The Seller's Side of the Story: Acquisition as Courtship and Governance as Syndicate in Entrepreneurial Firms

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In contrast to the prior acquisitions literature, which has emphasized the buyer's perspective, we examine the seller's perspective. This has important implications for understanding both the acquisition process and, more broadly, corporate governance in successful firms. Using a multiple-case, inductive study of 12 technology-based ventures, we find that acquisition occurs when sellers are pushed toward acquisition by difficult, albeit natural strategic hurdles, such as a chief executive search or funding round, and by strong personal motivations for sale, such as past failures and investments by friends. Sellers are also more likely to be pulled toward acquisition by attractive buyers that offer synergistic combination potential and organizational rapport, factors usually associated with the long-term interests of buyers. We reframe acquisition as courtship and corporate governance as a syndicate, indicating joint decision making with some common goals, and explore the generalizability of these views for private versus public firms and other contingencies. Together, courtship and syndicate suggest a behaviorally informed account of organization that belies the rhetoric of price and self-interest.●

Acquisitions are a fundamental mode of organizational change (Capron, Dussauge, and Mitchell, 1998). They are a means by which buyers can rapidly diversify into new markets to capitalize on fresh opportunities for growth and scope economies (Vermeulen and Barkema, 2001) or quickly elaborate positions within markets by filling out product lines, adding scale economies, and removing competitors (Santos and Eisenhardt, 2004; Zollo and Singh, 2004). Managers rely on acquisitions to expand chain organizations rapidly (Baum, Xiao Li, and Usher, 2000), to obtain valuable technology quickly (Ahuja and Katila, 2001; Graebner, 2004), to enter international markets reliably (Vermeulen and Barkema, 2001), and to restructure underperforming firms (Davis and Stout, 1992).

Given this versatility, it is not surprising that researchers have examined acquisitions from several theoretical perspectives, including learning (Haleblian and Finkelstein, 1999; Beckman and Haunschild, 2002), institutional (Thornton, 2001), social class (Palmer and Barber, 2001), evolutionary (Ahuja and Katila, 2001), and agency (Mallette and Fowler, 1992) theories. Researchers have studied many questions from these perspectives, including when deals occur (Haunschild, 1993; Baum, Xiao Li, and Usher, 2000), what happens in their aftermath (Buono and Bowditch, 1989; Nahavandi and Malekzadeh, 1993; Ranft and Lord, 2002), and why some acquisitions are more successful than others (Hayward and Hambrick, 1997; Capron and Mitchell, 1998; Capron, 1999; Larsson and Finkelstein, 1999).

Yet despite this variety, the acquisition literature unexpectedly rests on a few common assumptions. First, it is almost universally assumed that it is the buyer's perspective that is of interest. Most acquisition studies have focused on the acquirer as the decision maker of importance (Amburgey and Miner, 1992; Beckman and Haunschild, 2002) and have chosen the acquirer's degree of success as the dependent variable (Hayward and Hambrick, 1997; Kroll et al., 1997). The

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seller implicitly has little discretion over the acquisition decision. Related is the assumption that being acquired is a sign of weakness. For example, organizational behavior researchers have often depicted acquisitions as leading to exclusively negative outcomes for acquired employees (Sales and Mirvis, 1984; Walter, 1985; Buono and Bowditch, 1989), and organizational theorists have characterized acquired companies as misfits (Thornton, 2001) or even failures (Carroll et al., 1996). Finally, the limited organizational literature on the seller's perspective centers on how self-interested managers avoid being acquired by adopting defenses such as poison pills (Malatesta and Walkling, 1988; Mallette and Fowler, 1992; Duggal and Millar, 1994). The resulting image is one of the seller as unimportant, unsuccessful, and reluctant.

In contrast, there is reason to believe that this view of sellers may be inaccurate. As a group, acquisition targets are more, not less successful than their industry peers (Ravenscraft and Scherer, 1987; Walsh and Kosnik, 1993), suggesting that these firms are not passive failures.[1] On the contrary, the ability of target firms to exert considerable leverage over whether and by whom they are acquired may have a significant influence on buyers' success. Further, the reluctance of managers to be acquired may not be universal. They may prefer to be acquired for a variety of reasons and actively attempt to do so. For example, mergers of equals often involve managers who seek a merger (Wulf, 2004). Overall, the perspective of the seller is both crucial and poorly understood.

Our purpose is to explore acquisition from the seller's perspective. Specifically, we ask, When and to whom do company leaders sell their firms? Given the lack of prior research on sellers, we use grounded, inductive methods (Glaser and Strauss, 1967; Eisenhardt, 1989) to examine 12 entrepreneurial firms. Entrepreneurial firms are a primary engine of growth (Schoonhoven and Romanelli, 2001) whose acquisition has emerged as central to the corporate strategy of many corporations, from Celestial Seasonings and Gucci to Cisco and Nokia. The result is an emergent framework of when acquisition occurs from the seller's perspective, which we contrast with the prevailing view of the buyer-dominated takeover. We reframe acquisition as courtship, a lens emphasizing that acquisition is a process of mutual agreement between buyer and seller and encompasses timing and strategic and emotional factors, not just price. More broadly, we examine the implications of our findings for corporate governance, revealing how managers and board members come to agreement on the critical decision to sell a firm. We reframe corporate governance as a syndicate, an interdependent peer relationship in which directors and managers contribute unique resources in the pursuit of collective success and in the context of multidimensional motives.

METHODS

The research design is a multiple-case, inductive study involving 12 entrepreneurial firms. Multiple cases enable a replication logic in which cases are treated as a series of experiments, each serving to confirm or disconfirm inferences

1 We appreciate an anonymous reviewer noting that corporate parents may decide to sell off healthy units (Ravenscraft and Scherer, 1987).

drawn from the others (Yin, 1984). The results of multiple-case research are typically more generalizable and better grounded than those of single-case studies. The research also uses an embedded design (i.e., multiple levels of analysis) that includes selling firms, buying firms, executives, board members, and acquisition decision processes. Although an embedded design is complex, it permits induction of richer, more reliable models (Yin, 1984).

We chose entrepreneurial firms as the research setting because it is one in which sellers are likely to be important. Small acquisition targets are generally more successful than large targets (Ravenscraft and Scherer, 1987). This suggests that young, entrepreneurial firms may have more alternatives and greater discretion during an acquisition than do the larger targets that are often studied. We also chose this setting for its practical significance. Entrepreneurial firms are critical to economic growth (Schoonhoven and Romanelli, 2001), and their acquisition is a major component of the strategy of numerous firms.

Given our research question about when leaders sell their firms, we sampled firms that were both sold and not. We sampled four firms (three acquired, one not acquired) in each of three industries: networking hardware, infrastructure software, and online commerce. These industries have significant entrepreneurial activity and yet differ along key dimensions such as cost structure, sales and distribution channels, and customer characteristics. In addition, the industries differ in their primary strategic logic for acquisition. In the networking hardware industry, acquisitions are often motivated by potential synergies between the seller's new technologies and the buyer's manufacturing and distribution resources. In the infrastructure software industry, the strategic logic for acquisitions is often to build out a product suite, while online commerce companies often engage in acquisitions to obtain value-added content or services. Overall, these industries represent a diverse sample of the range of industries in which U.S. technology-based entrepreneurial firms are founded.

We drew a geographically stratified sample within each industry. We drew 50 percent of our sample from Silicon Valley, which has a high concentration of entrepreneurial activity. An additional 25 percent were located in other parts of the western U.S., and the remaining 25 percent were drawn from the eastern half of the U.S. Such industry and geographic variety should enhance the representativeness of the sample and the generalizability of the results.

All acquisitions took place less than six months prior to data collection, improving the likelihood that informants accurately remembered events (Huber and Power, 1985). Three companies were actively involved with acquisition decision making during the study, negotiating offers, evaluating pending offers, or renegotiating agreements. This allowed incorporation of both retrospective and real-time data. Retrospective data allow for efficiency in data collection by increasing the number of cases, while real-time data improve the depth of understanding of how events evolve (Leonard-Barton, 1990).

The time period was 1999–2000. This was a "hot" market (Ritter, 2001; Gulati and Higgins, 2003). On the one hand, such markets are attractive for our research because of their many entrepreneurial firms and high acquisition activity. On the other hand, hot markets may have unique characteristics that could affect our results. For example, in hot markets, foundings as well as acquisition and initial public offering (IPO) activity and their related valuations are likely to be high (Lerner, 1994; Stuart, Hoang, and Hybels, 1999). Because the seller's choice to be acquired or to launch an IPO is at the heart of our research, we were particularly concerned with any difference across time in acquisition as a percentage of "harvest events" (i.e., acquisition and IPO). Using VentureSource, a leading database tracking venture investments and exits (e.g., Gompers and Lerner, 2000), we found that acquisitions were 62 percent of harvest events during 1999–2000. The average over the entire period in the database (1992–2002, excluding 1999–2000) was a very similar 60 percent. Comparable data for 1982–1991 were available from the *Venture Capital Journal* (Bygrave and Timmons, 1992: 41; Devlin, 1992) and indicated that acquisitions were also 60 percent of harvest events. These data suggest that the process of deciding to be acquired or to launch an IPO is consistent across types of markets.

The characteristics of the sample firms are summarized in table 1. The median firm age was three years, the median firm size was 73 employees, and the median acquisition price was $125 million. Eight sample companies received venture capital, with an average of 2.8 funding rounds. Four companies were funded through other sources, such as self-financing and angel investors.[2] Because the sale of a firm often requires both board and shareholder approval, we collected information on board composition and ownership structure. The mean number of directors was 5.4 (31 percent active company managers, 43 percent investors, 22 percent outsiders).[3] Of our nine acquired companies, seven were acquired by public firms and two by private firms. Typical of entrepreneurial acquisitions, all deals involved the purchase of 100 percent of the acquired firm's equity and were paid for with the buyer's equity.

Data Sources

We used several data sources: (1) quantitative and qualitative data from semistructured interviews with key acquisition decision makers from both sellers and buyers, (2) e-mails and phone calls to follow up interviews and track real-time acquisition processes, (3) quantitative data on financing rounds, and (4) archival data, including company Web sites, business publications, and materials provided by informants.

We conducted more than 80 interviews over 14 months. The first phase included 15 pilot interviews with managers who had sold their companies, managers who had purchased companies, investors in companies that were sold, and acquisition intermediaries. The pilot interviews indicated that the selling firm's acquisition decisions usually are made by a very small set of people, typically the chief executive officer (CEO) and two or three key executives and/or board members.

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These characteristics were broadly consistent with samples used in other studies of entrepreneurial firms. Sapienza and Gupta (1984) and Gulati and Higgins (2003) reported average firm sizes of 85.3 and 85.6 employees, respectively. The average price for all U.S. acquisitions of venture-funded companies in the period 1999–2000 was $155 million (VentureSource). Similar to our sample, Gompers (1995) reported an average of 2.6 rounds of venture financing in his sample of acquisitions of venture-funded firms.

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Similarly, Lerner (1995) reported an average of 5.0 directors (27 percent active managers, 46 percent investors, 25 percent outsiders), and Kaplan and Stromberg (2003) reported an average of 6.0 directors (35 percent active managers, 41 percent investors, 23 percent outsiders).

