, that didn’t happen. Let’s lick our wounds and get back to what we know best. So, I wouldn’t necessarily see it as a bad thing actually. Of course, the one thing you can never, ever change is what you paid for it. You can do all sorts of other things, but you can’t change what you paid for it.” “Lenders want to avoid hostility because it makes the bid more costly.” (Interview with Director)	Director reflects a positive impact of abandonment. Best to walk away. Don’t get too caught up in a bid.

Table f4: Post- Abandonment Changes

Dimension	Concept	Evidence	Comments
Strategic Changes	'strategic review' 'new direction', 'reorientation'	No evidence of a change in strategy. "From the point of view of abandonment, there can be positive impact. Okay, that didn't happen. Let's lick our wounds and get back to what we know best." (Interview with Director)	No great strategic changes. Still wanted to achieve consolidation in the industry.
Management Changes	'replacement' 'discipline' 'shareholder activism'	CEO was replaced just under three years after the abandoned bid. (Company Annual Report)	'replacement' No evidence of discipline.
Asset Restructuring	'disposals' 'consolidation' .'acquisition' 'Growth' 'shareholder activism'	Restaurant chain acquired in year after abandoned bid. (Company Annual Report) The bidder director stated that if the abandoned bid had succeeded, this acquisition wouldn't have happened. "There was a slightly different rationale for that bid …We had good cash coming off the operations … and limited opportunities to exploit. So the idea was to use the cash to buy the restaurant business and recycle that cash to grow the restaurant business- have a bigger restaurant bias."	'acquisitions' 'growth' Evidence consistent with issues at the time of the abandoned bid. The structure of the industry meant limited opportunities to grow organically. Companies looking for acquisition opportunities.

Dimension	Concept	Evidence	Comments
		Company entered administration just under three years after abandonment. Conducted asset and financial restructuring. (RNS announcement) "…the bidder went through a serious of restructuring last year." "…given changes in the market, in 2006 with the smoking ban, the late night market was very hard hit." (Interview with Director)	'administration' 'disposals' Changes in the market occurred. Without the necessary consolidation, company was unable to continue trading in that way.
Subsequent Acquisition	'takeover talks' 'takeover bids' 'discipline' 'shareholder activism'	Restaurant chain acquired in year after abandoned bid. In addition, bidder attracted takeover bids in the years after abandonment. These approaches acknowledged in news announcements and Company Reports. (RNS announcements, Company Annual Report) The director commented: "We had a subsequent bid in 2006 which we got pretty close to selling. The bid was allegedly at 1.23, which we would have been delighted with, but we couldn't persuade the shareholders. Shareholders believed that if there was a bid at 1.23, they could get a little bit more." In 2008, the company received another informal approach. The director commented: "…it was all set to go ahead in the middle of 2008 when their	'takeover talks' 'takeover bids' 'consolidation' 'shareholder value' Company prepared to acquire or be acquired in order to achieve the necessary consolidation in the industry. Difficult to force shareholders to accept bid. They want a little bit more. Supports the idea that bidders may overpay due to the demands of target shareholders.

Dimension	Concept	Evidence	Comments
		banks pulled the plug on it. They were hit by the credit crunch." When asked: 'Do you think that selling the company to another bidder would have been seen as successful?, the director responded: "Yes, industry still needs consolidation. Insulate the industry from recession and regulatory changes. Better overheads and purchasing power … But, the issue with public companies is that, if the share price is that (a particular price), the shareholders always want a little bit more." (Interview with Director)	
Financial Restructuring	'borrowing' 'dividends' 'discipline' 'liquidity' 'shareholder activism'	Company entered administration just under three years after abandonment. Conducted asset and financial restructuring. (Company Annual Report) "…the bidder went through a serious of restructuring last year." "…given changes in the market, in 2006 with the smoking ban, the late night market was very hard hit." (Interview with Director)	'administration' 'liquidity' Changes in the market occurred. Without the needed consolidation, company was unable to continue trading in that way.

