



MASTER THESIS
(MAN - MSTT)

DOES LOYALTY PAY OFF?
THE EFFECT OF THE ADVISOR-ACQUIROR
RELATIONSHIP ON ACQUISITION PERFORMANCE

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Does loyalty pay off? The effect of the advisor-acquiror relationship on acquisition performance

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Abstract

Acquisitions are complex and uncertain events. Therefore, majority of deals are conducted with the help of external advisors hired by the acquiror. Around 20-30% of these acquisitions include advisors whom the acquiror has worked with in the past and are now rehired to continue future collaboration. The literature on these so-called advisor relationships is rather divided and does not clearly indicate their impact. This study set out to answer the question whether advisor relationships add value to acquisitions using Social Exchange Theory (SET). This is then further investigated by considering the moderating effect of recent collaboration (measured in whether and how often the acquiror and advisor worked together in the past five years). This moderating effect is underlined by SET and literature on advisors as something that could influence advisor relationships. Hypotheses are tested using an event study measuring cumulative abnormal returns to the acquiror to proxy acquisition performance. The sample consists of 5,955 large acquisitions by acquirors from leading industrial countries (G10). Opposite of expectations, results show that advisor relationships have either no or a value-destroying impact on acquiror returns. Moreover, the moderating effect reveals that recent collaborations in an advisor relationship don't affect acquisition performance. Finally, results imply that having multiple advisors does not have any value-adding impact on performance compared to having just one advisor. These findings allow several academic and practical contributions to the discussion of advisor relationships, the impact of advisors in general and acquisition performance.

Keywords Mergers – Acquisitions – M&A Advisors – Social Exchange Theory – Reciprocity – Trust – Advisor relationships – Relationship maintenance – Acquisition recency – Acquisition performance – Event study – Cumulative abnormal returns

1. Introduction

Mergers and acquisitions (M&As) are a growth strategy used by firms to expand their business to stay competitive and sustainable (Kumar et al., 2023). However, M&A is inherently complex, and its success is contingent on many factors, such as target relatedness, relative size and the acquisition premium (King et al., 2020). Due to the many influences, the performance of an acquisition is uncertain, context-specific and success is not guaranteed. To deal with this uncertainty and complexity, firms hire external advisors to ease the acquisition process and increase their chances of success (Russo & Perrino, 2006).

M&A advisors can add value in multiple ways. It is said that their expertise helps lower information asymmetries between the acquirer and target, which is especially salient when the target is unrelated or private (Servaes & Zenner, 1996; Wang et al., 2021). Advisors are better at negotiating favorable terms and finding targets that create synergies for the acquiring firm (Bao & Edmans, 2011). Also, acquirors often risk overestimating a target's value (Wang et al., 2021). However, advisors possess the required negotiation skills to agree upon an acquisition price that avoids overpayment and safeguards the value stemming from the acquisition (Bowers & Miller, 1990). Finally, it has been suggested that advisors depend on their reputation to secure repeat work, which is said to be based on their ability to deliver quality advice to their clients (Lyu & Wang, 2020). This aligns the incentives of the advisor and acquirer since both are dependent on the success of an acquisition (Rau, 2000).

However, literature also underlines the potential value-destroying impact of advisors. Evidence shows repeat work for advisory firms isn't based on acquisition performance, but on the number of acquisitions the advisory firm has carried out (Rau, 2000). Also, their fee structure is often tied to deal completion (Ismail, 2010). This creates a contrast in incentives because advisors will strive to make sure a deal is made even if this comes at the detriment of their client (Russo & Perrini, 2006). Some scholars even argue that advisors don't do anything that adds value and just follow whatever their client instructs them to do, causing advisors to only drive up the client's costs (Bao & Edmans, 2011). Advisors are even made guilty of forcing complex deals upon their clients to sell unnecessary advisory services to increase their fee, suggesting advisors only unnecessarily increase clients' expenses (Russo & Perrini, 2006). Finally, scholars show, opposite of expectations, that hiring more than one advisor even destroys value for the client (McCarthy & Noseleit, 2022).

In sum, advisors could be labeled as self-serving due to their focus on personal gains (Hayward, 2003). Their self-interested nature can lead to undesired consequences in the acquisition process (Russo & Perrino, 2006). The question then becomes why firms still hire external advisors when they are not pursuing their client's goals and are mostly self-interested? To answer this, I investigate whether a relationship between the acquirer and advisor changes the advisor's attitude and whether this aligns their incentives to add value to the deal.

Current academic literature on the impact of advisor relationships on acquisition performance is rather scarce and shows mixed results (Allen et al., 2004; Forte et al., 2010; Francis et al., 2014; Lee, 2013). This lack of literature is surprising, since data shows that around 20-30% of all acquisitions are conducted using an advisor relationship. Something absent in most current literature is the use of a theoretical lens to predict the impact of advisor relationships. Having a sound theoretical underpinning provides insight into the conditions that influence how relationships impact performance.

Therefore, this study uses Social Exchange Theory (SET) to argue how a relationship between the acquirer and advisor can develop and yield better acquisition performance. SET describes how exchanges between parties lead to the development of trusting reciprocal relationships (Blau, 1964; Emerson, 1976). One of the main tenets of SET is the norm of reciprocity, encompassing that people 'return the favor' when they are in a social exchange (Gouldner, 1960). In addition, interdependence is fundamental in social exchanges, entailing that actions of one party are contingent on those of the other (Cropanzano & Mitchell, 2005). Interdependency stimulates cooperation, creating a cycle of reciprocity (Molm, 1994). These social exchanges lead to the development of mutual trust.

Furthermore, Meeker (1971) introduces the 'rationality' rule, entailing that people seek the outcome that maximizes their potential payoff. Emerson (1976) added to this by introducing the rewards and costs concept, suggesting that people try to maximize their rewards (gains) and minimize costs (effort). He also underlined the notion of comparison levels, indicating that over time both parties' reference point will conform to the rewards gained per exchange. This implies that expectations may change over time. Finally, people tend to calculate their expected returns prior to an exchange to assess whether it is worth to engage in it or not.

In the M&A context, the acquirer is dependent on the advisor during the deal (Russo & Perrino, 2006), whereas the advisor depends on the acquirer for repeat work (Hayward, 2003), creating interdependency. I argue that, due to this interdependency, (1) firms will reciprocate satisfactory acquisition performance by rehiring the advisor, whereas (2) advisors will reciprocate by delivering good performance. This reciprocity will increase trust levels, which has been stated to stimulate the firm to provide the advisor with private information (French et al., 2019). This firm-specific knowledge can be used and enhanced each time both parties work together, allowing the advisor to provide better advisory services, a so-called certification effect (Allen et al., 2004). I expect that firms will hesitate to search for replacements due to comparison levels, making it difficult to find an advisor that will outperform one that provides satisfactory results. Recruiting a new advisor would take effort and time and result in extra costs. Furthermore, the advisor will notice that performance is rewarded by being rehired. This would lead to him making the prior assessment that a long-term relationship is possible, generating a higher overall payoff than a once-off deal where he would pursue his own interests. By safeguarding acquisition performance, he increases the likelihood of being rehired and securing a subsequent advisory fee. This leads to me to hypothesize first that a firm will only

reciprocate, and therefore develop a relationship, when the first acquisition yields positive results. Secondly, I expect that advisor relationships will create cycles of reciprocity and provide advisors with an information advantage that will increase acquisition performance as the relationship extends.

Another critical aspect of these relationships is maintenance. Chuan et al. (2018) found that reciprocity fades over time, entailing that the longer one takes to reciprocate the smaller the likelihood one will reciprocate at all. In addition, Jiang et al. (2020) state that trust decreases over time when interactions aren't maintained. Others suggest that the reverse is also true; maintaining interactions enhances trust (Vanneste et al., 2013). Since trust affects cooperative behavior and reciprocity (Fehr & List, 2004; Schilke et al., 2023), it is important to consider when the prior interaction (M&A) was between the acquirer and advisor. Therefore, I investigate the moderating effect of acquisition recency. Since a high degree of reciprocity is shown if the firm reciprocates in the short term (Ahmad et al., 2023), I believe that relationships that recently worked together on an acquisition will yield better performance than relationships that have not. Trust and reciprocity are expected to be higher, and the firm-specific knowledge will still be relevant. Based on the above, this study seeks to answer the following research question: *How does an advisor relationship affect acquisition performance and is this effect moderated by the recency of the prior acquisition?*

To answer this, I use a sample of 5,955 large acquisitions by acquirors from leading industrial countries between 2000-2023. I do this by conducting an event study based on stock market reactions to acquisition announcements (Zollo & Meier, 2008). I use the stock market reaction as a proxy to measure expected acquisition performance reflected in cumulative abnormal returns to the acquirer, a frequently used measure for acquisition performance (King et al., 2020). Data shows that most acquirors (75.2%) don't have a relationship with their advisor and that only a small portion (10.5%) have a relationship extending two or more prior acquisitions. This suggests that there is a high switching rate under acquirors and that most relationships don't tend to last long. Still throughout the years, consistently around 20-30% of all acquisitions have been conducted with the aid of advisor relationships.

Results show that relationship development does not depend on whether the first acquisition yields positive performance. In addition, advisor relationships do not or negatively impact acquisition performance. Results reveal that this negative impact occurs at three or more prior acquisitions together. This non-value adding role of advisor relationships holds even when both parties have recently worked together. This implies that reciprocity does not apply in the context of advisor relationships and rejects the notion of a certification effect. This is surprising since it is opposite of what was predicted using SET. A possible explanation is that advisors still act self-interestedly, even in a relationship, causing them to add no value and even have a value-destroying impact in the long run. Acquirors are then not inclined to reciprocate by rehiring them since performance is not satisfactory,

resulting in high switching rates and short relationship durations. However, it could also be explained by that M&A deals may be better categorized as economic exchanges instead of social exchanges (Cropanzano & Mitchell, 2005). SET is focused on the latter type of exchanges, explaining the lack of predictive power in the empirical context.