Table 1

Description of Cases

Company	Industry, location	Outcome	Profile	Primary investment	Manager vs. investor control*	Board composition
Traviata	Infrastructure software, Silicon Valley	Acquired $400M, equity deal† Acquirer public	50 employees 3 years since founding Non-founder CEO	2 funding rounds Venture capital	Investor	6 members: 1 manager 2 investors 2 other outsiders 1 departed founder
Boheme	Infrastructure software, Silicon Valley	Acquired $125M, equity deal† Acquirer private, public three months later	35 employees 3 years since founding Founder CEO	1 funding round Venture capital and angels	Investor	5 members: 2 managers (2 founders) 3 investors
Tosca	Infrastructure software, eastern U.S.	Acquired $140M, equity deal† Acquirer public	120 employees 4 years since founding Founder CEO	5 funding rounds Venture capital	Investor	7 members: 1 manager (1 founder) 3 investors 3 other outsiders
Carmen	Infrastructure software, western U.S.	Independent	95 employees 3 years since founding Founder CEO	4 funding rounds Venture capital	Investor	4 members: 2 managers (2 founders) 2 investors
Yankee	Online commerce, eastern U.S.	Acquired $15M, equity deal† Acquirer private	25 employees 2 years since founding Founder CEO	1 funding round Angels	Manager	6 members: 3 managers (3 founders) 3 investors
Dodger	Online commerce, Silicon Valley	Acquired $35M, equity deal† Acquirer public	25 employees 3 years since founding Founder CEO	2 funding rounds Angels	Manager	4 members: 2 managers (2 founders) 2 investors
Giant	Online commerce, Silicon Valley	Acquired $125M, equity deal† Acquirer public	40 employees 2 years since founding Founder CEO	1 funding round Venture capital	Manager	3 members: 2 managers (2 founders) 1 investor
Mariner	Online commerce, western U.S.	Independent	127 employees 3 years since founding Founder CEO	3 funding rounds Venture capital	Investor	7 members: 2 managers (2 founders) 4 investors 1 other outsider
Cheetah	Networking hardware, eastern U.S.	Acquired $500M, equity deal† Acquirer public	175 employees 4 years since founding Non-founder CEO	2 funding rounds Venture capital	Investor	7 members: 1 manager 4 investors 2 departed founders
Panther	Networking hardware, Silicon Valley	Acquired $57M, equity deal† Acquirer public	20 employees 3 years since founding Founder CEO	Self-funded	Manager	3 members: 1 manager (1 founder) 2 other outsiders
Jaguar	Networking hardware, western U.S.	Acquired $2.8B, equity deal† Acquirer public	1500 employees 7 years since founding‡ Non-founder CEO	Institutions	Investor	7 members: 1 manager 6 other outsiders and investors
Tiger	Networking hardware, Silicon Valley	Independent	335 employees 4 years since founding Founder CEO	4 funding rounds Venture capital and institutions	Investor	6 members: 2 managers (2 founders) 4 investors

* Manager vs. investor control refers to ownership majority (50% or more of the equity).
† Price paid by acquirer for 100% of stock in acquired company. All payments were made in the acquirer's stock. None of the deals involved performance incentives ("earn-outs").
‡ Re-start of an older firm.

Other individuals at the selling firm have limited, if any, awareness of the events taking place. This pattern reflects the sensitive nature of acquisition decisions and is consistent with prior evidence that awareness of a firm's strategy declines rapidly below the top management team (Hambrick, 1981).

In the primary data collection, we interviewed multiple senior-level informants in the selling and buying firms, summarized in table 2. Multiple informants mitigate subject biases (Golden, 1992; Miller, Cardinal, and Glick, 1997) and lead to a richer, more elaborated model (Schwenk, 1985). Our pilot interviews provided guidance in identifying the most influential informants in the acquisition process. To further ensure that our sample included the most important individuals, we used "snowball sampling." Our initial entry was made through either the CEO of the selling firm or the head of business development at the buying firm, if applicable. This contact then identified other individuals who had been actively involved in the acquisition within both the buyer and seller. These individuals then identified others, as appropriate. As a check on the snowball sampling, we assessed informants' "face validity." We compared our informants to information about the company's management structure to verify that we had identified the individuals most likely to be influential in an acquisition choice. Our informants typically included the CEO and senior vice presidents (VPs), as well as one or more investors who were board members and/or had led a funding round.

The interviews were 60–90 minutes and followed an interview guide that had variations for selling managers, selling investors, and buying managers. In each interview we used a "courtroom" procedure that concentrated on facts and

Table 2

Informants

Company	Interviews
Traviata	*Seller:* CEO (board member); VP of services; VP of sales; venture capitalist (board member)
	Buyer: CEO (board member); VP of business development
Boheme	*Seller:* CEO (board member); VP of business development (board member); angel investor (board member); venture capitalist (board member)
	Buyer: CEO (board member); VP of sales; industry expert
Tosca	*Seller:* CEO (board member); VP of sales; venture capitalist (board member)
	Buyer: VP of business development; VP of mergers and acquisitions; VP of technology; director of integration
Carmen	*Seller:* CEO (board member); 2 venture capitalists (1 board member)
Yankee	*Seller:* CEO (board member); VP of business development (board member); angel investor (board member)
	Buyer: CEO (board member); VP of business development; board member
Dodger	*Seller:* CEO (board member); VP of business development; 2 angel investors (both board members)
	Buyer: CEO (board member); VP of business development
Giant	*Seller:* CEO (board member); VP of business development (board member); chief technology officer; product manager
	Buyer: director of business development; manager of mergers and acquisitions; manager of strategy
Mariner	*Seller:* CEO (board member); 2 venture capitalists (both board members)
Cheetah	*Seller:* CEO (board member); chief financial officer; venture capitalist (board member)
	Buyer: VP of business development; VP of technical integration
Panther	*Seller:* CEO (board member); chief technology officer; other outsider (board member)
	Buyer: VP of line of business; VP of business unit; mergers and acquisitions manager
Jaguar	*Seller:* CEO (board member); chief operating officer
	Buyer: CFO; VP of business development
Tiger	*Seller:* CEO (board member); venture capitalist (board member)

events rather than on respondents' interpretations, especially of others' actions (Eisenhardt, 1989). The interviews with selling-firm managers began with background information and then asked the informant to relate an open-ended chronological history of the company with respect to acquisition. Such open-ended questioning leads to higher accuracy in retrospective reports (Lipton, 1977; Miller, Cardinal, and Glick, 1997). The interview concluded with several closed-ended questions about the firm's history, such as founding date, and about the informant's acquisition experience. Interview guides for buyers and investors followed a similar structure but were adapted to the roles that these individuals typically play in the acquisition process. In addition to the buyer, seller, and investor interviews, we conducted a few interviews with individuals who had extensive acquisition experience, such as the head of technology mergers and acquisitions at a prominent investment bank. These interviews followed a more open-ended format, with questions that were often idiosyncratic to the expertise of the informant.

All interviews were tape-recorded and transcribed. The transcriptions totaled 1,260 double-spaced pages. We asked follow-up questions via phone or e-mail when clarification was required. If negotiations were ongoing, we conducted subsequent interviews when a major event, such as closure of the deal, occurred. We interviewed some informants as many as three times and supplemented interview data with quantitative information on the financing of each firm and archival information from corporate Web sites and the business press.

Throughout our data collection, we took steps to minimize informant biases. The informants included multiple individuals from the selling firm (two levels of management plus investors) and the buying firm. Such individuals are likely to have different perspectives on and interests in the acquisition process. If retrospective (or other) bias were an issue, we would have seen significant differences in their event descriptions (Seidler, 1974). We did not. As noted above, we took care to interview all individuals at the center of the acquisition process. Such highly influential and knowledgeable informants are the most reliable and are particularly so when recalling important recent events (Seidler, 1974; Huber and Power, 1985; Kumar, Stern, and Anderson, 1993). We also focused on facts during the interview process. An emphasis on facts is likely to be less subject to both cognitive biases and impression management (Huber and Power, 1985; Golden, 1992; Miller, Cardinal, and Glick, 1997). The information given was often quite objective (e.g., whether the company was raising a round of funding or launching a product, whether friends had invested in the company, and number of offers received). To further motivate informants to provide accurate data, we promised confidentiality (Huber and Power, 1985; Glick et al., 1990; Miller, Cardinal, and Glick, 1997).

Data Analysis

As is typical in inductive research, we analyzed the data by first building individual case studies synthesizing the interview transcripts and archival data (Eisenhardt, 1989). A central aspect of case writing was "triangulation" between interview and archival sources to create a richer, more reliable account (Jick, 1979). As a check on the emerging case stories, a second researcher read the original interviews and formed an independent view, which was then incorporated into each case to provide a more complete view of each firm. The histories took four months to write and were 40 to 70 pages.

The case histories were used for two analyses: within-case and cross-case. The within-case analysis focused on developing constructs and relationships to describe the process experienced by a single focal firm. A core aspect of the inductive process is that we allowed constructs to emerge from the data during this process, rather than being guided by specific hypotheses. Though we noted similarities and differences among cases, we left further analysis until we had completed all case write-ups in order to maintain the independence of the replication logic.

Cross-case analysis began after all cases were finished. Using standard cross-case analysis techniques (Eisenhardt, 1989), we looked for similar constructs and relationships across multiple cases. We developed tentative propositions by grouping the firms according to potential variables of interest. We also compared case pairs to identify similarities and differences. We refined emerging relationships through replication logic, revisiting the data often to see if each separate case demonstrated the same pattern, using charts and tables to facilitate comparisons (Miles and Huberman, 1984). The analysis process was iterative and lasted six months.

From this process a framework emerged describing when acquisitions occur from the seller's perspective. We found that company leaders sell when they are "pushed" toward acquisition by high acquisition interest that occurs when the company is facing difficult, simultaneous strategic hurdles and managers have strong personal motivations and when leaders are "pulled" toward acquisition by attractive buyers offering synergistic combination potential and organizational rapport. More significantly, these findings point toward acquisition as a courtship between willing partners and governance as a syndicate of interdependent peers who pool their resources for joint gain.

ACQUISITION AS COURTSHIP AND GOVERNANCE AS SYNDICATE

When Do Company Leaders Look to Sell?

Prior literature suggests that acquisition leads to negative organizational outcomes for the acquired firm (Sales and Mirvis, 1984; Walter, 1985; Buono and Bowditch, 1989), and as a result, managers are generally reluctant to sell their companies (Malatesta and Walkling, 1988; Mallette and Fowler, 1992; Duggal and Miller, 1994). In contrast, our data revealed that leaders have a wide variety of attitudes toward selling their companies, ranging from active interest to strong opposition.[4] To capture company leaders' interest in selling, we developed a construct termed *acquisition interest*. This

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By company leaders, we are referring to the senior executives, major investors who held board seats, and other outside board members who were influential in acquisition decisions. When these types of individuals have distinct perspectives, we indicate their views as such and explicitly differentiate managers from investors and outside board members.

construct emerged from the data and was measured by specific actions taken by managers or investors to promote or discourage sale. We coded each action taken to encourage acquisition, such as hiring an investment bank or contacting buyers, as plus one point. Conversely, we coded each action taken to intentionally discourage acquisition, such as refusing to meet with a potential buyer, as minus one point. We then summed these points into a total score. Based on these totals, each firm was designated as proactive, neutral, or discouraging. Table 3 shows the acquisition interest levels at the 12 companies.

