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M&A Integration and Separation

# HOW YOU FRAME THE DEAL MATTERS

M&A RESEARCH:  
ACQUISITIONS AND SHORT-TERM THINKING.



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## INTRODUCTION

Acquisitions are fraught with difficulty. For instance, there is a massive difference in the information and knowledge that the buyer and seller pose about the business or entity in question. There are many examples where a company makes a purchase, and the ensuing integration is anything but smooth.

One particular difficulty concerns the timescales inherent in M&A. Executives have to hit targets for growth, and there are notional penalties for missing these. Though M&A appears to be a sure-fire way to growth, in the short term acquisitions inevitably cause disruption. The challenges of integration are distracting for senior managers, and markets often react negatively. Indeed, recent research shows that markets are initially sceptical of those deals that ultimately go on to create value for the acquirer after several years (Litov et al., 2012). This creates a problem for decision-makers who must weigh up the short-term costs of a deal and the longer-term benefits. With this problem in mind, we designed a study to investigate how simple cues used to motivate deals can either drive executives to focus on the short-term costs (and thus ignore the long-term benefits) or to focus on the longer-term returns.

At the heart of this study is the idea that *language related to space and motion can shape how we think about the future and influences how aggressively executives pursue M&A activity*. Indeed, executives routinely use such language when describing the future. For instance, “to accelerate performance improvement,” Procter & Gamble is “taking an important strategic step forward” (Lafley, 2014), while Pfizer is “on the right path to having a pipeline that is both robust and sustainable” (Read, 2014). The physical realities of space and motion help people conceive of time which can be neither seen nor touched. Future events can be framed in two ways (Boroditsky and Ramscar, 2002): the time-moving frame, in which the future moves towards the speaker (e.g., “the deadline is approaching”), and the ego-moving frame, in which the speaker moves towards the future (e.g. “we are approaching the deadline”).

To illustrate these two ways of framing the future, let’s imagine you are told that next Wednesday’s meeting has been moved forward 2 days. What day is the meeting, now that it has been rescheduled? The answer depends on how you think about time. If, on the one hand, you think of yourself as moving forward through time (the ego-moving frame), then moving a meeting “forward” is moving it further ahead in the direction of motion – that is, from Wednesday to Friday. If, on the other hand, you think of time as coming towards you (the time-moving frame), then moving a meeting “forward” is moving it closer to you – that is from Wednesday to Monday. Most people have strong intuitions about which answer is the correct one.

In prior research, Crilly (2016) has shown that these two different ways of speaking – and thinking – about the future matter for whether executives make future-oriented decisions that sacrifice short-term earnings for longer-term earnings. Specifically, ego-moving frames present future events as more distant – and, thus, more readily ignorable - than do time-moving frames. The implications for corporate development are potentially important because different ways of framing these deals can increase or decrease the likelihood that executives will make acquisitions that create value in the long run even when they are linked to short-term disruption.

## STUDY

We conducted a decision scenario exercise. Corporate executives were recruited to participate in the study. Participation was limited to senior managers (encompassing general managers, regional managers, directors, executives, presidents and vice-presidents) with discretion over resource allocation and to corporate advisors with experience on merger and acquisition deals.

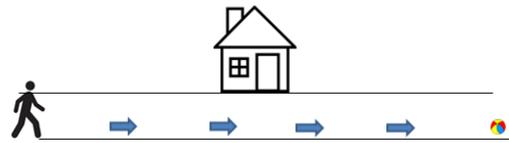
After 14 decision-makers were excluded because of inappropriate seniority (there were more than four levels of management above them in their organizational hierarchy), there were 246 participants, each from a different firm. The participant pool was highly experienced, with a mean number of years of professional experience of 22.96 (standard deviation = 9.66), and senior (on average, 1.30 levels from the top of their organization). 25 participants were CEOs, 29 were directors, 6 were chairpersons. Other titles included consultants (mainly advising on M&A deals), corporate finance managers, and venture capitalists. Participants were distributed globally. The most represented countries were the UK (66 participants), USA (29 participants), Germany (22 participants), and China (9 participants).

## DESIGN AND PROCEDURE

Subjects were randomly assigned to one of two primes. The purpose of these primes was to see whether getting executives to “frame” the future in different ways would encourage them to take different decisions about a potential acquisition that would generate a positive NPV in the long term.