This study makes several contributions to academic literature. First, it adds to the literature on advisor choice. Results show that the decision to rehire advisors is not based on whether the first acquisition yields positive performance. This supports the notion of Rau (2000), stating that advisor market share is not dependent on acquisition quality. Second, it adds to the discussion on the impact of advisor relationships. Results show that in no case they add value in terms of performance. Thus, some acquirors seem to unnecessarily hold onto their advisor, since results suggest that loyalty does not get rewarded and may even get punished in the long run. Third, this study contributes to the notion of relationship maintenance in the context of M&A. Keeping up interactions and investing in relationship maintenance does not enhance performance, since working together recently does not impact acquiror returns. This study also contributes to practice. Mainly, acquirors should not be committed towards their advisors if they are focused on acquisition performance. Advisor relationships do not add value and are even said to increase advisory fees (Saunders & Srinivasan, 2001). Therefore, managers are encouraged to let go of their relationship, since loyalty does not get rewarded.

2. Theoretical background

2.1 Advisors and added value

Advisors are hired because they could add value to M&As in several ways. Often there is significant information asymmetry between targets and acquirors (Wang et al., 2021). To reduce these information asymmetries, firms hire outside expertise, which is essential when dealing with private or unrelated targets (Servaes & Zenner, 1996). The *skilled advice hypothesis* (Bao & Edmans, 2011) states that CEOs rarely make M&A decisions themselves due to the lack of experience, leading them to hire external advisors who do possess this experience and expertise. Advisors aid acquirors in finding targets that provide synergies and negotiate favorable deal terms. Wang et al. (2021) mention that due to information asymmetries, acquirors will potentially overestimate the target's value and end up paying a price that is too high, thereby destroying shareholder value. However, this can be prevented by hiring external advisors. The *bargaining power hypothesis* (Bowers & Miller, 1990) states that advisors can utilize their superior negotiation skills to derive the best possible price for the acquiror to maximize the value gained from the acquisition. This effect is enhanced when advisors have more expertise in the target's industry (Wang et al., 2021). Finally, advisor reputation has been a long-studied phenomenon in the context of M&A. Advisors are dependent on future business which stems from their reputation of providing clients with high-quality advice (Lyu & Wang, 2020). The *superior deal hypothesis* (Rau, 2000) suggests that market share of advisory firms is contingent on acquisition performance, indicating that they face strong incentives to complete deals that deliver the most value to their clients. When advisors deliver advice that provides more wealth gain for their client, their reputation increases (Ismail, 2010). This shows that there must be overlap between the acquiror's and advisor's goals, since both should aim to complete acquisitions that lead to the most gains. To summarize, advisors deliver value by bringing in the required experience, expertise and skills to effectively execute a M&A deal.

2.2 Advisors and destroyed value

Despite the potential added value of advisors, it has also been suggested that advisors could destroy value for the client. The *deal completion hypothesis* suggests that advisors aim to get a deal done no matter what because their advisory fees are tied to the completion of the deal (Ismail, 2010). Fees are often about 80% contingent on whether the deal is completed or not, creating a conflict of interest between the advisor and acquiror (McLaughlin, 1990; McLaughlin, 1992). The advisor will be incentivized to make sure that in any case a deal is made to secure his fee. This indicates that the interests of the advisor and acquiror aren't aligned since the advisor wants to make sure a deal is made no matter what, leading the acquiror to overpay for the target, thereby destroying value (Russo & Perrini, 2006). Hunter and Jagtiani (2003) also found that the more an advisory fee is contingent on deal completion, the faster a deal is completed. This can be attributed to the advisor's incentive to get

paid quickly. Rau (2000) found that advisory firms focus more on completing a deal rather than preventing the acquiring firm from completing a bad deal. The advisory firm does this because its market share is tied more to the number of deals completed than to the quality of the acquisitions. Moreover, Bao and Edmans (2011) highlight the *passive execution hypothesis* which states that advisors are simply ‘execution houses’ and only carry out their client’s instructions. This indicates that advisors don’t add any value and are simply just another expense for the client. The expectation is that advisors utilize their expertise, however this isn’t said to be the case, which conflicts with the interests of the client who expects that hiring outside expertise would add value to the deal. Furthermore, Russo and Perrini (2006) underline the *deal complexity hypothesis*. This suggests that advisors destroy value by pushing clients towards more complex deals that require the advisor’s expertise. This makes the client even more dependent on the advisor, allowing advisors to sell clients advisory services that aren’t necessary to just drive up their fees. This indicates that advisors actually destroy value by increasing the client’s expenses. Finally, McCarthy and Noseleit (2022) introduce the *herding hypothesis*. They argue that advisors have incentives to not report truthfully and be less transparent when multiple advisors are hired by the same client. Having multiple advisors on the same deal creates certain dynamics and reinforces certain biases which ultimately lower acquisition performance. They find that hiring more than one advisor destroys value for the client, while the client expects that having more manpower on board would add value. In sum, advisors hold the potential to destroy value due to their self-interested nature which can be detrimental to acquisition performance.

2.3 Advisor relationships

The literature highlights the importance of relationships for advisory firms. Chen et al. (2020) show that a large part of their revenues stem from M&A advisory services. Rau (2000) provides evidence that the market share of advisory firms is dependent on the number of deals completed, which suggests that by being hired subsequently, it helps advisory firms complete more deals and thus reach bigger market share. Furthermore, Hayward (2003) showed that advisory firms steer clients into acquisitions that require their expertise to secure repeat work, indicating the importance of maintaining client relationships. In the context of law firms, Krishnan & Masulis (2013) investigated whether top bidder legal advisors focus on meeting their client’s goals. They suggest that this is the case and believe it is based on the importance of winning repeat business for these advisory firms. They highlight that meeting their client’s goals will be rewarded by repeat business, which is essential for market share and sustained top ranking. This is partly consistent with Rau’s (2000) findings that advisory firms are incentivized to complete deals, but that this doesn’t necessarily result in destroyed value for their client. Ljungqvist & Wilhelm (2005) also provide evidence that firms are less likely to switch advisors if they are satisfied with the outcome of their advisory services. Several studies also underline that prior relationships are of importance when choosing advisors for future M&As (Allen et al., 2004;

Chen et al., 2020; Coates et al., 2011; Francis et al., 2014; Pantjes & Tümer-Alkan, 2017). This shows that retaining relationships helps advisory firms secure repeat work.

Retaining advisor relationships also provides advantages to clients. Chen et al. (2020) suggest that relationship advisors get deals done faster than non-relationship advisors, countering the disadvantages of longer deals, such as increased costs, reputational damage and managerial attention diversion (Luypaert & De Maeseneire, 2014). Uzzi and Lancaster (2004) state that ongoing exchanges lead to higher trust and reciprocity levels, encouraging firms to share private information with their advisor. Pantjes & Tümer-Alkan (2017) also state that advisor relationships add value, reduce information asymmetries and build a mutual commitment based on trust. Coates et al. (2011) indicate that long-term advisor relationships reduce information asymmetries, help advisors develop client-specific knowledge and produce quality assurance.

In the context of acquisition performance, advisor relationships show contrasting results. Forte et al. (2010) investigated performance implications of hiring relationship advisors for acquisition targets. They found that strong advisor relationships led to a significant increase in cumulated abnormal returns (CARs). Moreover, Francis et al. (2014) investigated the effect of advisor relationships on acquisition performance depending on the acquirer's M&A experience. They find that inexperienced acquirors that retain their relationship advisor achieve lower CARs than acquirors that switch. Moreover, they find that experienced acquirors that retain their relationship advisor achieve higher CARs than those that switch advisors. In contrast, Allen et al. (2004) found that only targets benefit from prior advisor relationships in terms of achieving higher abnormal returns. For acquirors they find a negative or insignificant effect. Finally, Lee (2013) argues that relationships create conditions that both reduce and increase chances of opportunism. He found that rehiring an advisor negatively impacts acquisition performance. In sum, current literature doesn't clearly show whether advisor relationships yield better or worse acquisition performance.

2.4 Acquisition recency

This study further investigates whether and how relationship maintenance, reflected in acquisition recency, moderates the effect of advisor relationships on acquisition performance. As stated, reciprocity creates trust between parties that are in an exchange relationship (Cropanzano & Mitchell, 2005). The recency of the relationship, the time between the prior and current acquisition, provides a unique setting in which the degree of reciprocity can be explored. A firm shows a high degree of reciprocity by rehiring an advisor in the short term or a low degree of reciprocity by taking longer to rehire the same advisor (Ahmad et al., 2023). I expect that the delayed nature of the latter type of reciprocity will affect the advisor's trust towards the firm. According to Konovsky and Pugh (1994) trust is especially important in the short run. This is further underlined by Jiang et al. (2020) who find that trust decreases over time when interactions aren't maintained or when a longer time has passed

since the last interaction. This links to the findings of Vanneste et al. (2013) who found that the higher the frequency of interactions, the more trust increases. It has also been found that reciprocity fades over time and that the chances that someone reciprocates reduces as time passes (Chuan et al., 2018). All these findings show the importance of relationship maintenance and the potential danger of trust and reciprocity fading if exchanges are not sustained.

Other scholars showcase that expectations of continuity increase trust (Poppo et al., 2008). It can be argued that the longer the firm takes to reciprocate by rehiring the advisor, the smaller the expectation of continuity becomes in the eyes of the advisor. This could reduce the advisor's trust. Fehr and List (2004) show that trust reinforces trust, while trust also affects cooperative behavior (Schilke et al. 2023). Furthermore, according to Emerson (1976), increased waiting time for repeat work drives up the costs an advisor incurs by having to wait on the other party to reciprocate. Also, Vilares et al. (2011) state that cheating or not reciprocating must be weighed against the costs of losing collaboration in the future. In sum, if the firm shows a low degree of reciprocity by waiting to reciprocate, trust will be affected. Trust and reciprocity will decrease because interactions are not maintained and there is less expectation of continuity. If trust decreases, reinforcement of trust will also be reduced. Since trust affects cooperative behavior, it can be expected that lower trust levels will make the advisor less inclined to show cooperative behavior. Also, if an advisor keeps incurring costs by having to wait, he will be more inclined to cheat at the next encounter because the expectation of future collaboration will be reduced. All in all, in a M&A deal, these relational mechanisms could be detrimental to the performance of an acquisition.

As stated, acquisition recency is about the time in between the prior and current acquisition involving the same advisor and acquiror. It coincides well with the notion of recent M&A experience. This study looks at whether the performance effects of advisor relationships change depending on whether the advisor and acquiror had a recent M&A experience together. To stay in line with current literature, this study follows Forte et al. (2010) and Francis et al. (2014) who use a timeframe of five years when investigating advisor relationships. This study therefore considers acquisitions within the past five years as recent and those beyond five years as old acquisitions.