Leaders at proactive companies took steps to promote acquisition. For example, the leaders of Tosca made a formal decision to sell the company and then hired an investment bank to seek potential buyers and manage an auction for the firm. The leaders of Boheme made a similar decision, generated a

Table 3

Acquisition Interest Level

Company	Actions	Points	Category
Tosca	Generated list of potential buyers. Contacted potential buyers to discuss acquisition. Hired investment bank. Held auction for company. Engaged in talks when approached by buyers. Made board decision to sell company.	6	Proactive
Boheme	Generated list of potential buyers. Contacted potential buyers to discuss acquisition. Made board decision to sell company. Engaged in talks when approached by buyers.	4	Proactive
Dodger	Generated list of potential buyers. Contacted potential buyers to discuss acquisition. Pushed for faster acquisition timing. Engaged in talks when approached by buyers.	4	Proactive
Yankee	Engaged in talks when approached by buyers. Asked for corporate investment from likely buyers. Hired investment bank. Contacted potential buyers to discuss acquisition.	4	Proactive
Traviata	Engaged in talks when approached by buyers. Once received offer, contacted other potential buyers.	2	Neutral
Cheetah	Asked for corporate investment from likely buyers. Engaged in talks when approached by buyers.	2	Neutral
Panther	Engaged in talks when approached by buyers.	1	Neutral
Jaguar	Engaged in talks when approached by buyers.	1	Neutral
Giant	Engaged in talks when approached by buyers.	1	Neutral
Mariner	Engaged in talks when approached by buyers. Intentionally created negative impression with buyer (–1).	0	Discouraging
Carmen	Engaged in talks with one buyer, not another (0). Intentionally created negative impression with buyer (–1).	–1	Discouraging
Tiger	Involved multiple potential buyers as corporate investors, purposely obstructing any single corporation from acquiring them (–1). Refused to engage in talks when approached (–1).	–2	Discouraging

list of potential buyers, and began contacting them. As shown in table 3, there are four proactive companies. Leaders at neutral companies did not seek acquisition but were willing to consider offers. As one said, "We weren't actually looking to be acquired, but we thought that as due diligence we needed to look when approached." There are five neutral companies. Leaders at discouraging companies actively dissuaded potential buyers. For example, Tiger's management purposefully took funding from several corporate investors that were competitors of one another to prevent any one of these companies from being able to take over the company. As Tiger's venture capitalist explained, "It's the exact opposite of the 'let's get acquired' strategy." Tiger also refused to engage in discussions with would-be acquirers. There are three discouraging companies.

This contrast indicates that leaders' interest in being acquired varied considerably across firms. There are several possible explanations for this variation. On the surface, it would seem that leaders would wish to sell poorly performing firms to extricate themselves from these situations. But, in fact, the acquired companies were very good performers. For example, Tosca's buyer considered the company to be the best performer in its market space. Yankee's buyer described rebuffing three or four would-be sellers a month but actively pursuing Yankee because of its quality. An executive at Traviata's buyer observed, "Having looked at all the players out there it was easy to recognize that I was looking at by far the most advanced player in Traviata." Thus, our findings indicate that, unlike the classic "market for corporate control" (Manne, 1965; Davis and Stout, 1992), relatively strong firms are often the objects of buyers' interest. A second possible explanation is that acquisition interest was greater in investor-controlled companies. Yet there was no consistent pattern linking investor versus manager control to acquisition interest. Instead, acquisition interest varied over time, independent of ownership. The ebbs and flows of strategic hurdles and personal motivations were most germane.

Strategic hurdles. Acquisition research typically presents buyers as dominating acquisition decisions. Consistent with the idea of courtship, however, our data suggest that sellers are active participants whose interest in being acquired affects whether buyers succeed. We found that target-company leaders became actively interested in selling their firms when they were facing strategic hurdles, defined as non-incremental events in the company's development. Strategic hurdles are anticipated and even routine, albeit challenging aspects of the growth of entrepreneurial firms (Gersick, 1994). Evidence of these hurdles emerged from the data and included concrete activities such as raising a funding round, ramping up sales, hiring a new CEO, and filling a strategic gap, defined as a significant, often unexpected deficiency in the company's product offerings. The more hurdles that were present and the more difficult, the higher the company leaders' acquisition interest.

Table 4 summarizes the number and difficulty of hurdles. We assigned companies one point for each easy hurdle and two points for each difficult one. "Difficult" hurdles were distin-

Table 4

Strategic Hurdles

Company	Strategic hurdles	Difficulty points	Interest level
Tosca	*Strategic gap.* Expanding into adjacent areas was necessary but risky. "The services that the company offered would not be stand-alone services 12 months down the road . . . and the choice to be fully integrated was . . . so high-risk, it just didn't make sense" (venture capitalist).	High: 2	Proactive
	Sales ramp-up. Scale was critical in the industry in order to appear reliable and attractive to large customers. "To get our revenue to something that was substantial. . . . we had to either buy or merge into another company" (CEO).	High: 2 Total: 4	
Boheme	*CEO search.* "We got to a final candidate that we wanted. He ended up passing. That happened to us once in May and again in late June/July" (VP of business development).	High: 2	Proactive
	Funding round. "We had been talking to an investor who wanted to put in a lot of money at a very good valuation" (VP of business development).	Low: 1	
	Strategic gap. Leaders realized that their product needed to be combined with other infrastructure software applications.	Low: 1	
	Sales ramp-up. Leaders were preparing to move from a few beta customers to an official launch.	Low: 1 Total: 5	
Dodger	*Strategic gap.* Needed retail/content capabilities for their specialized content. "We were clearly capable of doing that. The issue was focus" (CEO).	Low: 1	Proactive
	Funding round. "There was a fork in the road. Go raise serious cash . . . worst case, we could have gotten money from friends and family" (CEO).	Low: 1	
	Sales ramp-up. Revenue growth was stalled by the current business model. "You couldn't charge enormous amounts of money" (venture capitalist).	High: 2 Total: 4	
Yankee	*Funding round.* "We were out raising money as part of the second round . . . [investors] wouldn't give us any money, but they would invest in a combined company" (VP of business development).	High: 2	Proactive
	Sales ramp-up. Scale was critical for marketing reach. "We couldn't ramp up fast enough unless I really had a ton of marketing dollars" (CEO).	High: 2 Total: 4	
Traviata	*Sales ramp-up.* Product was in beta testing, and the launch looked promising. Potential customers were already calling. "We've got a good product, we've got a good marketing team, the product is going to be out on time" (CEO).	Low: 1	Neutral
	Strategic gap. "We began to wonder if [our product] would be a standalone component, or would it just be an add-in" (VP of sales).	Low: 1	
	Funding round. Raising second round, which was "queued up" although not yet closed (VP of services).	Low: 1 Total: 3	
Cheetah	*Sales ramp-up.* Scale was critical for customer confidence. Customers "were not too willing to bet their networks on a 100-person start up" (CFO).	High: 2	Neutral
	Funding round. Raising new round of financing. "It was easy to raise money" (CEO).	Low: 1 Total: 3	
Panther	*Funding round.* Had spoken to a dozen venture capital firms; two were seriously interested, and one had proposed a deal.	Low: 1	Neutral
	Sales ramp-up. Were just launching a product. "As time went on, acquisition became more likely because we were a box company, which means we would have to manage inventory, a sales channel and manufacturing, which would get to be a problem when we turned up the volume" (CEO).	High: 2 Total: 3	
Jaguar	*Strategic gap.* "The idea of offering products containing our technology, rather than technology (components) . . . was a needed shift" (CEO).	Low: 1	Neutral
	Sales ramp-up. Required manufacturing ramp-up. "Doubling your capacity in a real manufacturing environment—we're not printing more copies of software—is a real challenge" (chief operating officer).	High: 2 Total: 3	
Giant	*Sales ramp.* Needed to sell to a few powerful customers. "It was really difficult because, looking at all the numbers and transactions, they [powerful customers] had most of the transactions" (VP of business development).	High: 2 Total: 2	Neutral
Carmen	*Sales ramp-up.* Clear growth market emerging as Carmen launched. "Right now, things are going our way" (CEO).	Low: 1 Total: 1	Discouraging
Mariner	*Funding round.* "Our investors have the cash, they want to lead the next round to increase their ownership stake in the company" (CEO).	Low: 1 Total: 1	Discouraging
Tiger	None	Total: 0	Discouraging

guished as follows. A CEO search was difficult if a promising candidate had withdrawn or if no candidate could be found. A sales ramp-up was difficult if it was complicated by factors such as the need to add manufacturing capabilities, sell into a market in which small company size was a particularly significant liability, or sell to a few powerful customers. A strategic gap was difficult if the company's product would cease to be a viable stand-alone offering within the year, a timing milestone that informants regarded as an important signal of difficulty. A funding round was difficult if the initial investors who had been contacted showed no interest.

The evidence suggests that the greater the number and difficulty of strategic hurdles, the greater was leaders' acquisition interest. A good illustration is Boheme. When company leaders were first approached by a potential buyer, the company was facing one easy hurdle: a CEO search in which the applicant pool included several promising candidates. The rationale was to hire a professional executive to manage growth, an action begun by Boheme's young CEO. Given this low hurdle, Boheme's leaders discouraged a would-be buyer that approached them. Although they agreed to meet, Boheme's leaders never seriously considered the overture. In fact, they intentionally alienated the buyer's CEO. As a result, the buyer developed "cold feet" and withdrew. The CEO recalled, "I asked some tough questions to [the buyer's CEO]. It made the CEO uncomfortable actually because I was being very direct and open and honest about him. . . . That meeting made people a little nervous."

Several months later, the situation had changed. Two promising CEO candidates declined, making the CEO hurdle difficult. A VP commented, "Had we landed one of those CEOs, we might have said, 'You know what, let's keep going.' But we didn't." Several new hurdles also appeared. A new round of funding was needed. In addition, as Boheme's market space clarified, a strategic gap became apparent, such that their product would soon be viable only as part of a suite of highly integrated features and products. The company also faced a sales ramp-up. The initial product was ramping from a few beta customers to a full-scale launch. Given the simultaneity of multiple hurdles (CEO, funding, strategic gap, and sales ramp-up), Boheme's leaders switched their attention from daily operations to their strategy. A venture capital (VC) investor recalled, "We did a real analysis of the competitive landscape. There was a lot of competition. And so we asked, 'Are we better off trying to continue or are we better off trying to be acquired?' We had the board meeting and decided we're going to sell the company. It was time to find a safe harbor." Given this board decision, company leaders became proactive in seeking acquisition. They generated a list of buyers and began contacting them, leading to a completed acquisition deal.

A second example is Tosca, a company with two difficult strategic hurdles. Its sales ramp-up was difficult because its target customer group had concerns about buying from a young firm. As a VP described it, " In telecom, scale is tremendously important—not just because of the cost structure but also because there is importance placed on satisfying larger customers. With size comes the perception of reliability, the possibility of better terms, getting into transactions that you couldn't otherwise get." Tosca's leaders also faced a strategic gap that needed to be addressed in the near term.

Tosca began in an ambiguous space. As the industry structure clarified, it became apparent that Tosca's product was really a single service that would soon require integration with complementary services to be a viable marketplace offering. It was only a matter of time before competitors emerged with these combined services. A venture capital investor commented, "The services that the company offered would not be stand-alone services 12 months down the road." Given these hurdles, Tosca's leaders decided to sell the company. They hired an investment bank to contact potential buyers and manage an auction for the firm. The CEO explained, "We were very proactive about the process."

In contrast, several firms faced few, easy, or even no hurdles at the time of our study. The leaders of these firms actively discouraged potential acquirers. An illustration is Tiger. Because Tiger's CEO was experienced in growing a large organization, there was no need to hire a replacement. Tiger's product sold well as a stand-alone item, and so there was no need to fill a strategic gap. During the time frame of our study, the company was facing neither a sales ramp-up nor a funding round. As a result, there were no current strategic hurdles. Although the company received acquisition overtures, its leaders never engaged in serious discussions. As the CEO said, "We never had a deal because we never wanted a deal."