g) Case MIC

Table g1: Bidder Characteristics

Characteristic	Codes	Evidence	Revealed Codes and Comments
Age	'young' 'mature'	31 years old. (FAME Database)	'mature' A mature company.
Board Monitoring	'strong' 'weak' Proportion of NEDs on board greater than 50%	4/7 board members were NEDs. Over 50% (Company Annual Report)	'strong' No governance problems. Fulfils requirements of combined code at the time.
Ownership Structure	'concentrated' 'dispersed' 'Non-institutional' 'institutional' 'blocks'	Four institutions with more than 5%. Two more with more than 3% of share capital. (Company Annual Report)	'concentrated' A concentrated ownership structure, with institutional shareholders dominating outside shareholding.
Managerial Incentives	'weak' 'strong' Significant proportion of shares owned by managers	Directors hold approximately 10% of the share capital. (Company Annual Report)	'strong' Significant holdings by a couple of directors. According to agency theory, this provides strong, appropriate incentives to act in shareholders' interests.
Acquisitiveness	'acquisitiveness' 'growth'	Company makes reference to an "acquisition strategy" in annual report. Acquired assets equivalent to 9.8% of Net Assets in three years prior to abandoned bid.	'acquisitiveness' 'growth' Evidence supports acquisitiveness on the part of the board. A desire to grow the company

Characteristic	Codes	Evidence	Revealed Codes and Comments
		(Company Annual Report)	over the medium term.
Strategy		"…acquisition strategy". No payment of dividends. Profits reinvested to finance acquisitions. Focus on medium term return for shareholders. Seeks to integrate companies – Annual reports make reference to "rapid acquisition integration model", which enables Micro to integrate acquisitions quickly. Helps drive forward strategy. Looking for further acquisitions. The annual report refers to an intention to; "…explore potential further opportunities that may enhance shareholder value". Acknowledges, "…there is no guarantee that suitable acquisitions will be identified or transactions completed". (Company Annual Report)	The existence of a rapid acquisition integration model suggests the company believes that it was successful at integrating acquisitions and will look to secure suitable acquisitions in the future if the opportunity arises. The annual report refers to an intention to; "…explore potential further opportunities that may enhance shareholder value".
Performance	'profitable' 'not profitable' 'free cash'	Average ROCE in three years prior to bid was -2.19%. Average free cash equivalent to 4% of net assets. (FAME Database)	'not profitable' Some free cash. Use to finance growth through acquisitions.

Table g2: Transaction Characteristics

Characteristic	Codes	Evidence	Revealed Codes and Comments
Bid Rationale	‘synergy’ ‘consolidation’ ‘related’ ‘unrelated’ ‘managerial inefficiency’	The transaction would, “provide …the bidder… with a significantly increased presence in the financial services sector.” “Provide an opportunity to market …bidder’s… complementary software offerings to target’s customer base.” “…enlarged group will benefit from having an increased presence and expanded client base, with a broader range of software and service offerings”. (Bid Document) Another bid for the target already existed. (Takeover Panel Disclosure Table, 5/4/2005)	‘synergy’ ‘related’ Bid fits in with growth strategy of bidder. ‘opportunism’ Initial bid by rival attracted MIC to the target. Suggests that this alternative bid signalled the availability of the target’s assets. Attracted MIC to the target.
Means of Payment	‘cash’ ‘debt’ ‘equity’ ‘share power’ ‘uncertainty’	Cash/Share offer – 50p in cash and 0.3758 MIC shares Implied value of bid is 81p per share. Mix and match option available. So target shareholders given the option to receive cash. Funded from existing cash reserves and	‘cash’ ‘debt’ ‘equity’ Cash / equity mix. Similar to some other bids. Some cash offered to provide shareholders with