3. Hypotheses

3.1 Retaining advisors and SET

The literature shows that firms tend to stick with advisors that provide satisfactory results and that firms terminate relationships if the previous acquisition didn't yield a satisfying outcome (Francis et al., 2014; Ljungqvist & Wilhelm, 2005). Using SET, a firm will reciprocate only when advisors provide satisfactory acquisition performance (Gouldner, 1960). If the advisor doesn't achieve the desired performance, the firm will find it easier to switch advisors since the reference point will not be high. It would be worth incurring the costs of searching for a replacement because there is a bigger possibility of finding a better advisor (Emerson, 1976). If the firm is rational, it would look for a new advisor to obtain a better payoff in terms of acquisition performance. In sum, I expect that firms will only reciprocate and develop a relationship if the first acquisition provides satisfactory performance. If the first acquisition doesn't immediately yield the desired outcome, then the firm will look for a replacement. This creates the expectation that firms with an advisor relationship should achieve better acquisition performance on their first acquisition than those that do not develop a relationship.

Hypothesis 1: Advisors that will develop a relationship with the firm perform better on their first acquisition than advisors that will not develop a relationship

3.2 Advisor relationships and SET

The literature shows mixed results regarding advisor relationships and acquisition performance (Allen et al., 2004; Forte et al., 2010; Francis et al., 2014; Lee, 2013). I use SET to derive expectations of how advisor relationships impact acquisition performance. Cropanzano and Mitchell (2005) state that social exchanges are a series of interdependent interactions that generate obligations, however these obligations are dependent on the actions of the other party. Interdependence is a key characteristic of SET and entails that both parties are dependent on each other to some extent. Reciprocal interdependence are interpersonal transactions that lead one party to respond to the actions of the other party. In the context of an acquisition, the acquiror is dependent on the advisor for delivering good advisory services which should ultimately result in satisfactory acquisition performance. In turn, the advisor is dependent on the client for repeat work, making both parties interdependent.

Gouldner (1960) suggests the norm of reciprocity causes people to 'return the favor' when the prior exchange was satisfying. People reciprocate because they are motivated by the expectation that others will reciprocate in return (Konovsky & Pugh, 1994). Preliminary economic exchanges develop into social exchange relationships due to consecutive successful exchanges (Ahmad et al., 2023). In the context of M&A, it is expected that firms will reciprocate good acquisition performance by rehiring the advisor for a future acquisition. The advisor will reciprocate by ensuring good acquisition performance.

As stated, reciprocal relationships can develop trust between parties (Cropanzano and Mitchell, 2005). The advisor literature suggested that throughout the relationship, due to built-up trust, firms will provide advisors access to private information. This information can be used in future M&As to provide better advisory services, a so-called certification effect (Allen et al., 2004; Chen et al., 2020; Coates et al. 2011; Forte et al., 2010; Uzzi & Lancaster, 2004). It can be said that relationship advisors benefit from an information advantage (French et al., 2019). Thus, the longer the relationship, the stronger this firm-specific knowledge becomes, which should help advisors improve advisory services the longer the relationship lasts.

Furthermore, Meeker (1971) highlights the notion of rationality, entailing that people seek the action that yields the highest payoff. In addition, Emerson (1976) highlights that parties look at both the costs and rewards of a particular exchange to assess whether it is worth engaging. This expected payoff tends to be calculated a priori. Emerson (1976) also underlines the notion of comparison levels, meaning that parties develop a reference point based on the average rewards exchanged per interaction. This leads to expectation that firms will be rational in that they will want to hire an advisor that maximizes acquisition performance. Advisors will be rational in that they will strive to provide good acquisition performance to develop a relationship and secure repeat work. The advisor will calculate a priori that a long-term relationship will yield a higher payoff than a once-off deal where he neglects the firm's interests and only focuses on maximizing his own payoff. Finally, I expect that comparison levels will challenge firms to replace well-performing advisors. The reference point will be too high and searching for replacements will create additional costs, which firms will want to avoid.

In sum, I expect that firms and advisors that develop a longer relationship will show better acquisition performance than those with a shorter relationship. The longer the relationship lasts, the stronger trust, firm-specific knowledge and feeling of reciprocity will be, which should make a longer relationship more successful than a shorter relationship.

Hypothesis 2: Advisors with a longer relationship achieve better acquisition performance than advisors with a shorter relationship

3.3 Acquisition recency, advisor relationship and SET

Acquisition recency displays the degree of reciprocity shown by the firm. It shows high reciprocity when it reciprocates without much delay, whereas low reciprocity occurs when it takes longer to reciprocate (Ahmad et al., 2023). SET states that reciprocity develops trust between exchanging parties (Cropanzano & Mitchell, 2005). Konovsky & Pugh (1994) state that trust is particularly critical in the short run. This coincides with trust decreasing as interactions aren't maintained (Jiang et al., 2020), whereas maintaining interactions increases trust levels (Vanneste et al., 2013). Also, Chuan et al. (2020) show that reciprocity reduces as time goes by. Thus, if the firm does not reciprocate in the short run, I expect that this delayed reciprocity will harm the advisor's trust in the firm. This reduction

in trust is caused by the lack of interaction between the advisor and firm. Reduced trust will lead to lower cooperative behavior (Schilke et al., 2023). Also, the advisor will be unsure about how long it will take the firm to reciprocate by hiring him again. The longer the advisor must wait for repeat work, the higher the costs he must incur in terms of waiting time (Emerson, 1976). Also, the lower the expectation that the relationship will continue in the future, the lower trust will be and the more likely that the advisor is willing to cheat (Poppo et al., 2008; Vilares et al., 2011).

As stated, the built-up trust during the relationship will ultimately provide advisors with an information advantage (French et al., 2019). However, if advisors must wait to be reciprocated, this firm-specific knowledge may deteriorate or be less applicable after a longer time has passed since the firm might have undergone changes. This will increase the advisor's costs in terms of required extra effort (Emerson, 1976). He cannot utilize his firm-specific knowledge as much as when the acquisition would have been more recent. In addition, if the firm readily reciprocates, it shows the advisor there is potential for quick repeat work, which is more rewarding than having to wait a long time before the firm reciprocates (Emerson, 1976). I expect that this higher degree of reciprocity will increase the trust between both parties. Also, it allows the advisor to utilize his firm-specific knowledge more because of the recency of the acquisition, increasing the probability that this information is still relevant.

Therefore, I expect that because reciprocity is lower in M&As that are not recent, the advisor's trust will be affected, and he will be incentivized to act more self-interestedly next time. Trust will be reduced because interactions aren't maintained and there is less expectation of future collaboration. Acting self-interestedly allows him to maximize his own reward due to the uncertainty surrounding the firm's current and potential future reciprocity. Moreover, firm-specific knowledge may be outdated or less applicable, increasing the advisor's costs. On the other hand, I expect that if the firm reciprocates faster, the advisor's trust will increase and won't be inclined to act self-interestedly since quick reciprocity will be more rewarding. Also, as interactions are maintained and expectation of continuity increases, trust will increase, enhancing cooperative behavior. In addition, firm-specific knowledge will be much more applicable when they worked together recently, reducing the advisor's costs of effort. In sum, I hypothesize, when using relationship advisors, the current acquisition will perform better when the latter acquisition was recent.

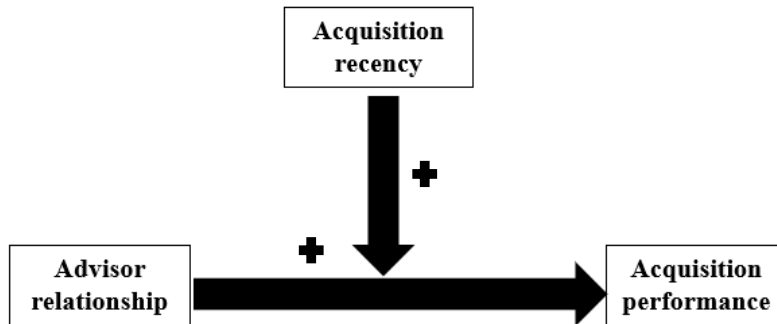
Hypothesis 3: Acquisition performance is higher for advisor relationships that have worked together recently than those who have not.

3.3 Conceptual model

As stated, current literature on advisor relationships and their impact on acquisition performance is scarce and provides mixed results. Therefore, this study sets out to investigate the effects of advisor relationships on acquisition performance and whether this effect is moderated by acquisition recency. This results in the conceptual model shown in Figure 1. As of my current knowledge, there is no study

that combines these concepts with SET in a single study. This study will therefore provide unique insights and contributions to both academic literature and practice.

Figure 1: Conceptual model



4. Methodology

4.1 Method of analysis

The method of analysis used is multiple regression analysis. This analysis technique is used in the case of one metric dependent variable and multiple metric predictor variables (Hair et al., 2018). This study uses one metric dependent variable, *Acquisition Performance* measured in CARs, and four metric predictor variables. To test the first hypothesis, I use *Future Advisor Relationship* measured with a dummy indicating whether an advisor and acquiror will or will not develop a future relationship. For the second hypothesis, I use *Prior Advisor Relationship* measured as a ratio variable showcasing the number of times an advisor and acquiror have worked together in the past. To test the third hypothesis, I use *Acquisition Recency* measured as a dummy showcasing whether an acquiror and advisor that have a relationship also worked together recently (in the past five years). In addition, I include a ratio variation of this moderator, *Number of Recent Acquisitions*, measuring the number of recent acquisitions together. Dummy variables make the data dichotomous and permit nonmetric data to be regarded as metric, allowing nonmetric data to be incorporated into regression analysis (Hair et al., 2018). Moreover, I apply the ordinary least squares (OLS) procedure, also known as linear regression, to estimate the unknown parameter values by minimizing the residuals between the estimated and observed parameter values.

The main objectives of multiple regression are prediction and explanation (Hair et al., 2018). This study seeks to predict acquisition performance by looking at the effect of advisor relationships and acquisition recency. The goal is to obtain a R-squared with high explanatory power. In addition, this study investigates to what extent the predictor variables explain acquisition performance in terms of the magnitude and sign of their coefficients. The moderation effect, also called interaction effect, will show how the relationship between the dependent and independent variable changes. It highlights when the effect occurs and whether it differs based on the inclusion of a third moderator variable (Hair et al., 2018). Applying it to this study, it will be investigated whether and how advisor relationships affect acquisition performance and whether this differs based on the recency of the prior acquisition.