Carmen also discouraged potential acquirers, although early on, the company faced several difficult hurdles (CEO search, funding, and strategic gap). At that time, Carmen's leaders actively pursued acquisition talks, however, Carmen ended up (as we discuss later) rejecting its suitor. Later, at the time of this study, Carmen faced only one hurdle, an easy sales ramp-up. There were no upcoming funding hurdles. Also, company leaders had developed partnerships that plugged several strategic gaps and had hired an effective CEO. When two prominent suitors approached Carmen, its leaders ignored them. The CEO refused to engage with the first, saying, "Don't even bother to come to talk." The second, a major firm regarded earlier as an "ideal buyer" by Carmen's leaders, was given almost no consideration. A venture capital investor said, "We didn't give this more than 20 minutes of thought."

Finally, some leaders faced moderate hurdles. These leaders were neutral, not seeking acquisition but willing to discuss it if approached. An example is Panther, where leaders faced an easy fundraising hurdle. The CEO had located two venture capital firms that were seriously interested and had received an investment offer from one of them. Panther's leaders also faced a more challenging sales ramp-up hurdle that required establishing manufacturing and sales operations. As a result of these moderate hurdles, Panther's leaders were not seeking acquisition but were willing to talk when a major firm approached them.

Why are strategic hurdles related to acquisition interest? At first glance, strategic hurdles entail challenges that may make exit appealing. Yet these hurdles are an inevitable part of growth (Gersick, 1994) and can be signs of success. For example, a sales ramp-up indicates that a company has completed a product, while the search for a new CEO may indicate that a company has reached significant size (Wasserman, 2003). A more likely explanation is that hurdles influence acquisition interest because these discontinuous events prompt a shift in leaders' attention. Previous research suggests that interruptions create "windows of opportunity" in which individuals switch their thinking to consider a broad set of alternatives that go beyond immediate concerns (Tyre and Orlikowski, 1994; Okhuysen and Eisenhardt, 2002). Similarly, in this study, leaders engaged in patterns of attention consistent with windows of opportunity. During periods with few or low hurdles, managers focused their attention on the basics of running their businesses, such as developing products, and board members turned their attention to other activities. Both ignored even attractive acquisition overtures. As a VP said, "If you're always looking at selling, you're always taking your entire team out of focus. You can't do that. It's taking all of their time." But occasionally, when strategic hurdles emerged, leaders broadened their focus of attention, consistent with windows of opportunity. For example, faced with new significant hurdles, Boheme's leaders paused to assess their strategic situation, as noted above. Similarly, faced with challenging hurdles, including a difficult strategic gap and sales ramp-up, Tosca's leaders reconsidered their strategy. As a result, they not only proactively sought to be acquired, as noted earlier, but also funded an internal growth initiative and "were looking at acquiring companies" themselves if "the merger idea didn't work out." In other words, they put together strategic actions that went well beyond being acquired. As one leader explained, "We had to do something beyond organic growth."

More significant, the importance of strategic hurdles suggests that acquisition can be viewed as courtship. A key characteristic of courtship is that acquisition is a mutual agreement requiring interest from the seller as well as the buyer. The seller's interest is both central and variable. As a result, the timing of buyers' overtures is critical. Organizations without strategic hurdles are typically not "looking" for a partner and so are likely to reject suitors. In contrast, organizations facing strategic hurdles are likely to meet a synchronous acquisition overture with a warm welcome. This contrasts with the predominant takeover view, in which buyers are implicitly assumed to act unilaterally.

Our data also suggest that corporate governance can be viewed as a syndicate in which interdependent peers pool their unique resources for joint gain. Although agency theory (Jensen and Meckling, 1976) would suggest that leaders' disinterest in selling outside temporal windows would require boards to actively monitor managers in certain time periods, we found that directors were least likely to be engaged between strategic hurdles, exactly the times when opportunities to sell were most likely to be overlooked. In fact, directors were disinterested in monitoring, preferring a broader, more strategic role. For example, it was apparent that the board saw its primary role as providing resources like strategic advice, connections, and capital, not monitoring managers. In a theme echoed across the firms, an angel investor noted, "The most important thing to me was being a sounding board for management." Similarly, a venture capitalist explained, "We are in a supporting role." Moreover, outside directors and investors framed managers as partners, contributing valuable and hard-to-replace managerial resources, not as agents. For example, one venture capitalist claimed, "The last thing the board wants to do is come in and manage," while an angel investor noted, "Management really drives the success or failure of the company." Given this interdependence, directors viewed their function as cooperating with managers and pooling their resources to achieve joint success. Thus, the data are more consistent with governance as syndicate than as principal-agent.

Personal motivations. Studies of poison pill adoption (Malatesta and Walkling, 1988; Mallette and Fowler, 1992) have argued that company managers avoid acquisition because they might be replaced. If replaced, these managers would lose the compensation and perquisites associated with their positions. In this line of thought, managers will be more open to selling their companies if they own equity, counteracting other losses that they may experience (Cotter and Zenner, 1994). While financial gains and ownership structure may be important, we found that managers' personal motives related to acquisition interest were more complex. First, rather than viewing the loss of their executive positions as a negative, some managers actually viewed this transition as a benefit. Second, managers focused as much or more on avoiding negative outcomes, both financial and non-financial, as on achieving positive ones. In particular, they often sought acquisitions to avoid the risk of failure or to limit stress. Financial gain certainly played a part in leaders' decisions, but, consistent with courtship, more complex factors were also critical in the choice.

Table 5 summarizes the personal motivations of managers. A personal motivation is an inducement to sell the firm that enhances managerial self-interest. We gave each company a score for the personal motivations of its managers, based on four dimensions that emerged from the data. Three were negative factors: fear of failure, stress, and dilution risk (trading off current financial position for a potentially higher but riskier future one). One was positive: financial gain.

While the possibility of failure is inherent in entrepreneurial companies, certain circumstances exacerbate the fear of this occurrence. We gave companies one point for each added source of fear of failure, including having failed in the past and having friends or family members as investors, which placed a personal burden on leaders to succeed. Companies were also given one point for each source of stress that was present. Sources of stress included major life changes such as marriage and relocation, severe interpersonal conflict in the management team, and prolonged periods of excessive working hours. Companies were given one point for dilution risk if leaders indicated that they feared they were unlikely to recoup their dilution with upside growth. We assessed personal motives associated with financial gain by whether one

Table 5

Leaders' Personal Motivations For Selling

Company	Personal motivations	Points	Interest level
Tosca	*Fear of failure.* Had failed with a previous company: "We made the mistake in that company of saying we are going to be independent—and we sort of hit a wall" (CEO).	1	Proactive
	Financial gain. "A part of my personal goals was to translate some of the success into wealth for myself . . . there is a selfish aspect [to selling] which is that my stock personally is higher" (CEO).	1	
	Dilution risk. Company would have to raise additional money in order to expand on its own. "The choice to be fully integrated was so dilutive, so we had such high risk that it just didn't make sense" (venture capitalist).	1 Total: 3	
Boheme	*Stress.* "Tense" interpersonal conflict among top managers; founders "at loggerheads."	2	Proactive
	"We had put him under enormous pressure." The CEO had become "completely stressed out" (venture capitalist).		
	Dilution risk. To stay independent, leaders would have to raise more money and be diluted: "The pie that we'd be splitting up in terms of founders and employees would be a third to a half of what it is today" (CEO).	1 Total: 3	
Dodger	*Fear of failure.* "In 1995 I wrote a business plan for a company . . . but I did not go along with it. My take in it would have been worth well over $2 billion" (CEO).	2	Proactive
	Seed investors were personal friends of the CEO, creating pressure. "There is nothing more pressing on your mind than the fact that you have taken money from your friends . . . so failure was not an option" (CEO).		
	Dilution risk. "There is significant dilution with a major financing as we probably needed to raise $20–$30 million" (CEO).	1 Total: 3	
Yankee	*Stress.* Founders were burned out from their workload. "It's not a question of taking a vacation day, it's taking vacation years" (CEO).	2	Proactive
	Stress was compounded by major life changes, with all three founders getting married.		
	Fear of failure. Investors included friends and family of the founders. The founders felt pressure to return their cash.	1	
	Dilution risk. Founders were concerned about upcoming dilution. "Can you effectively raise the money that we needed to grow the business, which at that point was $15 million, without giving away a material portion that just dilutes everyone to a certain point that the upside isn't likely to be [good]?" (VP of business development).	1 Total: 4	
Traviata	*Dilution risk.* "We were in the process of raising series B—that was going to dilute all of us 23–24%" (CEO).	1 Total: 1	Neutral
Cheetah	*Stress.* Founders had made lifestyle sacrifices and were unhappy with relocation to another state with a very hot climate. The "last straw" was when "One guy's dog died. It just couldn't take the heat" (venture capitalist).	1	Neutral
	Dilution risk. "We needed a lot of money to finish the product—somewhere around $100 million. Another round of financing would have meant a lot of dilution" (CEO).	1 Total: 2	
Panther	*Stress.* "I'd been doing it for almost four years—it was actually more and more time away from home . . . I was seriously considering whether I wanted to still keep going here" (chief technology officer).	1	Neutral
	Dilution risk. "The choice was the money of $57 million now, or take the VCs' and get $300 million, diluted, in a year and a half" (CEO).	1 Total: 2	
Jaguar	None mentioned. Managers were experienced, with no prior failures, no family and friends as investors, and no concerns about dilution and stress.	Total: 0	Neutral
Giant	*Stress.* The founding team had experienced interpersonal problems. Tension had recently worsened between the CEO and other top management team members.	1	Neutral
	Financial gain. Founders indicated that financial gain was an important goal.	1 Total: 2	
Carmen	None mentioned. Professional CEO and management team with no concerns about stress, dilution, or failure.	Total: 0	Discouraging
Mariner	None mentioned. Founders were first-time entrepreneurs with no prior failures and were not concerned about dilution or stress.	Total: 0	Discouraging
Tiger	None mentioned. CEO had substantial prior success, rather than failure, having cashed out of a previous company. Leaders did not complain of stress or dilution.	Total: 0	Discouraging

or more of the managerial leaders expressed that personal wealth was one of their goals. If so, it was scored as one.

Managers with strong personal motives had high acquisition interest. An example is Dodger, whose CEO had several sources of fear of failure and whose leaders actively sought acquisition. First, several early investors were his personal friends. He explained, "There is nothing more pressing on your mind than the fact that you have taken money from your friends. The responsibility for that is far greater than if you had taken venture money. You have to be able to look your friends in the eye and say, 'I screwed up and lost your money.' So failure was not an option." Second, the CEO had also made a serious mistake in the past. Early in his career, he had been part of a team that developed the business plan for what grew to be a highly successful company. Unfortunately, after helping with the business plan, he never joined the company, giving up what became a stake worth many millions of dollars. Selling the company now would limit the risk of another lost opportunity. He was also motivated to sell by dilution risk. The company needed to raise $20–$30 million in its next financing, which would lead to "significant dilution" for the founders. Acquisition would prevent this dilution and yield an immediate, more certain, albeit perhaps smaller return. As a result, Dodger's leaders proactively pursued acquisition. They generated a list of potential buyers and began exploring whether these companies were interested in Dodger. When a promising buyer emerged, they pushed to get the deal completed quickly.