Subjects viewed an image of a person and a ball on a road. Between the person and the ball was a house. The images presented to the subjects are shown in Figure 1. Subjects were told to imagine either that they were moving towards the ball (ego-moving prime) or that the ball was moving towards them (object-/time-moving prime). When people are asked to imagine that objects are approaching them, they largely adopt a time-moving frame (Boroditsky and Ramscar, 2002). Consistent with best practice (Hardistry et al., 2013), to ensure that subjects internalized the priming, they were told that the house in the image was on the WEST side of the road (in the ego-moving condition) or the EAST side (in the time-moving condition) and asked in which direction the person (in the ego-moving condition) or the ball (in the time-moving condition) was moving. The correct response in both cases was “north.” This question was used as a filter to exclude subjects who had insufficiently engaged with the scenario. 18 subjects answered incorrectly, and their responses were excluded from analysis.

Diagram shown to subjects  
Approaching object (ego-moving condition)



Subjects then read a scenario about a pharmaceutical firm’s potential acquisition of a biotechnology firm (see Table 1). The acquisition would likely increase long-term earnings whilst leading the firm to miss its short-term earnings. They were asked to advise the CEO. The wording used was: “If you advise in favor of the acquisition, the firm will probably miss its short-term earnings forecast even if the acquisition leads to earnings increasing in subsequent years.”

Diagram shown to subjects  
Object approaching (time-moving condition)



The scenario text also included a verbal prompt to prime an ego-moving or time-moving frame. Subjects were randomly assigned to read one of two prompts. The ego-moving prompts stated: “Please imagine that you are approaching a decision about a potential acquisition” and “You are rapidly approaching the deadline for making a recommendation.” The time-moving prompts stated: “Please imagine that a decision about a potential acquisition is approaching” and “The deadline for making a recommendation is rapidly approaching.”

### Ego-moving

“Please imagine that you are approaching a decision about a potential acquisition”  
“You are rapidly approaching the deadline for making a recommendation.”

Subjects expressed a recommendation in favor of, or against, the acquisition on a 1 (highly against) - 9 (highly in favor) scale. They also explained their recommendations in the form of open-ended responses. Finally, we also measured whether participants had a sense of control over the future success of the venture (internal locus of control) or whether they felt that success was largely dependent on external circumstances (external locus of control). We did so because prior research has shown that strategists pay greater attention to the distant future when they perceive that they can influence future outcomes. With this in mind, they completed the 20-item locus of control scale developed by Pettijohn (Pettijohn, 1992) based on Rotter's (1966) original instrument.

**Time-moving**

“Please imagine that a decision about a potential acquisition is approaching.”  
 “The deadline for making a recommendation is rapidly approaching.”

Study 2 only

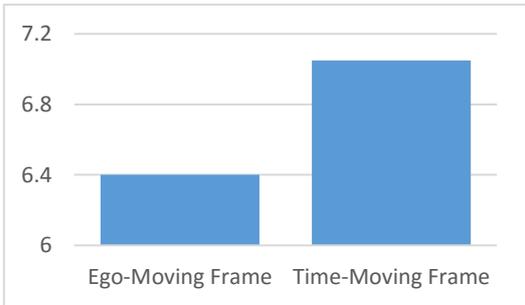
In our primary analysis, the results of which we report here, we compare the 94 subjects across the two groups that were consistently exposed either to both of the time-moving conditions (pictorial and verbal)1 or to both of the ego-moving conditions (pictorial and verbal). We include a covariate for experience, as measured in years, because advanced experience can dampen the tendency to prioritize short-term returns (Carstensen, 1995).

**RESULTS**

We provide descriptive statistics and pairwise correlations for our variables in Table 2 There is a significant correlation ( $p = 0.025$ ) between being exposed to the verbal time-moving prime and the propensity to favor the acquisition. In other words, when the decision is framed in terms of “an acquisition opportunity is approaching,” participants react more favorably towards it than when the identical decision is framed in terms of “you are approaching an acquisition opportunity.” We also show these differences in the bar chart. (See appendix 1)

A more detailed analysis, however, reveals that framing by itself does not produce a clear tendency in executives. Rather, whether they support the acquisition decision also depends on their locus of control (i.e. whether they believe that they can manage the acquisition successfully as opposed to believing that its success depends largely on circumstances they cannot influence). Table 3 presents a regression analysis, whereby an individual's level of support for the acquisition is regressed on 1) whether s/he was in the time- or ego-moving condition, and 2) his/her self-reported internal locus of control. The findings are robust across