4.2 Sample and variables

4.2.1 Sample

The sample was derived from Orbis M&A. It allows me to apply filters that fit specifically with this study, which were the following: (1) acquisitions by acquirors from G10 countries (2) with a minimum deal value of \$10 million (3) either announced or completed (4) by publicly listed companies (5) of which the deal announcement dates are known and (6) the primary financial advisor is known and (7) which occurred between 1 January 2000 and 31 December 2023. The final sample resulted in just below 6,000 unique acquisitions.

The first filter shows acquisitions by acquirors from leading industrial countries, which was done to investigate multiple large M&A countries and to obtain more data. The second filter creates a specific context of deals and allows only acquisitions of a considerable size to be considered. The third, fourth and fifth filter were required to calculate the CARs to the acquiror. The sixth filter is necessary to determine whether a relationship has been established. Since deals can include multiple advisors, I specifically look at the primary financial advisor due to the extra significance that role carries. The final filter allows to investigate a specific timeframe, extended just over 20 years for data collection purposes.

4.2.2 Data collection

The raw data from Orbis M&A was transferred to Excel to add other variables. First, the independent variable *Prior Advisor Relationship* was made using a formula indicating the number of times the acquiror and advisor worked together prior to the current acquisition, showcasing the length of their relationship. Next, the independent variable *Future Advisor Relationship* was made by looking at cases in which the acquiror and advisor had not worked together before, indicating their first acquisition. A dummy was then made based on whether they would (1) or would not (0) work together in the future. Furthermore, the moderator variable was made by including a time window of the prior five years for the independent variable *Prior Advisor Relationship*. However, here the cases in which the acquiror and advisor did not have a relationship were excluded. This created the moderator which showed the number of times those with a relationship worked together in the past five years, called *Number of Recent Acquisitions*. Next, a dummy was made based on whether they did (1) or did not (0) work together in the past five years, called *Recent Acquisition*. Moreover, dummies were made for certain control variables (*International Deal*, *Related Deal*, *Public Target*, *Shares vs Cash Deal*). All data for the financial control variables (*Market-to-Book Ratio*, *Leverage*, *Free Cash Flow*, *Acquiror Prior Performance*) were obtained from DataStream and are based on the year prior to the year in which the acquisition was announced. The data for *Deal Value* was provided by Orbis M&A. Finally, all CARs were obtained and calculated via DataStream and STATA.

4.2.3 Dependent variable

In this research I conduct an event study, which is often used to measure acquisition performance (Zollo & Meier, 2008). I use an event study to measure the short-term stock market reaction to the acquisition announcement. This is done by calculating the cumulative abnormal returns (CARs) to the acquiror, which indicates the expected performance. CARs are a common measure for short-term stock market performance of an acquisition (King et al., 2020). Therefore, I use CARs as my measure for acquisition performance. Event studies help assess how big events, like acquisition announcements, influence the acquiring firm's value. It compares how the firm performed by announcing the acquisition to how it would have performed if no announcement was made. This

difference is deemed 'abnormal returns' which is the portion that can be attributed to the event in question, here the acquisition announcement (Aalbers & McCarthy, 2016).

The estimation window, used to indicate normal performance, is often taken over a longer period, such as 250 trading days (Dewenter, 1995; Hayward, 2002; McCarthy & Noseleit, 2022; McNamara et al., 2008). However, McWilliams and Siegel (1997) state that using long event windows, the period around the event, should be avoided since there is more potential for confounding effects. They propose that event windows should be as short as possible, and it should be assumed that the stock market is efficient in terms of reacting to new information. Asquith (1983) underlines the importance of also considering the stock price behavior before the event takes place due to possible information leakages to the stock market. Therefore, this study uses a 250-day estimation window, starting from 295 days to 45 days before each announcement (-295, -45) and an event window, starting from 1 day before to 1 day after each announcement (-1, +1). This avoids any external effects other than the acquisition announcement to be considered when measuring expected acquisition performance and allows potential acquisition rumors to be taken into consideration. For robustness checks I apply an estimation window of 90 days to 30 days before each announcement (-90, -30) and an event window of 5 days before to 1 day after each announcement (-5, +1).

4.2.4 Independent variables

The independent variables in this research are *Future Advisor Relationship* and *Prior Advisor Relationship*. The former is measured based on whether the acquiror and advisor will continue working together after their first acquisition, whereas the latter is measured by looking how often they have worked in the past. The categorization for this latter variable is based on existing literature that often looks whether the acquiror and advisor have worked together in the past five years (Chen et al., 2020; Forte et al., 2010; Francis et al., 2014; Nguyen & Tsai, 2024). However, I won't limit myself to the past five years because otherwise it would constrain my dataset. Thus, to stay relatively consistent with academic literature, but allow myself some leeway, I look at whether an acquiror and advisor have worked together multiple times. One prior acquisition indicates the current acquisition is their second one together, therefore being regarded as a relationship.

The *Future Advisor Relationship* dummy allows the first hypothesis to be tested by comparing the performance of the first acquisition between acquirors and advisors that will build a relationship to those that will not. It is expected that the former will outperform the latter on their first acquisition. *Prior Advisor Relationship* is a ratio variable indicating how often the acquiror and advisor have worked together. A value of zero indicates a non-relationship, whereas any value above zero is deemed a relationship. This allows me to investigate whether having a longer relationship results in better acquisition performance, which I hypothesize to be the case.

4.2.5 Moderator variable

In this research I investigate the moderation effect of *Acquisition Recency*. Orbis M&A provides the acquisition announcement dates. This allows me to look whether an acquirer and advisor with a relationship also worked together in the five years prior to the current acquisition. The moderator is included in two ways. First, *Recent Acquisition* as a dummy variable with (1) if the prior acquisition was within 5 years and (0) if it was more than five years ago. The former is termed a recent acquisition, whereas the latter is termed an old acquisition. Second, I use *Number of Recent Acquisitions* which is a ratio variable, counting the number of times an advisor and acquirer have recently worked together. The classification of acquisition recency within a five-year period is used to stay in line with existing literature on this topic (Forte et al., 2010; Francis et al., 2014). This allows the comparison between advisor relationships that have worked together recently to those that haven't, expecting that the former will show better acquisition performance.

4.2.6 Control variables

I incorporate two sets of control variables: at the firm level and deal level. Both contain factors that influence acquisition performance. At the firm level, I control for (1) *Market-to-Book Ratio* because firms with different market-to-book ratios make different deals in terms of value (Rau & Vermaelen, 1998); (2) *Leverage* of the acquirer measured as total debt since it has been shown to impact acquirer M&A activity (Jensen, 1986); (3) *Free Cash Flow* to the acquirer measured as operating income minus taxes, interest, preferred and common dividend divided by equity since this also influences acquirer M&A activity (Jensen, 1986); (4) *Acquirer Prior Performance* measured in return on assets (ROA), because acquirer performance is positively related with acquisition returns (McNamara et al., 2008).

At the deal level, I control for: (1) *Shares vs Cash Deals*, coded as two dummy variables (Cash or Shares Deal), because method of payment affects acquisition performance (Franks et al., 1991); (2) *International Deals*, coded as a dummy variable based on whether the acquirer and target are from the same country, because cross-border deals are more complex and suffer from the liability of foreignness, meaning that foreign firms encounter difficulties abroad (Zaheer, 1995); (3) *Deal Value*, measured as the price paid for the target in millions of dollars, because deal size has been shown to impact acquisition performance (Loderer & Martin, 1990); (4) *Public Targets*, coded as a dummy variable based on whether the target is public (listed) or private (non-listed), because the nature of the acquisition target is proven to affect acquisition performance (Conn et al., 2005); (5) *Related Deals*, coded as two dummy variables based on the overlap between the 4-digit SIC codes of the acquirer and target (two or four digits), because relatedness affects acquisition performance (King et al., 2020).

All missing values of metric variables have been replaced by the mean. I test normality by assessing skewness and kurtosis. For variables that weren't normally distributed logarithmic transformations are applied (*Deal Value* and *Leverage*) or dummies have been made (*Market-to-Book Ratio*, *Free Cash*

Flow, Acquiror Prior Performance). Table 1 showcases the bivariate correlations. All correlations seem to be below the suggested threshold of 0.70 (Hair et al., 2018). The only notable correlation is between *Prior Advisor Relationship* and *Number of Recent Acquisitions*, $r(5953) = 0.870$, $p < 0.001$. This high correlation can be explained by the fact that the latter variable is derived from the former variable, however the latter specifically looks whether the acquiror and advisor have worked together in the past five years. Thus, the high correlation is expected, however the variables do provide different information.