At Yankee, managers were under a great deal of stress. One source was excessive working hours. A typical day included working until late in the evening, "eating and working, going to bed at two in the morning, and getting up again." This schedule began to take a toll. The CEO commented, "It's been almost two years, and the three of us are so burned out. And it's not a question of taking a vacation day; it's taking vacation years. And in the midst of this stuff, you sit down and say, 'I don't want to talk on e-mail, I don't want to use a cell phone'—you're waiting for the marathon to end." A second source of stress was the recent marriage of all three founders. Yankee managers were also facing a heightened fear of failure. Like Dodger, they had raised capital from friends and family. Although the amount of money was very small (for the firm and the investors), a founder commented, "If I had it to do over again, I probably wouldn't ask all of my family members [to invest]. . . . You get a lot of crazy people, who happen to all be related to me." Finally, managers were motivated by dilution risk. To continue to grow, they would first have to raise significant money in the private equity market, perhaps $15 million. They were concerned that raising this amount would dilute their stake substantially, without yielding a compensating "upside."

In contrast, managers of several companies had little personal motivation to sell. At Mariner, leaders were able to handle their responsibilities with limited stress. They had no ostensible reasons for a heightened fear of failure, because the company had no very small personal investors and the leaders had not failed in the past. The CEO explained, "I was focused on building a very, very long-term business that would go public—build a brand that would last forever." As a result, when they were approached by buyers, the leaders "dismissed them out of hand." As one leader described it, "We were very defiant. We tried to act as dumb as possible."

As suggested by these cases, personal motives play a role in sellers' decisions. These motives, however, are different from those suggested by the literature. The literature predicts that managers will avoid acquisition because of attractive current job perquisites. Only financial ownership incentives can overcome this reluctance (Cotter and Zenner, 1994). In contrast, our managers were often willing to sell their firms, regardless of ownership. Although theory suggests that investors will be more interested in acquisitions than managers (Brickley and Coles, 1994), managers in every case either preceded investors in wanting to sell or simultaneously came to the same conclusion. One reason may be that although the literature emphasizes the positive aspects of managerial jobs, many executives experience negative ones. High-level managerial positions typically involve stress, which can be exacerbated by strife within the management team, excessive working hours, and the demands of personal life. A CEO explained, "If you cannot see past a certain point as to when you're going to be able to moderate your lifestyle just a little bit, it can be very exhausting." Although the company was on a successful trajectory, the CEO described a "psychological turning point" when the leaders began to view acquisition as an attractive option: "We'd alleviate the burnout factor . . . because someone else would come in and do all the work! And then we hoped that we could hand the reins over pretty quickly and just enjoy life." A second reason may be that increasing risk aversion may lead managers to prefer the often smaller but more immediate and certain gains of acquisitions. Managers were particularly likely to be risk averse when they had failed in the past, had friends and family as investors, or faced significant dilution. In describing her interest in selling, one such manager emphasized risk: "The IPO was there, but so was a lot of risk that the product would work and that someone would buy it." Similarly, a VC investor in Cheetah recounted, "The founders had been burned before. They were scared. They were risk averse. They wanted to take the money and run."

Taken together, the personal motivations of selling firms' leaders are consistent with acquisition as courtship. That is, parties' interest in forming a partnership depends on multiple personal factors that vary over time. Yet while these personal motivations explain managers' interest in selling, they beg the question of why investors would agree. Most investors have IPO as their goal, with acquisition as a consolation prize. As one leader said, "There aren't too many VCs that are looking to build companies to sell." One might expect that managers and investors would resolve disagreements about acquisition by a formal vote. Alternatively, agency theory suggests that investors would substitute monitoring for managerial risk bearing if risk-aversion differences arose. Yet these actions did not occur. One reason is consistent with governance as a syndicate. That is, although each could take extreme actions (i.e., managers could quit, boards could fire managers) or take a formal vote to resolve the conflict, investors and managers saw themselves in an interdependent partnership in which each needed the resources of the other. As a venture capitalist told us, "You could just as easily say that investors work for managers as the other way around. We all work for the company." As a result, the parties "cajoled and coaxed" one another, looking for a mutually acceptable agreement, regardless of formal control of the firm. As a CEO in an investor-controlled firm related, "There were two board members that wanted to take the company public . . . so we had a healthy debate and at the end of the day, we had a lot of faith from our investors. They liked us very much and we had a good relationship . . . they went with us."

To Whom Do Leaders Sell?

The factors that "push" company leaders to be interested in selling their firms are critical, yet we also found that having the "pull" of an attractive buyer was necessary for acquisition to occur. Although there is little guidance from the literature, it seems likely that the leaders of the selling firm would prefer the highest bidder or the buyer that offers managers the most attractive positions in the combined organization. In contrast, we found that although price is important, selling leaders carefully weigh the match of the combination potential and organizational rapport between the two firms, factors that are more consistent with the long-term and multifaceted calculus of courtship and, surprisingly, with the long-term interests of the buyer. Moreover, rather than being interested only in financial returns, investors and outside board members agreed with managers in using these more holistic criteria to choose buyers.

Combination potential. Selling leaders are certainly interested in price, but they are also attracted by combination potential between their company and a potential buyer. By combination potential, we mean the existence of similarities and complementarities that create opportunities for synergy (Larsson and Finkelstein, 1999). Table 6 summarizes the combination potential between the firms and potential buyers. The left column describes buyers whose acquisition offers were accepted, while the right column describes rejected suitors. The table indicates that, consistent with courtship, sellers were more likely to be attracted to buyers with strong combination potential and to reject buyers without it. Such was the case with Giant.

Giant created a proprietary technology that streamlined online transactions. The management team originally planned to build Giant's revenue stream by partnering with companies that conducted such transactions. Early on, the marketplace was crowded with potential partners in several market sectors. As the sectors matured, however, a few companies began to dominate key sectors, ones that were proving to be profitable and high-growth. As Giant's leaders readied their product for launch, executives from one of these companies (dubbed Goliath) unexpectedly approached Giant about acquisition. They believed that Giant's product would enable them to scale their own business more rapidly. From Giant's per-

Table 6

Combination Potential

	Combination Potential with Potential Buyer	
Company	**Accepted buyer**	**Alternative buyers considered**
Tosca	*Complementarity.* Each company offered a different communications service to corporations. These communications services could be bundled together as a suite of products sold in the same channels. *Similarity.* The companies shared similar business models. Both were outsourced providers. They also shared similar strategies that focused on high reliability and scalability. "Our mission statements were nearly identical" (CEO).	Three simultaneous offers received; did not take highest bid. "We chose this buyer although their offer was not the highest" (CEO). Several declined offers were by companies that had business models that were inconsistent with Tosca's, making synergies difficult to achieve.
Boheme	*Complementarity.* The two companies' technologies each provided a different aspect of customer relationship management (CRM). Companies would be able to buy the two products as a suite. "Every time we sold a copy of our software, we had to sell a copy of theirs, or something like it. So strong strategic fit there" (VP business development). "The key was which one [of the potential buyers] had the best strategic fit for us. . . . The beauty of it was that [buyer] had the best strategic fit" (VP of marketing). *Similarity:* Both companies were focusing on a product (versus service) business model.	Four alternate buyers considered. Buyer was considered to offer the best combination potential. When the buyer wanted a quick purchase, Boheme agreed without pursuing the other potential buyers to gain rival bids.
Dodger	*Complementarity.* Dodger offered content for a specialized group of professionals; buyer had e-retail/content capabilities aimed at the same market. "We needed someone else to complete the story. We are about what it is you want to buy, and someone else has to be what it is to purchase it" (CEO). *Similarity.* Both companies focused on highly specialized verticals.	Two alternate buyers considered. The first lacked similarity: "They were more on the commodity side of the product sphere and very light on content" (venture capitalist). The second lacked complementarity. They produced a proprietary communications device rather than using the Internet. The two business models were divergent and competitive. Dodger decided upon buyer without pursuing these potential buyers to gain rival bids.
Yankee	*Complementarity.* Yankee offered specialized content for a group of hobbyists; buyer delivered e-retail/content to the same group of hobbyists. *Similarity.* The companies shared the same market demographics as well as a focus on customer personalization. "When we looked at who their user base was and who our user base was, it was really one and the same" (VP of business development). Yankee was already developing projects that buyer had in mind as next phases in its own growth.	Four simultaneous offers received; did not take highest bid. Two potential buyers lacked complementarity. They were both pure content companies and did not offer e-retail/content capabilities like the accepted buyer.
Traviata	*Complementarity.* The two companies' technologies facilitated different aspects of online commerce transactions. "Our product lines were complementary" (CEO). *Similarity.* Both companies were focusing on the business-to-business transactions market.	Two simultaneous offers; did not take highest bid. Alternate buyer lacked complementary technical skills.
Cheetah	*Complementarity.* Buyer had strong skills in telecommunications technology, which complemented the seller's technical strength in optical communications. "We knew [buyer] lacked expertise in telecom . . . we were more strategic for them" (CEO). Buyer also brought strong sales and manufacturing skills. *Similarity.* Buyer was acquiring two other optical communications companies with different products, creating opportunities for cross-selling and common strategy.	Four alternate buyers considered. Alternative buyers were large telecommunications companies that lacked complementary technical skills.

(Continued on next page)

Table 6 *(Continued)*

Company	Combination Potential with Potential Buyer: Accepted buyer	Alternative buyers considered
Panther	*Complementarity.* Buyer had strong skills in wireless/radio frequency (RF) technology; Panther had strong skills in Internet protocol (IP) technology. The skills could be combined to produce a wireless Internet device. Buyer also had strong manufacturing that Panther lacked. "It was a good technical fit. They know RF better than we do, but we know IP better than they do" (CEO). *Similarity.* Panther's product was intended for consumer use. Buyer had strong marketing, sales, and distribution in the consumer electronics market.	One alternate buyer considered. This potential buyer lacked complementarity, having strong IP skills like Panther, and weak skills in wireless communications, also like Panther.
Jaguar	*Complementarity.* Jaguar had strong skills in specific components; buyer had strong skills in designing components into complete products and manufacturing them. "It was one of those rare things where two companies together really created a marketplace" (chief operating officer). *Similarity.* Both focused on the same technical segment of the telecommunications industry.	No alternate buyers considered. Buyer was the clear leader in terms of combination potential. "If anyone can do it, these guys can."
Giant	*Complementarity.* Seller's technology facilitates online transactions; buyer controls a majority of transactions in the best market for seller's technology. *Similarity.* Both companies' target customers are consumers, and their visions for developing the e-retail/content were identical. "They actually sat down and said, 'Here's our vision for the transaction process,' and they proceeded to give us our venture capital pitch, virtually verbatim" (chief technology officer).	No alternate buyers were considered. Buyer was among the best potential buyers in terms of combination potential, controlling over 80% of the transactions in one of Giant's best target markets.

spective, Goliath's position in a large, growing, and profitable market space was attractive. As one Giant leader observed, "We knew that there was a huge marketplace, but what we found out was that Goliath basically had most of the market." In addition to the complementarity of Giant's product with that of Goliath, the two were also similar. Both sets of company managers had independently developed their own visions for facilitating online transactions. When they met, they were astonished by their similarity. The chief technology officer of Giant described this meeting: "They actually sat down and said, 'Here's our vision,' and they proceeded to give us our VC pitch, virtually verbatim. They would show us these slides, and it's like, 'That looks like our slide.'" The combination potential between Giant and Goliath was so compelling that Giant's leaders did not attempt to contact any other potential suitors and so never knew whether others would offer higher financial gain. Rather, they emphasized combination potential.