Characteristic	Codes	Evidence	Revealed Codes and Comments
		committed bank facilities agreed for the transaction. (Bid Document)	spend able income and some paper so they can share in any growth.
Merger or Acquisition	'recommended' 'unrecommended'	A recommended offer. Target board deem, "…the terms of the offer to be fair and reasonable" (RNS announcement, 28/4/2005) MIC's bid was at a 43.4% premium to the RIVAL bid. The target board immediately switched their recommendation to MIC's offer. (RNS announcement, 28/4/2005) Target prepared to pay MIC an inducement fee as well as pay RIVAL any inducement fees liable because of the switched recommendation. (RNS announcement, 28/4/2005)	'recommended' MIC management wanted to avoid hostility. Sought and received a recommendation from target board. Target management were seeking the highest possible value for their shareholders. They were prepared to switch recommendation to which ever bid they felt was best for their shareholders.
Conditions	'standard' 'non-standard'	No non-standard conditions. Needs the approval of Bidder's shareholders. (Bid Document)	'standard' conditions.

Table g3: Contingent Factors in the Bidding Process

Contingent Factor	Codes	Evidence	Revealed Codes and Comments
Valuation	'fair value', 'undervaluation', 'opportunistic', 'means of payment', 'premium'.	Initial RIVAL bid of 71p in cash. This initial bid was at a premium of 25.7% and received immediate undertakings of 49.8%. MIC's bid was at a 43.4% premium to RIVAL. Target board believed, "…the terms of the offer to be fair and reasonable". RIVAL raised its offer to 85.5p in cash. 4p above implied value of MIC's cash/share offer. (RNS Statements between 28/4/2005 and 5/5/2005)	'undervaluation' 'means of payment' MIC's bid was at a substantial premium to initial RIVAL bid. Value of bid was not considered a problem until RIVAL raising their bid. Only in the context of the higher revised offer was MIC's bid considered an undervaluation of the Target.
Target Management Reaction	'friendly', 'hostile', 'shareholder value', 'management entrenchment'.	Target management had recommended a bid by RIVAL of 71p in cash. This initial bid was at a premium of 25.7% and received immediate undertakings of 49.8%. MIC's bid was at a 43.4% premium to RIVAL. The target board immediately switched their recommendation to MICRO's offer. (RNS Announcement, 28/4/2005)	'friendly' 'shareholder value' Target management were seeking the highest possible value for their shareholders. They were prepared to recommend which ever bid was best for shareholders. They switched their recommendation between offers twice

Contingent Factor	Codes	Evidence	Revealed Codes and Comments
			during the bidding process to do so.
Information about Bidder	‘positive information’, ‘negative information’, ‘commercial’ ‘financial’, ‘management’, ‘share price effect’.	No significant information emerges about the bidder independent of the bidding process. RIVAL highlighted concerns about nature of the bid; the ”significant paper element”, the “absence of a full cash alternative”. (RNS Statement, 28/4/2005)	“negative information” ‘value of bid’ ‘means of payment’
Information about Target	‘positive information’, ‘negative information’, ‘commercial’, ‘financial’, ‘management’, ‘share price effect’.	NONE	N/A
Rival Bid	‘rival bid’, ‘cash’, ‘premium’.	MIC’s bid was the second one on the table for target. MIC’s bid was a share / cash offer. The RIVAL bid was a cash offer. MIC’s initial bid was higher, and received 54.5% of acceptances from target’s shareholders.	‘rival bid’ ‘cash’ ‘premium’

Contingent Factor	Codes	Evidence	Revealed Codes and Comments
		But, the RIVAL was able to come back with a higher cash price 7% higher. (RNS Statements between 28/4/2005 and 5/5/2005)	
Competition Issues	‘competition problems’, ‘referral to competition commission’.	NONE	
Nature of Abandonment	‘withdrawn’, ‘lapse’, ‘voluntary’ involuntary’.	MIC admitted defeat, withdrawing its bid. Comment, “…it was not in shareholders’ interests to raise its offer”. (RNS Statement, 5/5/2005) The rival bid succeeded. (RNS Statement, 13/5/2005)	‘lapse’ ‘voluntary’ Bidder had a price in mind and did not want to pay too much for the target - an opportunist bid. The conditions which gave rise to the opportunity no longer existed. So, it was prepared to walk away and look for other opportunities.