Table 1: Correlations

Variable	1	2	3	4	5	6	7	8
1. CARs	1.000							
2. Future Advisor Relationship	-0.008	1.000						
3. Prior Advisor Relationship	-0.012	N/A	1.000					
4. (Dummy) Recent Acquisition	-0.012	N/A	0.142***	1.000				
5. Number of Recent Acquisitions	0.002	N/A	0.870***	0.394***	1.000			
6. (log) Deal Value	-0.103***	-0.026*	-0.084***	-0.226***	-0.238***	1.000		
7. (log) Leverage	-0.075***	0.014	0.006	-0.143***	-0.170***	0.488***	1.000	
8. (Dummy) Cash	0.051***	0.047***	-0.010	0.012	-0.039	0.022*	0.111***	1.000
9. (Dummy) Shares	-0.139***	-0.052***	-0.019	0.024	-0.021	-0.009	-0.102***	-0.232***
10. (Dummy) International Deal	-0.062***	0.034**	0.001	-0.015	-0.022	-0.035***	-0.112***	-0.073***
11. (Dummy) Public Target	-0.221***	0.013	-0.038***	-0.051**	-0.139***	0.271***	0.146***	-0.014
12. (Dummy) Related Deal 100%	-0.043***	0.050***	-0.017	-0.006	-0.077***	0.017	0.029**	-0.089***
13. (Dummy) Related Deal 50%	-0.031**	0.051***	-0.028**	-0.013	-0.106***	0.012	0.010	-0.059***
14. (Dummy) Free Cashflow	0.059***	0.039***	0.037***	-0.033	-0.032	0.036***	0.133***	0.118***
15. (Dummy) Market to Book Ratio	0.036***	-0.001	-0.063***	-0.008	-0.123***	0.107***	0.019	0.037***
16. (Dummy) Prior Performance	0.024*	0.036**	0.053***	-0.015	0.039	0.135***	0.248***	0.086***

***<0.01, **<0.05, *<0.1

Table 1: Correlations (continued)

Variable	9	10	11	12	13	14	15	16
9. (Dummy) Shares	1.000							
10. (Dummy) International Deal	0.168***	1.000						
11. (Dummy) Public Target	0.255***	0.134***	1.000					
12. (Dummy) Related Deal 100%	0.104***	0.083***	0.089***	1.000				
13. (Dummy) Related Deal 50%	0.069***	0.030**	0.094***	0.660***	1.000			
14. (Dummy) Free Cashflow	-0.133***	-0.058***	-0.015	0.004	0.004	1.000		
15. (Dummy) Market to Book Ratio	-0.120***	-0.087***	-0.030**	-0.026**	-0.009	0.093***	1.000	
16. (Dummy) Prior Performance	-0.119***	-0.003	0.027**	0.027**	0.006	0.361***	0.100***	1.000

***<0.01, **<0.05, *<0.1

4.2.7 Estimation

As stated, I carry out multiple regression analysis to test the different effects. I model the stock market's reaction to the acquisition announcement in the following manner:

$$CAR_{it} = B_0 + B_1 \text{Future Advisor Relationship} + B_2 \text{Prior Advisor relationship} + B_3 \text{Acquisition Recency} + B_4 \text{Prior Advisor Relationship} * \text{Acquisition Recency} + B_5 \text{Firm level control variables} + B_6 \text{Deal level control variables} + E_{it}$$

Where (1) CAR_{it} indicates the cumulative abnormal returns to firm i in period t on the acquisition announcement; (2) B_0 is the regression intercept which indicates the predicted value of the dependent variable when all other predictors have a value of 0; (3) B_1 *Future Advisor Relationship* is the linear effect of the independent variable *Future Advisor Relationship* for firm i in period t ; (4) B_2 *Prior Advisor Relationship* is the linear effect of the independent variable *Prior Advisor Relationship* for firm i in period t ; (5) B_3 *Acquisition Recency* is the linear effect of the moderator variable *Acquisition Recency* for firm i in period t ; (6) B_4 *Prior Advisor Relationship*Acquisition Recency* is the combined linear effect of the independent variable *Prior Advisor Relationship* and moderator variable *Acquisition Recency* for firm i in period t ; (7) B_5 *Firm level control variables* is the set of firm level control variables for firm i in period t ; (8) B_6 *Deal level control variables* is the set of deal level control variables for firm i in period t ; (8) E_{it} is the normally distributed error term.

I include year, industry and country dummies to control for unobserved effects. Before conducting the analyses, I check whether the assumptions of regression analysis are met. Independence has been upheld by gathering a random sample from a recognized third-party database and avoiding any input mistakes in the dataset. I check whether the residuals are normally distributed by interpreting the residuals statistics table and normal probability plot, which indicate that the residuals are normally distributed. Linearity is tested by making polynomials for metric independent variables and checking their significance. All polynomials are insignificant, meaning that the assumption of linearity is met. Multicollinearity is assessed by looking at the VIF values, which are consistently well below the threshold of 10 (Hair et al., 2018). Homoscedasticity is checked by interpreting the shape of the scatterplot, which shows constant variance in the residuals meaning that the assumption has been met. Finally, Cook's distance is applied to exclude effects of any influential outliers from the analysis.

5. Results

5.1 Descriptive statistics

Table 2 reports the descriptive statistics. Here the original variables are used for metric variables that have either been transformed or made into dummies. The table suggests that the average relationship length, reflected in the number of prior acquisitions, between an acquiror and advisor is 0.51. This indicates that on average, most acquirors have either never worked together or worked together just once with their current advisor. In addition, the table suggest that most acquirors who have a relationship also worked together recently with that advisor, suggested to be 1.6 times on average.

Table 2: Descriptive statistics

Variables	N	Mean	Std. Deviation	Minimum	Maximum
CARs	5955	0.652	3.981	-12.116	17.278
(Dummy) Future Advisor Relationship	4479	0.18	0.382	0	1
Prior Advisor Relationship	5955	0.51	1.296	0	17
(Dummy) Recent Acquisition	1476	0.85	0.362	0	1
Number of Recent Acquisitions	1476	1.60	1.737	0	17
Deal Value (in millions of \$)	5955	1,475.383	5,173.92	10	130,000.00
Leverage (Total debt)	5955	12,810,452.052	58,733,678.424	0	951,875,785.00
(Dummy) Cash	5955	0.31	0.461	0	1
(Dummy) Shares	5955	0.11	0.311	0	1
(Dummy) International Deal	5955	0.66	0.473	0	1
(Dummy) Public Target	5955	0.32	0.467	0	1
(Dummy) Related Deal 100%	5955	0.36	0.481	0	1
(Dummy) Related Deal 50%	5955	0.57	0.496	0	1
Free Cashflow	5955	3,599,665.725	4,870,032,318.401	-507,518,000.00	1,580,109,000.00
Market-to-book-ratio	5955	5.577	21.972	-689.91	370.48
Prior Performance (ROA)	5955	4.557	21.659	-554.13	415

Furthermore, Figure 2 shows the percentage of deals over the years in which the acquiror either uses a relationship advisor (grey) or a non-relationship advisor (black). Overall, between 20-30% of all acquisitions included a relationship advisor. This indicates that most acquirors opt to switch advisors, but that still a considerable number of acquirors decides to stay committed to their prior advisor. This high switching rate is again showcased in Table 3, revealing that 75.2% of acquirors haven't previously worked with their current advisor. This indicates that 24.8% of deals include an advisor relationship. Remarkably, only in 10.5% of deals an advisor is hired with whom the acquiror has worked more than once. Regarding the industries, the manufacturing industry had the highest absolute number of acquisitions using an advisor relationship with 402, whereas relatively the finance industry was dominant with 32.1% of deals using an advisor relationship. Country wise, the US had the highest absolute number of acquisitions using an advisor relationship with 682, relatively the UK was the leading country with 37% of acquisitions including an advisor relationship.

Figure 2: Advisor relationships throughout the years

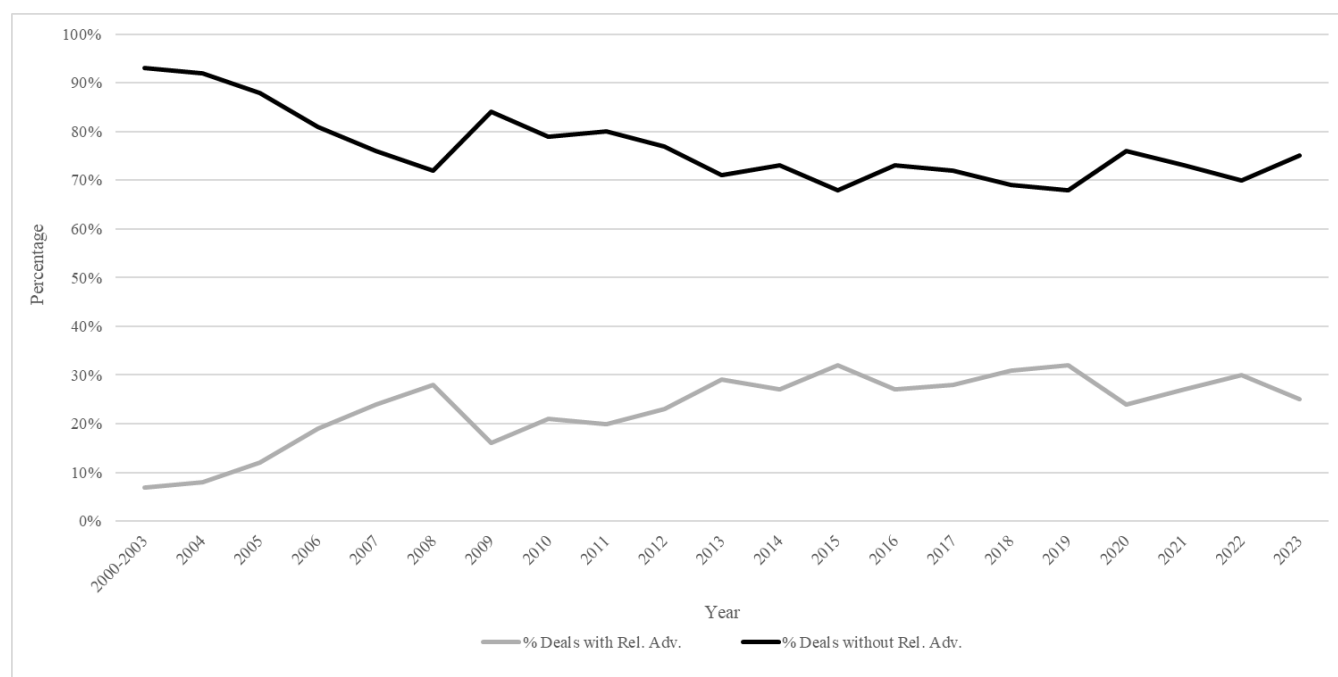


Table 3: Number of prior acquisitions

Prior Advisor Relationship	Number of Cases	Percentage of Cases
0	4479	75.2
1	848	14.2
2	295	5
3	133	2.2
4	71	1.2
5	38	0.6
6	33	0.6
7	22	0.4
8	14	0.2
9	8	0.1
10	3	0.1
11	3	0.1
12	1	0
13	1	0
14	1	0
15	2	0
16	2	0
17	1	0
Total	5955	100

5.2 The effect of future advisor relationship

Table 4 shows Models 1-3 that have been used to test hypotheses 1 and 2. Model 1 reflects the base model, only including the control variables. The R-squared is 0.074, indicating that the base model explains 7.4% of the variance in the dependent variable, which is just below a medium effect size¹. In

¹ Effect size thresholds from the University of Cambridge, as reported here <https://imaging.mrc-cbu.cam.ac.uk/statswiki/FAQ/effectSize>

Model 2 the first hypothesis is tested by adding *Future Advisor Relationship*. This variable shows the first acquisition of an advisor and acquiror together and whether they will continue cooperating in the future. The first hypothesis states that the development of a future relationship depends on whether the first acquisition results in positive performance. The insignificant coefficient ($\beta = -0.157, p = 0.299$) indicates that the development of an advisor and acquiror relationship does not depend on whether the first acquisition yields positive performance. Therefore, the first hypothesis is rejected.