The leaders of a second company, Cheetah, also chose to pursue acquisition with the buyer with the greatest combination potential. Cheetah was an optical communications company that had a number of potential acquirers within its industry. Company leaders, however, chose not to have serious talks with those companies, believing that a company outside the industry, Seville, offered greater combination potential. The CEO explained that his company's skills were more important for Seville than for industry incumbents: "We knew that Seville lacked expertise in telecom. We were more strategic for them. In contrast, for the existing [telecom] players, we would just be a 'time to market' move and not really a strategic move." In turn, Seville brought much-needed skills in manufacturing, sales, and distribution to Cheetah. The two firms also had a key similarity. With Seville's recent acquisition of two other optical companies and its plans to develop a unified strategy among them, the two companies were converging on a common technical base. Given this high combination potential, Cheetah managers signed an agreement with Seville that committed the company to being acquired, even though the deal limited Cheetah's potential financial gains.

A key aspect of combination potential is that it relates to the fit between the buyer and seller, not just to the buyer alone. Therefore, consistent with courtship, the same potential buyer can be viewed as attractive for one selling firm but not for another. Coincidentally, two companies were approached by the same potential buyer, Seville. For Cheetah, the combination potential with Seville dominated that of other companies. But a second company, Panther, determined that Seville offered lower combination potential than another suitor. Panther was developing a wireless Internet device for consumers. Seville lacked technical complementarity with Panther because both companies had strong skills in Internet protocol (IP) technology and weak skills in wireless communications. By contrast, Panther's chosen buyer had strength in wireless and weakness in IP, thereby offering technical complementarity. Seville also offered few similarities. Its strength in selling to corporations added little value to Panther. By contrast, Panther's chosen buyer had a very strong presence in consumer products.

Finally, leaders sometimes choose independence, even when they have high acquisition interest, if they see little or no combination potential. For example, as noted previously, early on, Carmen faced multiple and difficult hurdles, and its leadership actively pursued acquisition, especially with a key competitor. As the CEO told us, "We were set up by our investors to talk to our biggest competitor." Company leaders spent significant time with this potential buyer. Their talks focused on the possible combination potential between the companies. The CEO recalled, "We talked strategically first. . . . 'What are you trying to do with your company?' 'What are you trying to do with *your* company?'" Despite multiple meetings and an attractive offer, the combination potential was never apparent to Carmen's leaders. As a venture capitalist explained, "I was looking for where we were the same—where is there overlap—where are we complementary . . . we were very shaky on company fit." Despite Carmen's high acquisition interest at the time, the suitor's offer was rejected.

As these examples indicate, combination potential was a central consideration of sellers. Strikingly, combination potential was more important than the highest price. In six acquired companies, leaders narrowed their buyer choice early on and, consequently, received only one actual financial offer. In other words, they never engaged a second buyer long enough to know whether they could have received a higher price. In the three unacquired companies, leaders refused to discuss offers with would-be buyers. So in these nine companies, leaders did not know what financial gains they might have achieved with multiple bidders. This is surprising, given strong evidence that multiple offers maximize a seller's returns (Franks, Harris, and Titman, 1991; Servaes, 1991; Slusky and Caves, 1991; Haunschild, 1994). Also striking were the three companies that received competing financial offers. In each, leaders chose the company offering the best overall fit, not the highest bidder. One of Tosca's leaders stressed the importance of combination potential, "we had three offers and we chose [this buyer] although their offer was not the highest. It was an offer which we believed would be . . . a successful strategic combination." Similarly, Yankee's leaders recalled, "We had four offers on the table . . . one was more financially attractive to us, but we didn't really like the company." They also chose a buyer offering better combination potential rather than the highest bidder.

We considered several explanations for these data. One is that sellers assumed that a buyer with high combination potential would offer a high price. While possible, this explanation seems unlikely. First, in the absence of competing bidders, buyers can logically be expected to keep the value of any potential synergies for themselves (Barney, 1988; Capron and Pistre, 2002). Second, if this were the case, we would expect our informants to have mentioned this rationale. In reviewing our data, we found that none of our informants mentioned high price as even a secondary benefit of favoring a buyer with combination potential.

A second explanation is that sellers used combination potential as a proxy for long-term financial gain. Perhaps strategic fit leads to higher acquisition performance, which in turn increases the value of the equity that sellers receive. But this reasoning seems unlikely as well. For example, four firms (i.e., Cheetah, Giant, Dodger, and Panther) were very small relative to their very large acquirers, making it unlikely that synergies from their acquisition would substantially change the acquirer's share price. In several firms (i.e., Dodger, Jaguar, Traviata, and Tosca), the buyers were in the process of acquiring many companies, again making the outcome of any one deal unlikely to influence stock price significantly. In addition, many selling-firm leaders are able to diversify their holdings quickly and do not need to hold the buyer's stock for long periods of time. If these leaders are restricted from selling the buyer's stock, they typically resort to well-known financial hedging tactics that mitigate the importance of the long-term stock price.[5] Finally, any long-term financial gain will depend on effective post-acquisition integration, which is far from a certainty.

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Hedging techniques include collaring (Ip, 1997; Plitch, 1997), which refers to the simultaneous purchase of a put option and sale of a call option on shares of stock owned by the executive. "Zero-cost" or "costless" collars are a means for executives to reduce the risk inherent in owning large amounts of a single stock without making a large initial cash outlay, because the cost of the put option is offset by the sale of the call option (Weinberg, 2002). Collars can effectively eliminate the shareowner's exposure to price movements yet do not violate lock-up provisions (O'Brian, 1997) and are often not disclosed to the public (Weinberg, 2002).

Instead, consistent with courtship, combination potential seemed important because of emotional factors, especially status and achievement. For example, a Dodger investor explained why the buyer was chosen: "This would be a really powerhouse way to achieve the goal of being the leading supplier in the field." Similarly, the chief operating officer of Jaguar mentioned that a particular buyer was attractive because the combined companies could "take this market by storm," and Boheme's CEO talked about wanting to "own this whole space." Other leaders mentioned wanting to "feel like a winner" and "making history." Also consistent with courtship, the selling leaders saw acquisition as a way to prosper through partnership, not as organizational death. They were attracted to compatible buyers, suggesting that courtship perhaps creates a subtle trade-off between acquisition price and firm survival.[6] As one leader claimed in explaining the choice to go with a lower offer, "It's not just about the money at all." This finding is particularly intriguing given that prior research has found that being acquired is a status-reducing experience because buyers often view acquired employees as subordinates (Jemison and Sitkin, 1986). Perhaps by assuming a courtship lens, sellers are able to cope more effectively with this potentially status-reducing event.

With regard to post-acquisition job perquisites, we found that although some managers were interested in their jobs in the combined company, most spent little effort on this issue. As a Boheme VP said, "We didn't lay out my future or the CEO's until the deal was almost done." A Traviata manager said, "I didn't lose a lot of sleep over it, honestly. If they had a good position, I'd jump in, but if they didn't, I'd do something else." Instead, many managers were more concerned that their nascent companies would prosper in a successful partnership with the buyer.

Most surprisingly, investors and the board joined managers in valuing combination potential, not just price. Consistent with the syndicate view, we observed no situations in which a formal vote was used to resolve conflict. Rather, as noted in the previous section, the parties preferred compromise, a preference consistent with a syndicate. They looked for alternatives that everyone could support and eliminated alternatives that were unacceptable along any dimension of interest. As a venture capitalist described it, "There was consensus in the board. I can't recall when anybody said, 'Boy, this is a mistake.'" Similarly, a venture capitalist in a second firm described extensive disagreement but summed up the situation by observing, "By the time we sold, it was a unanimous decision."

Several features of governance as syndicate improve the likelihood of compromise. As described earlier, managers often have multidimensional motives. The same is often true of investors. While the financial gain of a specific investment matters, they are often also concerned with other motives, such as employee welfare (noted in next section) and reputation. As one CEO observed, "It's interesting. If you're successful, the VCs don't want to pull the plug on you; they don't want to have the reputation of not backing up a successful CEO." As is well known in the negotiation literature,

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We appreciate an anonymous reviewer's observation of this trade-off.

such multidimensional interests among parties make workable compromises more likely (Lau and Murnighan, 1998).

Finally, why were selling leaders often content with single offers? As noted earlier, the evidence is overwhelming that multiple offers raise the selling price, regardless of whether the highest bidder is chosen. The data suggest two reasons, both congruent with courtship. The first is that sellers were careful not to appear "desperate" and so approached the selling process cautiously. As one venture capitalist said, "The more you shop around, the more you make the company look sick." The second is that sellers were wary of alienating preferred suitors by appearing to act in "bad faith." While encouraging rival buyers in order to drive up the final price sometimes did occur, we observed that sellers were careful not to alienate the suitors that they really wanted.

Organizational rapport. The prior acquisitions literature often assumes that managers act purely out of self-interest. Agency theorists argue that investors are equally self-interested: "[Selling-firm] stockholders have no loyalty to incumbent managers; they simply choose the highest dollar value from those presented to them" (Jensen and Ruback, 1983: 6). In contrast, our evidence suggests that both managers and investors have multidimensional motives in their acquisition decisions. For example, rather than simply choosing the offer with the highest price, selling-firm leaders look for a buyer that offers organizational rapport with their company. Consistent with courtship, sellers evaluated buyers based on whether the buyer would "fit" with the organizational "family," including employees.

We assessed organizational rapport using four measures that emerged from the data: *cultural fit*, or the belief that the buying firm had values, style, and/or managerial practices similar to the seller's; *personal fit,* or the degree to which the leaders of the two firms believed that they could work well together; *trust,* or the perception that the buyer would deal fairly and openly with the seller; and *respect,* or the belief that the buyer valued the selling-firm employees and would appropriately involve them in the combined firm. Table 7 summarizes our findings on organizational rapport across the twelve companies.

Organizational rapport was an important consideration for Traviata. Traviata received an offer from a potential buyer that they acknowledged as a "quality company," but Traviata's leaders also believed that there was poor organizational rapport with this firm. Based on a previous marketing partnership, they had come to view the potential buyer as "old and archaic," lacking Traviata's dynamic organizational values. Although Traviata's leaders understood the combination potential of the deal, they also believed that the buyer did not really respect them or their company. A Traviata executive commented, "They didn't seem very interested in meeting the management team." Thus, though Traviata's leaders took this offer seriously, they were reluctant to close a deal. The CEO commented, "I certainly dragged my feet because we had concerns about cultural fit." Company leaders therefore decided to contact other potential suitors and, in the process, realized that a second company, Eagle (a competitor of the first suitor), was also interested in them. Based on two days of meetings, Traviata's managers concluded that there was strong organizational rapport with Eagle. While the first buyer

