Financial and Legal Advisors in Merger and Acquisition Transactions

Richard F. DeMong
McIntire School of Commerce
University of Virginia
PO Box 400173
Charlottesville, Virginia 22904-4173
United States of America

Ira C. Harris
McIntire School of Commerce
University of Virginia
PO Box 400173
Charlottesville, Virginia 22904-4173
United States of America

Susan P. Williams
McIntire School of Commerce
University of Virginia
PO Box 400173
Charlottesville, Virginia 22904-4173
United States of America

Abstract

Merger and acquisition (M&A) transactions are a fairly infrequent corporate activity for many managers, so the engagement of external advisors (e.g., investment bankers, lawyers) is commonly observed. But, under what circumstances do managers hire these advisors? Does it matter how the target firm is represented? How does the reputation of the advisor affect the decision to hire one or more advisors? Our study addresses these questions and others that involve the engagement of advisors in the M&A context. We find that after controlling for size, acquirer firm engagements of financial and legal advisors are positively related to acquisition complexity, advisor reputation, and the decision of the target firm to expand the advisory team.

Keywords: mergers & acquisitions, professional advisors, decision making, investment bankers, lawyers, financial advisors

1. Introduction

Corporations seek to enhance their value through growth, either organically or through mergers and acquisitions (M&A) of other companies. The prevalence of skilled legal and financial advisors in merger and acquisition activities is not surprising given the complexities of the deals, the inherent potential for asymmetric information, difficulty of estimating value, the ambiguity of creating value, and the need to meet all associated legal and regulatory requirements. Such complexity usually prompts management to obtain external professional expertise.

Managers have broad latitude on the number and types of advisory specialists to engage and may consider factors such as advisor reputation, deal complexity, industry specialty and experience. Our paper explores theacquiring managers' hiring strategies of single advisors versus multiple advisors—that is, their choice of when to broaden the financial and legal advisory team.

In this study, we provide empirical evidence on deal characteristics and conditions that explain multiple financial and legal advisors for publicly traded acquiring firms, based on a sample of 3,694M&A transactions in the United States over the 1995-2006 time period.

This study is important for several reasons. First, it advances our understanding of the decision to utilize external M&A advisors. Second, we build on prior research by broadening the analysis to examine the choice to engage multiple financial advisors. Third, we extend this line of research to include legal advisors and finally, we consider advisory team decisions made after the tech bubble burst and the highly-publicized business frauds of the early 2000's.

Our results are consistent with the interpretation that multiple financial and legal advisors are thought to provide important and useful services resulting in information asymmetry reduction. However, this choice does not appear to overcome the typically weak returns to acquiring firm shareholders around the announcement of acquisitions or to impact the time to completion.

2. Background

Companies seeking to create value through business combinations analyze a set of potential target companies. The analysis must consider a variety of economic projections, including sales, margins, cost savings, and transitional issues. In addition, prior research has shown that the majority of the value created by the combination is initially captured by target company shareholders (King, Dalton, Daily, and Colvin, 2004; Andrade, Mitchell and Stafford, 2001; Datta, Pinches and Narayanan, 1992). Management of the acquiring company must therefore assure itself that there is sufficient residual value accruing to its shareholders to justify pursuing the acquisition.

Corporate decision makers rarely possess the specialized knowledge needed to execute successful M&A transactions (Schrah, Dalal and Sniezek, 2006). Accordingly, in practice, specialists are seldom absent from these capital market transactions, and they make important contributions to the process based on their exposure to a broad set of transactions over time (Bandura, 1977). Investment bankers as financial advisors presumably have superior knowledge as they typically have considerable experience with a broad set of M&A activity and they provide monitoring, financing, valuation and strategic assessments.Bowers and Miller (1990) suggest that investment bankers contribute in two ways: a contribution to shareholder wealth by suggesting acquisition partners to either the management of the bidder or target, and by advising on the value of the deal. In addition, Benston and Smith (1976) suggest that one reason for the existence of financial advisors is expertise in information acquisition. Financial advisors identify potential targets, negotiate the engagement letter and provide important operational services, including bidding strategies, potential merger synergies, and fairness opinions.

Relative to research on investment bankers as financial advisors, there is limited research on the role of legal advisors in M&A activity. Law firms are engaged as legal advisors to provide advice on deal structure, due diligence process, defensive and offensive negotiating strategies, taxes, and corporate and contract law. In addition, lawyers act as intermediaries with government bodies in dealing with regulatory, antitrust, and disclosure issues. Legal advisorsfor both the acquirer and target ensure that the transactionsare in the best interest of their clients.

Thelegal team can provide guidance toavoid poor investment decisions while their reputation and expertisecan provide credibility that enables deal completion. Multiple legal advisors may be a solution to mitigate problems of monitoring or risk sharing. However, legal advisors can be viewed as a significant source of transaction costs. Krishnan and Laux (2007) consider the role of the legal advisor and find evidence of lasting relationships between the firm and its legal advisors when the legal advisors provide deal completion expertise. They find no evidence of economic effects through value-added cost savings or from "gatekeeping" activities.