5.3 The effect of advisor relationships

The second hypothesis looks at how advisor relationships affect acquisition performance. To test this, *Prior Advisor Relationship* is used in Model 3. This variable counts the number of times the advisor and acquiror have previously worked together. The second hypothesis states that longer relationships should achieve better acquisition performance than shorter relationships. The negative and significant coefficient ($\beta = -0.093, p = 0.020$) suggests that longer relationships reduce acquisition performance. Therefore, the second hypothesis is rejected since the effect is significant in the opposite direction.

5.4 The moderation effect of acquisition recency

The third hypothesis investigates how the moderation effect of acquisition recency affects the original relationship between advisor relationship and acquisition performance. Models 4 and 5 in Table 5 showcase this interaction effect. The third hypothesis states that those with a relationship that also worked together recently should achieve better acquisition performance than those with a relationship that have not worked together recently. I test this hypothesis using both the dummy and ratio variation of this moderator. In Model 4 the interaction term is made using the dummy variable. The insignificant interaction term (Int: Prior Relationship*Recent Acquisition) in Model 4 ($\beta = -0.022, p = 0.943$) suggests that working together recently when in a relationship does not significantly affect acquisition performance. In Model 5 the interaction term is made using the ratio variable. Similarly, the insignificant interaction term (Int: Prior Relationship*Number of Recent Acquisitions) in Model 5 ($\beta = 0.017, p = 0.209$) suggests that the number of times they worked together recently does not affect acquisition performance when in a relationship. Therefore, the third hypothesis is rejected.

Table 4: The effect of advisor relationships

Variables	CARs (1)	CARs (2)	CARs (3)
Future Advisor Relationship		-0.157 (-1.039)	
Prior Advisor Relationship			-0.093** (-2.333)
(log) Deal Value	-0.050 (-1.430)	-0.028 (-0.724)	-0.053 (-1.531)
(log) Leverage	-0.034** (-2.422)	-0.042*** (-2.654)	-0.032** (-2.238)
(Dummy) Shares	-0.881*** (-4.982)	-0.996*** (-5.054)	-0.881*** (-4.981)
(Dummy) International Deal	-0.015 (-0.121)	0.118 (0.872)	-0.012 (-0.104)
(Dummy) Public Target	-1.450*** (-12.242)	-1.462*** (-11.029)	-1.447*** (-12.221)
(Dummy) Related Deal	0.028 (0.270)	0.042 (0.360)	0.021 (0.203)
(Dummy) Free Cashflow	0.355** (2.504)	0.404** (2.559)	0.362** (2.553)
(Dummy) Market to Book Ratio	0.111 (0.777)	0.066 (0.408)	0.096 (0.671)
(Dummy) Prior Performance	0.193 (1.054)	0.215 (1.060)	0.215 (1.174)
Year Dummies	Yes	Yes	Yes
Acquiror Industry Dummies	Yes	Yes	Yes
Acquiror Country Dummies	Yes	Yes	Yes
Constant	1.399*** (4.034)	1.057*** (2.760)	1.420*** (4.097)
Observations	5955	4479	5955
Adjusted R-squared	0.074	0.077	0.074

T-statistics between parentheses

***<0.01, **<0.05, *<0.1

5.5 Additional analyses

I conduct multiple additional analyses. First, Orbis M&A provides the number of advisors per acquisition, allowing me to look whether deals with more advisors differ in terms of performance compared to those with fewer advisors. Literature shows that advisors hold the potential to both destroy and create value (Bao & Edmans, 2011; Russo & Perrini, 2006). Other scholars suggest that one advisor adds value, whereas multiple advisors destroy value (McCarthy & Noseleit, 2022). I test this in two ways. First, I use the ratio variable *Number of Advisors* counting the number of advisors per deal. Second, I use the dummy variable *Multiple Advisors* based on whether the acquisition had multiple advisors (1) or just one advisor (0). No dummies were made for deals without an advisor

because the sample included only deals for which an advisor was known. Statistics show that the average deal had 1.39 advisors. In 1676 deals multiple advisors were used (28.1%), whereas in 4279 deals (71.9%) only one advisor was used.

Table 6 shows the results of this additional analysis. Model 6 adds *Number of Advisors* to test whether the number of advisors affects acquisition performance. Results show that it has an insignificant effect on acquisition performance ($\beta = 0.057$, $p = 0.397$), implying that hiring more advisors does not impact performance. Model 7 uses the *Multiple Advisors* dummy to test whether multiple advisors affect acquisition performance differently compared to deals with only one advisor. Again, the insignificant coefficient ($\beta = -0.001$, $p = 0.990$) implies that having more advisors does not lead to any significant change in acquisition performance.

The second additional analysis divides *Prior Advisor Relationship* from Table 3 into groups. Dummy variables are made for those that haven't worked together previously (*Prior Relationship 0*), worked together just once (*Prior Relationship 1*), twice (*Prior Relationship 2*) and three or more times (*Prior Relationship 3+*). I stop at three because otherwise group sizes would be too small since only 3.4% of cases have a prior relationship of more than three acquisitions. Table 7 reports the results. It shows that all groups have an insignificant effect on acquisition performance, except the group that worked together three or more times. This group seems to have a significant negative effect on acquisition performance ($\beta = -0.473$, $p = 0.034$). This shows that having a prior relationship of less than three acquisitions does not affect acquisition performance, while three or more prior acquisitions seems to be the point at which performance takes a negative turn.

Table 5: Moderation effect of acquisition recency

Variables	CARs (4)	CARs (5)
Prior Advisor Relationship	-0.031 (-0.107)	-0.054 (-0.440)
(Dummy) Recent Acquisition	-0.108 (-1.039)	
Number of Recent Acquisititons		-0.137 (-0.860)
Int: Prior Advisor Rel. x Recent Acquisition	-0.022 (-0.072)	
Int: Prior Advisor Rel. x Number of Recent Acquisitions		0.017 (1.257)
(log) Deal Value	-0.152** (-1.979)	-0.161** (-1.409)
(log) Leverage	-0.002 (-0.053)	0.005 (0.149)
(Dummy) Shares	-0.599 (-1.465)	-0.576 (-1.409)
(Dummy) International Deal	-0.501* (-1.867)	-0.512* (-1.911)
(Dummy) Public Target	-1.439*** (-5.474)	-1.442*** (-5.480)
(Dummy) Related Deal	-0.075 (-0.320)	-0.075 (-0.322)
(Dummy) Free Cashflow	0.148 (0.456)	0.133 (0.409)
(Dummy) Market to Book Ratio	0.103 (0.331)	0.126 (0.404)
(Dummy) Prior Performance	0.096 (0.223)	0.098 (0.227)
Year Dummies	Yes	Yes
Acquiror Industry Dummies	Yes	Yes
Acquiror Country Dummies	Yes	Yes
Constant	3.052*** (3.119)	3.113*** (3.604)
Observations	1476	1476
Adjusted R-squared	0.067	0.068

T-statistics between parentheses

***<0.01, **<0.05, *<0.1

Tabel 6: Number of advisors

Variables	CARs (6)	CARs (7)
Number of Advisors	0.057 (0.847)	
(Dummy) Multiple Advisors		-0.001 (-0.012)
(log) Deal Value	-0.060 (-1.628)	-0.050 (-1.421)
(log) Leverage	-0.033** (-2.347)	0.034** (-2.422)
(Dummy) Shares	-0.879*** (-4.972)	-0.881*** (-4.981)
(Dummy) International Deal	-0.016 (-0.134)	-0.015 (-0.121)
(Dummy) Public Target	-1.455*** (-12.268)	-1.450*** (-12.240)
(Dummy) Related Deal	0.027 (0.261)	0.028 (0.269)
(Dummy) Free Cashflow	0.355** (2.504)	0.355** (2.504)
(Dummy) Market to Book Ratio	0.115 (0.800)	0.111 (0.777)
(Dummy) Prior Performance	0.195 (1.065)	0.193 (1.054)
Year Dummies	Yes	Yes
Acquiror Industry Dummies	Yes	Yes
Acquiror Country Dummies	Yes	Yes
Constant	1.375*** (3.955)	1.399*** (4.031)
Observations	5955	5955
Adjusted R-squared	0.074	0.074

T-statistics between parentheses

***<0.01, **<0.05, *<0.1

Tabel 7: Relationship lengths

Variables	CARs (8)	CARs (9)	CARs (10)	CARs (11)
(Dummy) Prior Relationship 0	0.223* (1.875)			
(Dummy) Prior Relationship 1		-0.133 (-0.926)		
(Dummy) Prior Relationship 2			0.010 (0.043)	
(Dummy) Prior Relationship 3+				-0.473** (-2.118)
(log) Deal Value	-0.052 (-1.479)	-0.050 (-1.427)	-0.050 (-1.429)	-0.053 (-1.534)
(log) Leverage	-0.032** (-2.234)	-0.034** (-2.385)	-0.034** (-2.421)	-0.032** (-2.255)
(Dummy) Shares	-0.880*** (-4.977)	-0.880*** (-4.978)	-0.881*** (-4.980)	-0.875*** (-4.952)
(Dummy) International Deal	-0.010 (-0.086)	-0.013 (-0.108)	-0.015 (-0.122)	-0.014 (-0.120)
(Dummy) Public Target	-1.444*** (-12.188)	-1.449*** (-12.230)	-1.450*** (-12.239)	-1.448*** (-12.228)
(Dummy) Related Deal	0.028 (0.268)	0.030 (0.287)	0.028 (0.270)	0.022 (0.209)
(Dummy) Free Cashflow	0.360** (2.538)	0.357** (2.515)	0.355** (2.503)	0.358** (2.526)
(Dummy) Market to Book Ratio	0.107 (0.747)	0.111 (0.779)	0.111 (0.778)	0.104 (0.729)
(Dummy) Prior Performance	0.202 (1.105)	0.195 (1.062)	0.193 (1.055)	0.212 (1.154)
Year Dummies	Yes	Yes	Yes	Yes
Acquiror Industry Dummies	Yes	Yes	Yes	Yes
Acquiror Country Dummies	Yes	Yes	Yes	Yes
Constant	1.191*** 3,275	1.404*** 4,050	1.404*** 4,050	1.405*** 4,055
Observations	5955	5955	5955	5955
Adjusted R-squared	0.074	0.074	0.074	0.074

T-statistics between parentheses

***<0.01, **<0.05, *<0.1

5.6 Robustness checks

I apply several measures to check whether the main results are robust. First, I apply different estimation and event windows (-90, -30; -5, +1) to check whether results change depending on the period used to calculate and compare the abnormal returns. After performing each analysis while using the new windows, I find that most results remain robust. The results that stay similar are available upon request. There are only two changes within the results, which are showcased in Table 8. First, the significant negative effect of *Prior Advisor Relationship* on acquisition performance (Model 3) becomes insignificant in Model 12 ($\beta = -0.067$, $p = 0.271$). Second, the significant negative effect of

Prior Relationship 3+ (Model 11) becomes insignificant in Model 13 ($\beta = -0.370$, $p = 0.278$). The change in significance is not surprising since, as previously stated, longer event windows increase the potential for confounding effects (McWilliams and Siegel, 1997). The effects become smaller in a longer window, opening the possibility for acquisition performance to be influenced by other variables. This potentially brings more noise into the model and causes the results to become insignificant.