Table g4: Post- Abandonment

Dimension	Codes	Evidence	Revealed Codes and Comments
Strategic Changes	‘strategic review’ ‘new direction’,	“Company reported strong earnings growth and significant investment in new products. The Group	No strategic review. No change in strategy.

Dimension	Codes	Evidence	Revealed Codes and Comments
	‘reorientation’	has continued to evolve, with an increasing proportion of business derived from (MIC) software, particularly within the financial services sector.” (Company Annual Report)	
Management Changes	‘replacement’ ‘discipline’ ‘shareholder activism’	None (Company Annual Report)	
Asset Restructuring	‘disposals’ ‘consolidation’ ‘acquisition’ ‘Growth’ ‘shareholder activism’	Substantial acquisitions in same year as abandoned bid equivalent to 10% of net assets. No acquisitions after that. Existing acquisitions integrated. (Company Annual Report)	‘acquisitions’ ‘growth’ In line with growth strategy stated before the abandoned acquisition.
Being Acquired	‘takeover talks’ ‘takeover bids’ ‘discipline’ ‘shareholder activism’	None	
Financial Restructuring	‘borrowing’ ‘borrowing’ ‘dividends’ ‘discipline’	Company didn’t pay a dividend before the abandoned bid. Continued policy of reinvestment of retaining earnings afterwards. (Company Annual Report)	No significant change in debt. No dividends paid. Consistent with growth strategy. The

Dimension	Codes	Evidence	Revealed Codes and Comments
	‘liquidity’ ‘shareholder activism’		firm reinvested earnings to finance future growth.

h) Case PTH

Table h1: Bidder Characteristics

Characteristic	Codes	Evidence	Revealed Codes and Comments
Age	'young' 'mature'	72 years old at time of bid. (Company Annual Report)	'mature' Property management company. Mature sector.
Board Monitoring	'strong' 'weak' Proportion of NEDs on board greater than 50%	Board size is 4. Proportion of NEDs on the board was 50%. (Company Annual Report)	'strong' Strong monitoring according to corporate governance theory.
Ownership Structure	'concentrated' 'dispersed' 'Non-institutional' 'institutional' 'blocks'	No significant blocks of shares held by either by institutional and non-institutional shareholders. 5% held by founding family member not on the board. (Company Annual Report)	'dispersed' No outside blocks. Suggests weak monitoring. A non-institutional block related to the family of the chairman and chief executive.
Managerial Incentives	Significant proportion of shares owned by managers	25% of share capital held by chairman / chief executive. Presentation and tone of company annual reports suggest ownership and control centred on chairman/chief executive. (Company Annual Report)	High incentives for chairman. A strong-minded chairman, focused on profits, evidenced by statements in annual report.
Acquisitiveness	'acquisitiveness' 'growth'	Insignificant acquisitions equivalent to less than 1% of net assets.	No codes revealed, consistent with disciplinary hypothesis. Low acquisitions in the pre-bid

		High levels of capital and financial investment spending equivalent to 16.8% of net assets. (Company Annual Report)	period. Low external growth. However, high organic investment.
Strategy		Stated strategy from the annual accounts: "it is to make as much money (real profits) as possible, and grow the net assets of the Company with the capital we have available to us, always mindful of careful limitations on the risks involved." (Company Annual Report)	Some element of growth in the company's strategy, but a balance of risk and return.
Performance	'profitable' 'not profitable' 'free cash'	Average ROCE in pre-bid period was 4%. Average free cash was -7% of net assets. (FAME Database, Company Annual Report)	'profitable' Profitable with low free cash flow. Free cash flow committed to investment spending.

Table h2: Transaction Characteristics

Characteristic	Codes	Evidence	Revealed Codes and Comments
Bid Rationale	'synergy' 'consolidation' 'related' 'unrelated' 'managerial inefficiency'	Made a bid for company in order to gain control of another Ltd company in which the target held a 29.34% stake. (Press Report, 24/11/2003) Part of a contest for corporate control. Bidder had brought forward a motion to dismiss the current directors of the Ltd company. (RNS Announcement, 24/10/2003)	'synergy' 'related' Company looking to gain control of assets. Tried a direct method through motion at AGM. Now, attempting an alternative route. 'opportunism' An attempt to gain control of GROS.