**Figure 2:**  
 Framing and support for the acquisition



both OLS (models I-III) and ordered probit (models IV-VI) specifications. The ordered probit specification accounts for the ordered categorical nature (1-9) of the dependent variable. An internal locus of control is moderately associated ( $p < 0.10$ ) with support for the acquisition (column 2, and column 4). Further, we find that exposure to the time-moving framing moderates the effect of an internal locus of control, reinforcing support for a strategic decision with potential long-term gain ( $p = 0.022$ ). In other words, contingent upon an individual's proclivity towards action, the time-moving condition influences sensitivity to future over present returns. This result supports Hypothesis 2. See Appendix 1 for table. See appendix 2

Subjects also explained in the form of open-ended responses their views on the acquisition. Consistent with the quantitative data, subjects in the time-moving condition emphasized the long-term earnings potential of the acquisition (“This is a strategic growth opportunity for the company with some level of short term risk but the long term benefits are solid for all stakeholders. The benefits of this acquisition in the long term are positive and we will be earning accretive within several years.” “Sacrificing short term earnings for long term strategic benefit is acceptable given the potential to profit in the future.”). Where subjects were negative, their caution concerned the lack of due diligence rather than the logic of the acquisition per se (“I’m moderately positive as I would need more information to be strongly in favor.” “I am strategically in favor of the acquisition, but decisions about that much money should be made properly and based on analytical studies, rather than gut feeling.”).

Subjects in the ego-moving condition were more likely to attend to the short-term disruption (“Missing a short term earnings forecast may result in cash flow constraints. There is no indication of how long it may take for a cure to be developed and how long the acquisition would need to be funded until it generates positive cash flows. Therefore such an investment is highly speculative and could put the whole corporation in jeopardy.” “Missing short term earnings is not advisable, especially if it cannot be explained to shareholders.”).

## CONCLUSION

Even value-enhancing acquisitions can lead to short-term disruption and negative market reactions. In this study, we explored how simple cues to frame decisions help executives to focus on the future. Our study confirms that two core ways of framing the future (ego-moving versus time-moving frames) are associated with distinct strategic decisions when there is a tension between the present and the future. Ego-moving frames make future events appear more distant than do time-moving frames and, in interaction with the locus of control, prompt decisions that privilege short-term returns over long-term returns.

## AUTHORS

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Dr Donal Crilly's research interests include stakeholder theory, managerial cognition, and intertemporal choice. His work has been published in journals such as the Academy of Management Journal, the Strategic Management Journal, Organization Science, and the Journal of International Business Studies.



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Danny is an M&A integration specialist. With recent deals ranging from the pre-deal integration planning on a 50,000 person company purchasing a 25,000 person company, a \$6bn global deal where he ran the European side across 30 countries, 250 business units, 26 functions through to a small private equity set of deals.



He is a guest speaker at London Business School, has been published prolifically in business journals and wrote the book "M&A Integration: How to do it"

## APPENDIX 1

Variables	Mean	Standard Deviation	Support for investment	Time moving – visual prompt	Time moving – verbal prompt	Internal locus
Support for investment	6.066	1.933				
Time moving – visual prompt	0.509	0.501	-0.0115			
Time moving – verbal prompt	0.465	0.500	0.1477*	-0.0611		
Internal locus	15.266	2.413	0.1026	-0.0453	0.0696	
Experience	23.174	9.519	0.0309	-0.0905	-0.0009	0.0226

## APPENDIX 2

### Study 2: Results (OLS and ordered probit regression)

DV: Support for Investment							
VARIABLES	I	II	III	IV	V	VI	
Experience	-0.003 (0.022)	0.004 (0.022)	-0.004 (0.022)	0.003 (0.011)	0.007 (0.011)	0.004 (0.012)	
Time-moving condition		0.416 (0.427)	0.34 (0.419)		0.16 (0.219)	0.138 (0.219)	
Locus of control		0.176* (0.094)	0.310*** (0.108)		0.110** (0.048)	0.175*** (0.058)	
Time-moving condition * locus of control			0.528** (0.227)			0.245** (0.12)	
Constant	6.051*** (0.537)	3.002* (1.613)	1.16 (1.764)				
Observations	93	93	93	93	93	93	
R-squared	0	0.047	0.102	Log likelihood	-171.274	-168.481	-166.39
F	0.02 [1,91]	1.47 [3, 89]	2.5 $\chi^2$ [4, 88]	0.07	5.66	9.83	

Standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

## APPENDIX 3

In a follow-up investigation, we replicate the analysis as reported here, but in which 1) we use the entire sample including participants exposed to an ego-moving pictorial prime and time-moving verbal prime, and 2) we break out the verbal and pictorial primes as separate independent variables. The significant coefficients in our results reported here remain significant. We note, however, that the treatment effect is only found on the verbal, not pictorial, stimuli. We draw on this in Study 3, in which we only include a verbal stimulus.

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