In addition to applying a different window to check robustness, I conduct two Heckman two-stage regression analyses to investigate whether there is sample-induced endogeneity within the two significant findings in Model 3 and Model 11 (Heckman, 1979). The former model showcased that longer advisor relationships negatively affect acquisition performance, whereas the latter model implied that the negative effect kicks in at three or more prior acquisitions. I apply this additional robustness to, for example, reject suggestions by Bao & Edmans (1990), who state that some acquirors simply hire external advisors because they lack the experience. Francis et al. (2014) also underline that acquisition experience could affect the choice whether to hire a relationship advisor. Thus, I test whether acquiror acquisition experience influences advisor choice. A lack of experience may make acquirors more inclined to hire relationship advisors because they are more familiar with them, therefore making this choice endogenously determined. In addition, it may be that deals that carry more risk for the acquiror influence advisor choice. As acquiror size increases the less impact an acquisition of a certain size has on the firm. If an acquisition carries more risk for the acquiror, then they might be more likely to rehire a prior advisor because of the believe that they, for example, have more firm-specific knowledge (Coates et al., 2011). Allen et al. (2004) state that advisor relationships, because of their experiences with the acquiror, could be better at assessing synergies and risk, which might be more valued when the acquisition carries significant weight for the acquiror.

The Heckman model consists of two stages, following Shaver (1998). In the first stage I predict the probability that an acquiror hires a relationship advisor. I do this by making a model that includes: (1) *Prior Acquisition Experience*, measured as the number of acquisitions within the investigated timeframe made by each acquiror prior to the current acquisition, to proxy acquiror acquisition experience; (2) *Acquiror Size*, measured in the acquiror's total assets, to proxy acquisition risk for the acquiring firm. In the next step, I use the model specification as showcased in Model 3 and Model 11, but also include the inverse Mills ratio (IMR) as an explanatory variable to correct for any possible self-selection. The results of the Heckman regression, which are available upon request, showcase that there is no sample-induced endogeneity in the models since the IMR does not affect the results. Therefore, it can be concluded that the findings are not contingent on that relationship advisors are hired based on acquiror acquisition experience or acquiror size.

Table 8: Robustness checks

Variables	CARs (12)	CARs (13)
Prior Relationship	-0.080 (-1.320)	
(Dummy) Prior Relationship 3+		-0.370 (-1.086)
(log) Deal Value	-0.074 (-1.399)	-0.074 (-1.395)
(log) Leverage	-0.018 (-0.817)	-0.018 (-0.835)
(Dummy) Shares	-0.415 (-1.538)	-0.411 (-1.523)
(Dummy) International Deal	-0.074 (-0.403)	-0.076 (-0.412)
(Dummy) Public Target	-1.676*** (-9.271)	-1.677*** (-9.276)
(Dummy) Related Deal	0.002 (0.010)	0.003 (0.017)
(Dummy) Free Cashflow	0.328 (1.516)	0.325 (1.500)
(Dummy) Market to Book Ratio	-0.290 (-1.326)	-0.282 (-1.292)
(Dummy) Prior Performance	0.102 (0.365)	0.098 (0.349)
Year Dummies	Yes	Yes
Acquiror Industry Dummies	Yes	Yes
Acquiror Country Dummies	Yes	Yes
Constant	1.484*** (2.803)	1.470*** (2.779)
Observations	5955	5955
Adjusted R-squared	0.034	0.034

T-statistics between parentheses

***<0.01, **<0.05, *<0.1

6. Discussion

6.1 Key findings and theoretical contributions

This study contributes to the literature on advisor choice, the nature and effect of advisor relationships, the impact of the number of advisors and acquisition performance.

First, this study contributes to the literature on advisor choice (Allen et al., 2004; Chen et al., 2020; Francis et al., 2014). Results show advisors with a future relationship don't achieve higher performance on their first acquisition than those without a future relationship. This suggests that repeat work for advisors isn't based on acquisition performance, but rather other factors that affect the decision to switch or rehire an advisor. This finding is contrary to expectations. It could be that acquirors don't primarily assess advisors based on acquisition performance. This links to the notion of Rau (2000) who states that the market share of advisors is not based on deal quality, but rather deal quantity. This contribution is important for scholars who are concerned with determinants of advisor choice and for advisory firms that are interested in the factors that determine repeat work.

Secondly, this study contributes to the scarce literature on the effect of advisor relationships on acquisition performance (Allen et al., 2004; Forte et al., 2010; Francis et al., 2014; Lee, 2013). Results show that still around 20-30% of all deals are conducted with the aid of advisor relationships. This is surprising since findings suggest that advisor relationships either have no or a negative impact on acquisition performance. Further investigation shows that this negative effect occurs at three or more prior acquisitions. In addition, the moderation effect of working together recently did not have any impact on acquisition performance. These results indicate that advisor relationships add no value in terms of acquisition performance, even in the case when both parties cooperated in the short term. This suggests that loyalty does not pay off, which is opposite of what was hypothesized using SET.

However, there are explanations for the fact that SET fell short to predict these findings. First, it could be that, for example, advisors act even more manipulative and self-servingly when in a relationship. It could be that, as stated by Lee (2013), relationships create chances of opportunism and that the likelihood that advisors will get punished by the acquiror gets lower as the relationship endures. This could cause advisors to make the prior assessment that their rewards will be higher and costs lower if they just pursue their own interests, since the chances that they will be punished are low (Emerson, 1976). This could explain why, even in a relationship, advisors don't add value. However, switching rates are still high and relationships are of short duration. This could be caused by that most acquirors detect the lack of added value and decide to not reciprocate by simply switching advisors.

Despite that M&A deals include social interactions and could be viewed as social exchanges; it could also be that M&A deals aren't as much a social exchange as that they are an economic one. SET states that economic exchanges are based more on short-term transactional agreements (Konovsky & Pugh,

1994). In the context of M&A, the advisor provides a service to the client in exchange for a fee. As shown by the model of Cropanzano & Mitchell (2005), these relationships are distinguished from social exchange relationships in which the norm of reciprocity applies. According to Foa and Foa (1974), the resources exchanged in a M&A deal between client and advisor are highly tangible (money) and have low socioemotional value (advisory services). This indicates that it is expected to be exchanged in a quid pro quo fashion in the short term. This could be the cause that reciprocity doesn't apply in this context, since the exchange has already been concluded and both parties aren't expecting to receive or return any favor. This study has therefore shown that M&A relationships may not be suited to be categorized as social exchanges, and that SET is not fitting to make any predictions.

There are other ways to interpret the finding that advisor relationships add no value or even destroy value. First, it could be that the longer a relationship endures, the less objective the advisor becomes (Kitay & Wright, 2004). This may affect an advisor's decision making, which eventually prevents any value from being added. It could also stem from a lock-in problem created by the fact that private information is exchanged during the relationship (French et al., 2019). The acquiror may find it a waste to stop hiring the same advisor due to the built-up knowledge even when he does not add any value to the deal. This could cause relational inertia due to limited search for alternatives and perceived high switching costs (Lee, 2013).

It could also be that certain acquirors already suffer from inertia, causing them to rehire advisors even when they add no value, because there is no desire to change the status quo. Acquirors will be reluctant to switch despite there being better alternatives, causing the relationship to be extended, making the acquiror more reliant on that advisor. In addition, managerial biases could cause the acquiror to provide less autonomy to the advisor because the acquiror simply wants someone to execute his ideas. This is closely linked to upper echelons theory (Hambrick, 2007) and the passive execution hypothesis (Bao and Edmans, 2011). The lack of autonomy prevents advisors to utilize their expertise and forces them to adhere to acquiror demands, withholding any value from being added and potentially even detracting value. Finally, Saunders and Srinivasan (2001) find that loyal acquirors pay higher fees than those that switch and that advisor relationships add no value in terms of acquiror returns. Thus, it could be that acquirors assess advisors based on other factors and perceive benefits other than acquisition performance which influences their decision to rehire an advisor.

In addition, other theories can be used to interpret the results. Using game theory, Axelrod (1984) distinguishes different cooperation strategies. He describes a strategy that is based on first building a relationship and then once trust is developed, one cheats. This could explain why only after three or more prior acquisitions, which relates to a solid relationship being built first, the relationship starts to negatively impact performance. This is also underlined by Lee (2013), stating that longer relationships prevent the acquiror from switching due to lock-in. The accumulated knowledge and exchanged

private information stimulate the acquiror to rehire the same advisor to avoid any information leakage to industry rivals (Chang et al., 2016). As time passes, the acquiror is less likely to punish the advisor because of his dependency, allowing the advisor to act opportunistically.

The resource-based view (RBV) could also explain the non-value adding role of advisor relationships, which could be viewed as a strategic resource. Barney (1991) states that resources create sustained competitive advantage when they are valuable, rare, imperfectly imitable and non-substitutable.