Characteristic	Codes	Evidence	Revealed Codes and Comments
		The board had rebuffed the motive: "(The Bidder) is making an opportunistic attempt to secure control of the company without paying an appropriate premium." (RNS Announcement, 24/10/2003)	
Means of Payment	'cash' 'debt' 'equity' 'share power' 'uncertainty'	A cash offer of 577p. (RNS Announcement, 24/10/2003))	'cash' 'certainty' Cash bid is enticing for target shareholders because it provides certainty. Small bidder, with a concentrated ownership structure. Equity is not likely to be the currency used in such transactions - could lead to a dilution of existing shareholders' position in the firm. Hence, they would prefer to use cash instead.
Merger or Acquisition	'recommended' 'unrecommended'	Unsolicited bid. (RNS Statement, 20/10/2003)	'unrecommended' Hostile bid.
Conditions	'standard' 'non-standard'	No documents posted	

Table h3: Contingent Factors in the Bidding Process

Contingent Factor	Codes	Evidence	Revealed Codes and Comments
Valuation	'fair value', 'undervaluation', 'opportunistic', 'means of payment', 'premium'.	Initial bid was rejected. But, increased offer from 735p from 577p. Once this happened, bid was recommended by board of Target. (RNS Announcement, 19/11/2003)	'undervaluation' 'fair value' Initially, the Target stated that the bid undervalued the Target. The higher offer was recommended, so it was considered a fair value.
Target Management Reaction	'friendly', 'hostile', 'shareholder value', 'management entrenchment'.	Initially hostile. However, once bid was raised, the target management recommended offer. (RNS Statements between 20/10/2003 and 1/12/2003)	'hostile' 'shareholder value' The management's response to higher bid suggests they were interested in maximising shareholder value.
Information about Bidder	'positive information', 'negative information', 'commercial' 'financial', 'management', 'share price effect'.	None	
Information about Target	'positive information', 'negative information', 'commercial', 'financial', 'management', 'share price effect'.	None	N/A

Contingent Factor	Codes	Evidence	Revealed Codes and Comments
Rival Bid	'rival bid', 'cash', 'premium'.	A rival bid emerged. An MBO financed with private equity. The bid was at 760p per share. Given the target managers' substantial stake in company, the offer was immediately declared unconditional. (RNS Statement, 1/12/2003)	'rival bid' Competitive Bid. Stimulated by PTH's bid to make bid themselves and keep control of the company.
Competition Issues	'competition problems', 'referral to competition commission'.	No competition issues.	N/A
Nature of Abandonment	'withdrawn', 'lapse', 'voluntary' 'involuntary'.	Rival offer immediately declared unconditional. (RNS Statement, 1/12/2003)	'withdrawn' PTH never made a rule 2.5 announcement, so didn't post documents. Withdrew their bid one Rival emerged.

Table h4: Post- Abandonment

Dimension	Concept	Evidence	Revealed Codes and Comments
Strategic Changes	'strategic review' 'new direction', 'reorientation'	No evidence of strategic change.	
Management Changes	'replacement' 'discipline' 'shareholder activism'	No management changes.	
Asset Restructuring	'disposals' 'consolidation' 'acquisition' 'Growth' 'shareholder activism'	Bids made. None successful. (Company Annual Reports and author's calculations)	No substantial acquisitions or disposals. No evidence of governance.
Being Acquired	'takeover talks' 'takeover bids' 'discipline' 'shareholder activism	None	
Financial Restructuring	'borrowing' 'borrowing' 'dividends' 'discipline' 'liquidity' 'shareholder activism'	Substantial decline in gearing. 69.2 percentage point decline from pre-abandonment level. (Company Annual Reports and author's calculations)	Low borrowing. Inconsistent with corporate governance literature. Not evidence of a governance process.