Table 7

Organizational Rapport

	Organizational Rapport with Potential Buyers	
Company	**Accepted buyer**	**Alternative buyers considered**
Tosca	*Cultural fit.* "Young, excited, very tight cultural fit" (CEO). *Personal fit.* "We hit it off personally" (CEO). *Respect for selling firm.* CEO cared whether employees would be treated with respect: "How they are treating my people, whether they are building a close relationship and really caring for the people that have been through the cycles of a start-up."	3 simultaneous offers received; did not take highest bid. Buyer had best blend of combination potential and organizational rapport.
Boheme	*Cultural fit.* "I felt very good just about the people because they all seemed very similar to us in terms of culturally, the things we thought about" (CEO). "Three things mattered: strategic fit, cultural fit, and upside" (VP of business development). *Respect for selling firm.* Seller CEO evaluated how buyer would treat employees: "Are people going to be happy here? Are they going to be better off here?. . . [I cared] that within a couple of months, people would still want to be there at the company working."	Four alternate buyers considered. Buyer had best blend of combination potential and organizational rapport. When the buyer wanted a quick purchase, Boheme agreed without pursuing the other potential buyers for rival bids.
Dodger	*Personal fit.* "I like the people" (CEO). *Respect for selling firm.* Selling CEO found that when he met with acquiring CEO during negotiations, acquiring CEO appreciated the potential value of the company and him. "Their CEO completely understood that he needed our CEO" (angel investor). *Trust.* "We [buyer and seller] looked each other in the eye and knew our intentions and felt the certainty of that" (angel investor).	Two alternate buyers considered. Alternate buyers did not provide same fit. Dodger sold without pursuing these buyers for rival bids.
Yankee	*Cultural fit.* "It was a group that shared very similar values . . . liked having fun but were very competitive and wanted to create something that was going to be around longer than we are" (VP of business development). *Trust.* "There was a lot of good faith being showed on both sides" (VP of business development). *Personal fit.* "It was like a 'click'—I remember the exact meeting we had" (CEO). "The companies got along really well personally" (VP of business development). *Respect for selling firm.* "He (buyer CEO) looked at me and said, 'We're going to do big things'" (CEO).	Four simultaneous offers received; did not take highest bid. Rival bidders lacked interpersonal chemistry. Regarding the highest bidder: "We didn't really like the company and they just were—the fit personally wasn't that great" (VP of business development).
Traviata	*Cultural fit.* "The CEO and his team thought that the Eagle culture was going to be more synergistic with what they were trying to do" (venture capitalist). *Personal fit.* "We had a lot of personal connections" (VP of services). *Respect for selling firm.* "They made the people factor of it very, very important to us. You always want to go someplace that you're wanted" (VP of services). "The people would be respected" (CEO). *Trust.* Traviata managers trusted buyer to stand by offer made via voicemail, despite knowing it was not legally binding.	Two simultaneous offers; did not take highest bid. Higher bidder was viewed as "old and archaic," unlike the way Traviata leaders saw themselves. The higher bidder's leaders "didn't seem very interested in meeting the management team," and "there wasn't a trust that was building there" (VP of services).

(Continued on next page)

Table 6 *(Continued)*

	Organizational Rapport with Potential Buyers	
Company	**Accepted buyer**	**Alternative buyers considered**
Cheetah	*Cultural fit.* "We liked how Seville did business" (CFO). *Trust.* "They [Seville] do what they say they are going to do. . . . The whole process was open" (CFO). *Personal fit.* The process began over a "low-key dinner" where Cheetah and Seville managers immediately liked each other.	Four alternate buyers considered. One potential buyer "could have doubled the price and we still would not have sold to them. We had all worked for those kind of [large] companies before and we didn't want to go back" (CEO). Cheetah managers did not trust a second potential buyer's CEO: "He is dishonest. He pits investors against employees. . . . He is just not somebody that our management team wanted to do business with" (CEO).
Panther	*Trust.* "[Jet's representative] probably told us more than he should about their business strategy . . . we got to trust them that way" (CEO). *Respect for selling firm.* "Jet [buyer] was the opposite [of the alternate buyer]. Jet was trying to convince us of why we should want them to buy us" (CEO). The chosen buyer seemed to realize, "You're not really buying technology, you're buying people and their skills" (chief technology officer).	One alternate buyer considered (Seville). Seville lacked organizational rapport. "I liked the Seville [alternate buyer] guys except the one who would have been my boss" (CEO). Seville also did not display respect for the seller. "They came in with the attitude that of course everybody wants to be bought by Seville" (CEO).
Jaguar	*Cultural fit.* Because of previous partnership, "We'd already spent two and a half years dating, so we knew each other. We'd found ways of working well together" (CEO). *Personal fit.* "We're good friends" (CEO). *Respect for selling firm.* "There's a lot of mutual respect" (CEO).	No alternate buyers were considered.
Giant	*Cultural fit.* Strong fit in customer service orientation. "When they had their service outage, they were all miserable. 'All our customers are mad and we hate having our customers hate us.' Those guys are like us" (chief technology officer). *Personal fit.* "We liked the people" (CEO). *Respect for selling firm.* Seller was impressed that buyer treated them as peers. "At the second meeting, their CEO arrived . . . their 'big guns' came" (chief technology officer).	No alternate buyers were considered.

seemed unimpressed with the management team, Eagle managers seemed interested in Traviata's employees. One executive explained, "They made the people factor of it very, very important to us. You always want to go someplace that you're wanted." There was also personal fit among company leaders. Several executives from the two companies had worked together before, creating "a lot of personal connections where we knew the personalities." Another executive explained, "They are just very nice people." Finally, Traviata's leaders perceived Eagle's values to be dynamic and entrepreneurial, just like theirs. The VP of sales related, "There's an element in both cultures that we just don't have time for mediocrity. We're both not hierarchical. Neither environment has distrust. We're both pretty open."

Despite the attractiveness of Eagle, time was running out. To keep open the possibility of the first deal, Traviata was forced to sign an agreement promising to negotiate exclusively with that bidder. There was no time for Eagle to submit a formal competing offer. Negotiations between the two companies had to end. Nonetheless, Eagle's leaders persisted in courting Traviata indirectly by leaving voice-mail messages because face-to-face talks were impossible. This put Traviata's leaders in a very difficult position. They either had to accept a buyer with which they perceived weak organizational rapport or decline their firm and generous offer in the hopes that a deal would materialize with Eagle. A Traviata investor explained the predicament: "Somebody leaving voice mail is not really legally binding. We had to decline [the first offer] before we could go ahead and talk to Eagle, and we didn't know if Eagle was going to say, 'Just kidding, we just wanted to screw up our competitor's deal.'" Complicating the situation was the fact that the first bidder's offer was higher than Eagle's preliminary offer. Still, Traviata's leaders took the chance. They declined the first buyer, with the hope that the second, with the better organizational rapport, would actually offer an acceptable deal.

One reason why organizational rapport is so important to sellers may simply be related to leaders' financial gain. That is, leaders believe that organizational rapport is related to a higher likelihood of successful integration and, therefore, realization of combination potential. But as we argued previously, most of these leaders can quickly diversify or hedge. Thus their primary financial gain is realized early on. A second possibility is that managers may prefer to associate with buyers whom they enjoy and who treat them as important. Their post-integration jobs might also be improved. Often, however, key managers, especially the CEO, did not plan to remain with the combined company. Traviata's CEO believed that he was unlikely to stay at the combined firm, explaining, "Once you've been a CEO, it's kind of hard to go back." Another CEO said, "I do start ups. So working for a big company isn't my bailiwick. I'll stay no more than a year. There's no way that I could imagine staying any longer."

Our data suggest that organizational rapport primarily relates to benefiting employees. As Traviata's CEO described, a major factor in choosing Eagle was the belief that Eagle leaders "respected" his employees. Employee welfare seemed crucial to these leaders, who often felt a strong sense of responsibility. A Traviata VP explained that she felt an obligation because she had personally recruited many employees from her former company: "There were people that I helped make career decisions that ended up coming to Traviata that I just feel responsible for and want to make sure they're taken care of." Similarly, the CEO at Boheme said, "I'm about to make a really sweeping decision about where people are going to work. So it's a big responsibility. I have to think about if people are going to be happy there."

Surprisingly, investors and the board did not stand in the way of managers' taking non-economic factors like employee welfare into account. Like managers, many investors expressed a preference for buyers that offered organizational rapport. For example, a venture capitalist explained that he only considered negotiating with potential buyers that offered both combination potential and organizational rapport: "First you figure out strategically, what the combined company looked like. . . . Then you try to relate the organizational dynamics to see if they fit together nicely. And after you have done the first and the second, you discuss valuations."

An intriguing issue is why investors and board members would act this way. Our data suggest that their behavior comes from both personal and altruistic motives. Consistent with the syndicate model, investors as well as managers were influenced by both financial and non-financial concerns. One venture capitalist explained why organizational rapport was important to him: "When I get up in the morning, I wouldn't feel good about making a decision that the company hated. That is the moral/ethical part. The other is the business part. As a venture investor, your reputation is part of what makes you successful, and entrepreneurs, if you do wrong by them, they are not going to come back to work with you." Similarly, an angel investor in Dodger showed concern for the entrepreneur's satisfaction, explaining that he had invested because he believed in the CEO as a person: "At the end of the day, my investment was more in the individual than the company. I wanted to maximize the individual's opportunity." Finally, like many entrepreneurs, many investors care deeply about building businesses. As one venture capitalist said, "In this business, it's important that dreams live." So while price is always part of the equation, acquisition decisions are a multidimensional courtship in which selling leaders also weigh the long-term strategic and organizational match between the company and its suitor.

Were informants simply putting themselves in a positive light? Although possible, this is unlikely. First, the informants had no reason to mislead us. They volunteered the information in open-ended chronologies in which there was no explicit request for their selling rationale. In fact, given that many wanted to learn the study's results, they were motivated to be truthful. Also, buyers often corroborated their accounts. Second, empirical evidence indicates that individuals often engage in cooperative, pro-social or altruistic behaviors, especially when fairness to others is involved (Miller and Ratner, 1998; Deckop, Mangel, and Cirka, 1999; Ferraro, Pfeffer, and Sutton, 2005). More surprisingly, research also indicates that many individuals actually understate their altruistic behavior and feign self-interest because of perceived cultural norms (Wuthnow, 1991; Miller, 1999). This suggests that informants were more (not less) likely to emphasize their financial self-interest to us.

DISCUSSION

We began by noting that acquisitions are a fundamental mode of organizational change (Baum, Xiao Li, and Usher, 2000; Ahuja and Katila, 2001; Graebner, 2004). Yet despite extensive research, acquisition is usually framed as buyer-dominated. In contrast, we took the seller's view. Our findings form an emergent framework for acquisition from the seller's perspective. It combines factors that push sellers toward interest in being acquired and pull sellers toward accepting attractive buyers. First, acquisition interest is greater when the firm is facing multiple strategic hurdles.

Such hurdles trigger windows of opportunity during which selling-firm leaders turn their attention to their strategic situation. As a result, they often reassess their strategic alternatives, including being acquired. When they are not facing significant hurdles, leaders may ignore even very attractive offers. Acquisition interest is also greater when managers have strong personal motivations. Although these motivations may be related to financial gain, they also relate to more complex issues, including diminished job attractiveness from sources such as major life changes and increased risk aversion from sources such as previous failures. Second, the pull of attractive buyers also influences whether an acquisition occurs. Unexpectedly, selling-firm leaders pay limited attention to short-term personal rewards such as managerial perquisites and their own jobs in the post-acquisition firm. Rather, although price is important, selling leaders are attracted to buyers that offer long-term fit in terms of combination potential and organizational rapport. Such strategic and organizational compatibility is seen as providing the opportunity for the acquired company to prosper and for a positive, post-acquisition work environment for employees to emerge.

Acquisition as Courtship, Not Takeover

A key theoretical contribution is reframing acquisition, a topic of significant research and practical import. From the courtship perspective, acquisition is a social exchange between buyers and sellers that is shaped by considerations of long-term fit as well as price. Table 8 summarizes the courtship view and contrasts it with the takeover model implicit in the prior acquisitions literature. In a courtship, in contrast with a buyer-dominated takeover, acquisition is not an event that "happens to" sellers. Rather, it is one in which they are influential and active participants. Though buyers certainly must be willing, sellers can often choose when and

Table 8

Alternative Views of Acquisition

	Takeover	Courtship
Key decision makers	Buyer	Buyer and seller
Role of seller	Weak and unimportant	Strong and important
Importance of timing	Irrelevant	Crucial, determined by sellers' strategic hurdles and personal motivations
Seller attitude toward sale	Management opposed, investors and board more receptive	Management, board, and investors have varying acquisition interest, depending on strategic hurdles and personal motivations
Seller criteria for choosing buyer	Economic: Maximize price and/or job and perquisites for senior managers	Strategic, emotional, economic: Excellent combination potential, organizational rapport, and price
View of multiple bidders	Desirable because they maximize price.	Often not desirable; contingent upon whether attractive buyers might be alienated or company might look desperate
Outcome of acquisition	Negative: Organizational death	Positive: Organizational growth and prosperity
Applicability	Market for corporate control: Low-performing companies Tangible resources	Strategic combination of resources: High-performing companies Knowledge resources Family, non-U.S., and state-owned companies

to whom to sell and may actively pursue buyers, rather than passively wait. They may also refuse unwanted buyers. Consistent with courtship, sellers weigh long-term combination potential and organizational rapport as well as price. Also consistent with courtship, sellers are often circumspect when seeking multiple suitors.