Whether advisor relationships and advisors in general add any value is already disputed, again shown by this study. However, advisors are not rare, since there are multiple advisory firms that could be hired. Also, a relationship is not imperfectly imitable because other firms could simply decide to hire the same advisor multiple times. Finally, the resource should not be substitutable by one that could achieve similar results. However, if one hires Morgan Stanley as an advisor, but competitors hire Goldman Sachs, then they could potentially achieve similar results since both are considered top advisors. Thus, advisor relationships don't seem to meet the conditions for sustained competitive advantage, explaining their non-value adding impact.

Furthermore, agency theory highlights two problems in the M&A context (Eisenhardt, 1989). First, the goals of the acquiror (principal) and advisor (agent) are conflicting. Second, the acquiror struggles to verify the advisor's performance. The conflict of interest is apparent in M&A since the acquiror wants to get a good deal, whereas the advisor is focused on getting paid (Russo & Perrini, 2006). The advisor's fee structure, which is largely based on deal completion, creates this conflict (McLaughlin, 1992). This could cause the advisor to inflate the deal price or speed up the completion process even at the expense of the acquiror. This is where the second problem comes in. Often acquirors aren't experienced enough or have insufficient expertise to conduct acquisitions. Therefore, they hire external advisors who do possess this (Bao & Edmans, 2011). The experience and expertise gap makes it hard for acquirors to assess whether advisors are doing their job, allowing advisors to act opportunistically. This could cause an advisor to add no value or even destroy value. Lee (2013) also finds that acquirors with longer relationships increasingly overpay for acquisitions targets.

Finally, organizational learning theory is based on learning from past experiences and applying the insights in the future to achieve better organizational results (Basten & Haamann, 2018). During advisor relationships firm-specific knowledge is built up, however deals could be very heterogeneous, making it difficult for advisors to apply new insights in subsequent acquisitions. Therefore, advisors may not have a value-adding role or may even destroy value simply because insights from prior acquisitions are not applicable or only to a limited extent. This explains the insignificance of the certification effect proposed by scholars (Allen et al., 2004; Forte et al., 2010). The heterogeneity of deals would also explain the high switching rate and short relationship durations. Each deal could make another advisory firm more suited depending on deal context. It would also debunk the

economies of scale hypothesis in M&A advisory regarding efficiency of information-production (Francis et al., 2014).

Next, this study contributes to the literature on the impact of advisors. Findings reveal that having more advisors does not significantly affect acquisition performance. Also, there seem to be no performance differences between deals with one or multiple advisors. This partly coincides with the findings of McCarthy & Noseleit (2022), who show that having multiple advisors does not add any value to the deal. The non-value adding impact of multiple advisors is not surprising, since scholars already underlined the potential value-destroying impact of advisors in general (Bao & Edmans, 2011; Russo & Perrini, 2006). However, it is surprising that statistics indicate that almost 30% of all acquirors still use multiple advisors. Results do not necessarily suggest that ‘less is more’, however having more advisors does not add any additional value in terms of performance and just drives up advisory fees.

Furthermore, this study adds to SET literature. It showcases that SET may not be suited to predict M&A relationships, providing insight to scholars concerned with relational dynamics between clients and advisors. Despite the social interactions during acquisitions, relationships between acquirors and advisors may be better categorized as economic exchanges. Results showcase that switching rates are high and relationships are short. All of this suggests that in the world of M&A, everything seems to be strictly business between acquiror and advisor.

Finally, this study adds to the general M&A literature by giving insight into how the stock market reacts to acquisition announcements, advisor relationships and their impact on performance and finally, the effect of multiple advisors.

6.2 Practical contributions

This study analyzed how the stock market reacted to the acquisition announcement of 5,955 large acquisitions by acquirors from leading industrial countries. Results provide practical contributions to managers of such acquiring firms and even advisory firms.

First, managers concerned with acquisition performance should switch advisors. Retaining advisor relationships does not yield superior results. They seem to either have no impact or a negative impact on performance. This non-value adding effect holds even when the firm recently worked with that advisor. This suggests that it is unnecessary for firms to invest into a relationship by maintaining interactions since it does not add to performance. Commitment does not get rewarded and could even create a lock-in problem and relational inertia. However, still around 20-30% of acquirors seem to choose a relationship advisor. Therefore, managers should not prioritize relationships over switching advisors. It is even ill-advised to rehire an advisor the firm has worked with previously three or more times, because at that point the negative impact on performance seems to kick in.

Second, managers should not hire multiple advisors if their goal is to increase acquisition performance. Results reveal acquiror returns are not significantly different in the case of one or multiple advisors. Therefore, managers could avoid paying additional advisory fees simply by hiring one advisor since it yields similar results in terms of performance.

Third, advisory firms should not primarily focus on acquisition performance in terms of getting repeat work. Results imply that the performance of the first acquisition does not affect whether the advisor would be rehired. This suggests that there isn't any performance threshold that must be met to be rehired, but rather other aspects that acquirors value more when selecting their advisor.

Finally, these findings should help managers save large amounts of advisory fees. Scholars suggest that loyal acquirors pay a relationship premium in terms of higher fees compared to those that switch (Saunders & Srinivasan, 2001). Still, around 20-30% still uses a relationship advisor. Also, this study shows that there is no added value in hiring multiple advisors, labeling their fees as unnecessary expenses. Statistics showed that on average each acquiror had 1.39 advisors on a deal. The global M&A industry amounted to \$2.9 trillion in 2023². Around 1-5% is expected to go to advisors³. This would imply that acquirors could spare almost one third of these fees since it does not generate any additional value in terms of performance.

6.3 Limitations and future research

There are limitations in every study and this one is certainly no exception. Here I highlight the main limitations.

First, this study does not consider a specific timeframe in which an acquiror and advisor must have worked together multiple times to be regarded as a relationship. This was done for data collection purposes. However, one could argue that working together twice in a span of 20 years cannot be considered a relationship. Therefore, like other studies who did consider a specific timeframe to categorize relationships (Chen et al., 2020; Forte et al., 2010; Francis et al., 2014), future research could replicate this study and test whether results differ based on a specific timeframe for relationships.

Second, it could occur that the target also uses an advisor, which is neglected in this study. However, there is evidence that target advisors affect acquisition performance (Allen et al., 2004; Forte et al., 2010). In the future, researchers could investigate whether there are differences in performance when also considering the target's M&A advisor and how advisor relationships affect the performance of targets.

² Global M&A review of 2023 from Kroll Inc. and LSEG, as reported here <https://www.kroll.com/-/media/kroll-images/pdfs/q4-2023-global-financial-review.pdf>

³ General M&A advisory fees in 2024, as reported here <https://etonvs.com/ma/m-and-a-advisory-fees/>

Third, I use large deals only (\$10 million+) which might affect generalizability of the results to other contexts. Deal size has been proven to affect acquisition performance (Loderer & Martin, 1990). Moreover, large deals are often carried out by firms of larger size, which also has been shown to impact acquisition performance (King et al., 2020). Future research is encouraged to conduct a similar study in the context of, for example, acquisitions by SMEs to see whether results vary.

Fourth, this study focuses on acquirors from G10 countries, which also could affect generalizability. Each analysis did control for acquiror country, but the sample and results may differ when the study would have been based on a specific country. Therefore, future research could test the hypotheses in other national settings to compare the outcomes.

Fifth, I conduct an event study to estimate expected performance, applying the assumption of market efficiency that expects the stock market to always correctly adjust a firm's value based on new information (McWilliams & Siegel, 1997). However, Zollo and Meier (2008) highlight this potential limitation of stock market reactions and state that short term returns don't guarantee long term performance. Meta-analyses such as that of King et al. (2020) also show that predictors of acquisition performance yield different results based on whether one focuses on short- or long-term performance. Therefore, future studies should take both short- and long-term market reactions into consideration and look to what extent performance differs in this empirical setting.

Finally, I assessed advisor relationships based on financial metrics (CARs). However, acquirors might be pleased with their advisor even if CARs are negative. Acquisitions could also have other motives, which, if achieved, could label acquisition performance satisfactory (Aalbers et al., 2021; Hassan et al., 2018). Therefore, it would be interesting if future research could take other motives into account and look whether this affects the relational dynamics between an acquiror and advisor. In addition, the current quantitative literature could be enriched by qualitative insights that investigate the real-life advisor relationship dynamics and how performance is assessed within a relationship. This might explain why most acquirors switch and relationships are often of short duration as shown by this study.

7. Conclusion

The global M&A market is a trillion-dollar industry, of which a small percentage goes to financial advisors. However, this still implies that advisors make billions a year carrying out M&A advisory services. These M&As are often complex events of which success is contingent on many factors, making their performance highly uncertain. Firms often lack the required experience and expertise and decide to hire external advisors who can ease this process. Literature has highlighted that advisors are able to lower information asymmetries between the acquiror and target, are able to find targets that provide synergies, possess superior negotiation skills that help achieve better deal terms, and most importantly, possess the expertise and experience needed to deal with the overall M&A process.

However, despite these benefits, many scholars have rejected the notion that advisors add value, while some even suggest that advisors destroy value in terms of M&A performance. Yet, most scholars focus on the impact of advisors on acquisitions in general, but often neglect the notion that advisors can develop relationships with their clients. This negligence is shown by the scarce literature on advisor relationships and their impact on acquisition performance. Therefore, this study used the SET literature to describe how relational dynamics could lead to the development of an acquiror-advisor relationship. I argued that advisor relationships would enhance acquisition performance and that longer relationships yield superior results. I then considered the moderating effect of acquisition recency, arguing that advisor relationships achieve higher performance when the advisor and acquiror recently cooperated.

To test these hypotheses, I use a sample of 5,955 large acquisitions by acquirors from leading industrial countries. Results reject a value-adding impact of advisor relationships on acquisition performance. Advisor relationships even seem to destroy value in the long run. This non-value-adding impact holds even when both parties have recently worked together. In addition, results indicate that the number of advisors per deal does not affect acquisition performance, since one and multiple advisors achieve similar performance. Therefore, when discussing advisor relationships and advisors in general, this study does not support the notion ‘the more the better’. Rather, relationships seem to be unnecessary commitments that ultimately don’t get rewarded. In conclusion, this study contributes to literature on advisor choice, advisor relationships and their effect on acquisition performance. Practical contributions are made to managers, who might be concerned about whether to commit to and invest in a relationship. This study showcases that, in the world of M&A advisors, loyalty does not pay off.

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