Courtship also emphasizes the importance for buyers of timing acquisition overtures such that they are synchronous with events in the target firm. As we observed, buyers are more likely to succeed if they match the timing of sellers' strategic hurdles and idiosyncratic, personal situations. Buyers can be rebuffed before they even have a conversation if they ask at the wrong time. Also, courtship suggests that successful buyers consider what sellers actually want. Sellers, like buyers, evaluate potential mates based on long-term strategic and interpersonal fit. The related calculus may include both economic and strategic factors like combination potential and price, as well as emotional factors like seeing ideas triumph or caring for valued employees. In other words, there is more to acquisition than money. Overall, courtship suggests that successful buyers understand that a broad range of issues (e.g., opportunities for collective market success, satisfying post-acquisition situations for their employees), not just price, are relevant.

An important consideration is whether acquisition as courtship is a private-company phenomenon. Acquisition of public firms may entail greater target visibility and less information asymmetry (Reuer and Shen, 2004), making these deals more market-like (Shen and Capron, 2003). Yet despite these market features, public acquisitions have characteristics consistent with courtship. Many acquisitions of public firms involve only one bidder (Schwert, 2000; Andrade, Mitchell, and Stafford, 2001), consistent with courtship, in which sellers screen suitors and may be reluctant to shop their companies. Although rarely publicized, public firms often quietly dissuade unwanted buyers before they make offers (personal communication from Philippe Haspeslagh, 2002). The U.S. courts have ruled that public and private boards have the same fiduciary responsibilities when considering acquisition offers (Cirrus Holdings Co. Ltd. v. Cirrus Industries, Inc., Civ. A. No. 18978, 2001, WL 846053, Del. Ch. Jul. 19, 2001), and notably, neither public nor private boards are required to negotiate with multiple bidders in order to fulfill their obligations to shareholders (Pennaco, Inc. Shareholders Litigation, Civ. A No. 186006 2001 WL 115341 Del. Ch. Feb. 5, 2001). Also consistent with courtship, the seller's timing may be important for buyers of public firms. For example, although market failure may make strategic hurdles like a CEO search more uncertain for private firms, most public firms reach crossroads at which their leaders reevaluate strategy, opening an acquisition window. Similarly, their senior executives also may face personal issues such as family demands or heightened risk aversion that can raise their interest in being acquired. Finally, successful buyers of public firms often engage in bilateral integration to reap performance benefits, consistent with courtship, in which both buyers and sellers are important (Capron, 1999; Graebner, 2004). Thus, although our findings relate to private firms, acquisition as courtship may extend to the acquisition of public firms.

Courtship may also be particularly descriptive of acquisitions of high-performing firms such as those we studied. The reason is that their leaders often have considerable flexibility. As one informant put it, "The best competing option is to not have to do anything, to be able to say no." Knowledge acquisitions are also particularly likely to be courtships. Because much of the value of these acquisitions lies with individuals, heavy-handed takeover tactics are likely to destroy value by encouraging these "resources" to leave. Also, in knowledge acquisitions, buyers often stretch the negotiation period in order to better understand the match, an action consistent with a courtship (Coff, 2003). Finally, there are several types of companies for which the non-price factors suggested by courtship may be important. These include family firms, in which family pride and social responsibility may be relevant, as well as European firms, in which legal institutions often dictate considerations beyond price. Privatization of state-owned firms may also involve choosing the buyer with the best fit, rather than simply the highest bidder, as noted in the recent acquisition in Portugal of Tabaqueira by Philip Morris (Capron, 2004). In these situations, courtship may prevail.

The courtship view has several implications for the acquisitions literature. First, it has implications for the so-called "winners' curse," which predicts that buyers overpay for acquisitions (Capron and Pistre, 2002). Though such a curse may exist, our research suggests that sellers sometimes mitigate its effects by taking lower prices to gain long-term fit. In effect, courtship suggests that sellers take some responsibility for creating valuable corporate combinations and are willing to sacrifice some of their own financial returns to do so, thus creating a "mutual blessing."[7] Second, the courtship view contrasts with the well-known prediction that buyers with more synergistic potential will out-bid rivals because they can gain more value from the acquisition (Barney, 1988). In contrast, our data suggest that such buyers may recognize that they do not need to pay more. In fact, the data are consistent with *less* synergistic buyers paying more, perhaps to compensate for their weaker long-term match. Third, courtship informs our understanding of acquisition performance by suggesting an overlooked explanation for why acquisitions fail so often (King et al., 2004). By acknowledging that buyers can be rejected, courtship suggests that buyers with poor courtship skills may be left with few and weak sellers, making their acquisitions disadvantaged from the start. Finally, courtship strengthens the case for distinguishing among kinds of acquisitions. Courtship may be especially well-suited to knowledge acquisitions of high-performing companies, but acquisition as takeover is still likely to describe the classic "market for corporate control," in which buyers target poor performers with tangible assets for turnaround (Jensen, 1986).

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We appreciate the insights of an anonymous reviewer on the "mutual blessing."

Toward Governance as Syndicate

A broader theoretical contribution is a fresh view of corporate governance. From the syndicate view, governance is an interdependent partnership between the board and executives in which each contributes unique and valuable resources in the pursuit of collective success and in the context of multidimensional motives. Table 9 summarizes the syndicate view and contrasts it with the dominant agency perspective.[8] Outside directors contribute resources such as capital and strategic advice, not primarily monitoring. Managers contribute unique and difficult-to-replace personal resources. Rather than agents in a hierarchical relationship, managers are partners in a peer relationship. Both parties are interdependent, needing each other to achieve the collective goal of corporate success. Yet both also have multidimensional motives that may include self-interest, such as personal financial gain, reputation, and achievement, as well as obligations to others, such as family, and altruistic interests, including employees' welfare.

From the perspective of board activity, the syndicate shifts the focus from monitoring and ratification of specific choices (Fama and Jensen, 1983) to broader issues of strategic advice and connections. We observed that when faced with a strategic choice, syndicate partners prefer compromise. Although each party can take extreme action (i.e., boards can fire managers, managers can quit) or resolve conflict through formal voting, partners prefer alternatives that everyone can support and eliminate those that are poor along any important interest dimension. Limited monitoring improves trust and communication (Strickland, 1958; Westphal, 1999), a collective goal enhances cohesion (Sherif, 1958; Dukerich, Golden, and Shortell, 2002), and multidimensional motives broaden the range of acceptable choices (Lau and Murnighan,

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Although agency theory dominates discourse on corporate governance (see Daily, Dalton, and Cannella, 2003, for discussion and review), stewardship theory has been suggested as an alternative (Davis and Schoorman, 1997). The primary difference between stewardship and agency is the assumption that managers' self-interest is aligned with owners, rather than in conflict. In other words, managers are willing "stewards" of owners' interests. In contrast, the syndicate view assumes that managers are "partners" with owners, not stewards. They are in an interdependent peer relationship, with a broad range of board activities (e.g., advice, connections to partners and managerial talent, access to customers, etc.), multidimensional motives, including collective, self- and altruistic interests, and consensus achieved through negotiated compromise, not alignment of interests.

Table 9

Alternative Views of Corporate Governance

	Agency	Syndicate
Relationship between participants	Principal-agent Independent Hierarchical	Partners Interdependent Peer
Motives of outside board members and owners	Self-interest, especially financial gain	Multidimensional: Self-interest, including reputation, financial gain; collective interest, especially success of company; altruism, especially employee welfare
Motives of managers	Self-interest, especially financial gain and job perquisites	Multidimensional: Self-interest, especially financial gain and reputation; collective interest, especially success of the firm; altruism, especially employee welfare
Role of board	Monitor management	Contribute resources related to a broad range of strategic activities, e.g., advice, connections to potential partners
Conflict between managers and board	Emphasis on goal conflict	Emphasis on goal pluralism and collective goal of corporate success
Means of decision making	Formal rules of control, e.g., voting	Negotiation to achieve consensus
Applicability	Low-performing firms Less dynamic markets	High-performing firms More dynamic markets

1998), all of these making a workable compromise more likely.

An important issue is whether the syndicate model applies only to private firms. As noted earlier, the legal responsibilities of public and private boards are very similar. Moreover, although the empirical governance literature is dominated by a focus on monitoring (Daily, Dalton, and Cannella, 2003), the broader literature highlights activities in public boards that are consistent with a syndicate (Lorsch, 1989; Beckman and Haunschild, 2002). Pfeffer and Salancik (1978), for example, pointed to multiple board activities such as advising and providing external connections. At a more general level, psychological evidence indicates that most individuals have multidimensional motives (Lind and Tyler, 1988) and sometimes engage in altruistic and cooperative behaviors (Deckop, Mangel, and Cirka, 1999; Ferraro, Pfeffer, and Sutton, 2005), both consistent with the syndicate view.

The more intriguing question is whether the syndicate is a normative description of boards. Consistent with the syndicate view, evidence from public firms indicates that boards with more effective social relationships have more advice seeking by executives, better connections to alliance opportunities through board members, and higher firm performance (Gulati and Westphal, 1999; Westphal, 1999). By contrast, increased monitoring can divert managers' attention from running their companies to social influence attempts toward the board, encourage self-aggrandizing behavior, and lower firm performance (Westphal, 1998). The syndicate view is also consistent with well-known findings on effective groups. For example, groups with similar-status members (e.g., peers in a syndicate) are likely to have higher social cohesion, greater commitment to collective goals, higher trust, and better communication than groups with members of unequal status (Eisenhardt and Bourgeois, 1988; Edmondson, Bohmer, and Pisano, 2001). The normative implications of syndicate are particularly strong in high-velocity markets such as we studied. Here, pace and turbulence make distribution of tasks among peers effective (Lawrence and Lorsch, 1969). Outside directors are likely to rely on managers to understand shifting market conditions, while managers are likely to rely on these directors for experienced advice and rapid connections to the managerial talent and partner firms that are often critical to performance. Thus although our findings emerged in private firms, they may also generalize to a normative view of public firm governance.

With respect to agency, syndicate puts this view into sharper relief. Rather than a universally appropriate model of governance, agency may be most applicable to low-performing firms in which boards shift to monitoring to boost performance. Although evidence is limited, it is noteworthy that many venture capital deals are structured so that investors gain more control (e.g., board seats, liquidation rights) if a company is underperforming (Kaplan and Stromberg, 2003).

Overall, our theoretical contributions lie in reframing acquisition as courtship and governance as syndicate. Together, courtship and syndicate suggest a multidimensional view of individuals and emphasize social exchange, interdependence, and cooperation. These ideas stand in stark contrast to both takeover and the agency perspective, in which market exchange and financial incentives hold sway. If our theoretical ideas survive empirical test, they stand to provide a more behaviorally accurate account of organization even as they belie the rhetoric of price supremacy and the ubiquity of self-interest.

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