Merger and acquisition decisions are a special case of more general research on relationships between decision making and environment context. Organizations commonly face environmental contingencies (Tosi and Slocum, 1984) and complexity (Dess and Beard, 1984). Eisenhardt's (1989) examination of decision making in high velocity environments highlights the importance of information use, decision making speed and decision making context. She finds that such environments are problematic decision making contexts because information is often inadequate, mistakes are costly, and foregone opportunities may not be recovered. Such environments evoke anxiety and Eisenhardt (1989) argues that confidence and stability can be regained through broadening decision makers' advisor teams. Mizruchi and Stearns (2001) find similar advisory broadening strategies in the commercial banking industry. Information asymmetry and the due diligence requirements of the merger and acquisition environment create unique considerations for advisory services.

The search for the right target, proper fit and appropriate price is a challenging combination of activities that creates an especially complex decision making situation for managers.In some cases, conflicts of interest are a serious concern as investment banks may provide financing, trade in both acquirer and target shares, and provide equity research on both sides of the transaction. For example, in 2011, Del Monte Foods added a second financial advisor when potential conflict of interest issues were raised about a breach of fiduciary duty.

Given the complexities and uncertainties, firms may choose to use one or more financial and legal advisors in an M&A transaction as they assess the costs and benefits of this decision.Rau (2000) finds that the marketshare of investment banks is positively related to the percentage of deals completed. Hunter and Jagtiani (2003) find that the quality of the financial advisor and the number of advisors employed in a given transactionaffect the probability of completing a deal. Fernando, Gatchev and Spindt (2005) posit that the selection of a financial advisor is a mutual decision, with both the firm and the advisor deciding whether to work together. Although many firms have internal financial and legal departments, Sharma (1997) highlights the emerging importance associated with professional agents such as investment bankers and lawyers. Our sample reflects this finding as during the 1995-2000 period, the majority of firms employed a *financial* advisor, which was usually an investment bank.Since 2001, all acquirer and target firms used a financial advisor. However, over the entire 1995-2006 time period, we find that all acquirer and target firms in our sample chose to engage a *legal* advisor.This finding is also consistent with the theory of mimetic isomorphism where managers, faced with uncertainty, may model their decisions on the business models or strategies of others (Mizruchi and Fein (1999).

Servaes and Zenner (1996) examine the role of investment banks in acquisitions and find that the choice to engage an investment banker depends on transaction complexity, information asymmetry, type of transaction, prior acquirer acquisition experience, and relatedness tothe target firm. Benou, Gleason and Madura (2007) argue that investment bank reputation can ease concerns about significant asymmetric information associated with foreign high-tech targets.The engagement of multiple financial andlegal advisorsraises interesting questions about the motivationsbehind the choice. Engaging external advisors may be due to the competitive nature of advising services, the complexity of the transactions, the difficulty in determining value-added, information asymmetry, and the need for monitoring and risk sharing. Hiring multiple financial advisors may be a competitive move to ensure the highest (lowest) price for the target (acquirer) firm's shareholders. Relationships may be developed and maintainedto obtain specific expertise necessary to ensure fair valuation for the shareholders of their firm. Both the financial and legal advisor(s) may play an important role in the negotiation process. Multiple advisor teams may mitigate the complexity of the deal and boost shareholder value.However, the use of multiple advisors raises interesting tensions between the need for an additional adviser and the need for confidentiality during negotiations.

Acquisition wealth effects are difficult to measure. Narrow event windows may not capture bidder gains and wider event windows may introduce noise. Servaes and Zenner (1996) compare the wealth effects between acquiring firms that elect to engage or forego investment bank advisors. They do not find significant gains from the engagement of an investment banker. Porrini (2006) finds greater acquisition premiums are associated with the use of investment bankers. Furthermore, high-reputation financial advisors increase the premium. She suggests, however, that legal advisors may mitigate excess premiums.

3. Hypotheses

We model the decision to engage multiple financial or legal advisors as a function of complexity, reputation, the response to competitive representation and the joint decision to hire multiple advisors.

3.1 Complexity

We use five proxies for complexity: Relatedness (similarity of business operations), Prior Acquirer Experience, Relative Size, Transaction Value, and Friendliness of the transaction.

3.1.1Relatedness

Acquirers must speculate on the substance of the target company and how value can be created by combining the two companies (Barney, 1988). Decision makers routinely rely upon knowledge structures to problem-solve, but acquisitions may present an unfamiliar challenge (Kiesler and Sproull, 1982). The importance of relatednessof business operations (proxied by the sametwo-digit SIC codes) is consistent with findings that companies pursue new business opportunities consistent with their existing knowledge base (Chang, 1996).

The more similar the business, the easier (and presumably more value-creating) it is for the acquirer to value the target (Palich, Cardinal and Miller, 2000). Also, such similarities and concentrated experience enhance problem solving abilities by simplifying information structures (Day and Lord, 1992; Sujan, Sujan and Bettman, 1988). Information asymmetries are lower when acquirers and target firms operate in the same industry because of the similarity to existing businesses (Montgomery, 1982; Prahalad and Bettis, 1986, Rumelt, 1974). Presumably, when the target is in a different industry, the acquirer relies more on financial advisors (Servaes and Zenner, 1996). When faced with unfamiliar transactions, managers may need to hire external advisors. We predict, therefore, a negative relation between relatedness and the decision to engage multiple external advisors.

3.1.2 Prior Acquirer Experience

Companies may develop acquisition knowledge regarding pre-acquisition evaluation and post-acquisition integration through M&A experience (Hayward, 2002; Collins, Holcomb, Certo, Hill, and Lester, 2009).

Consistent with this, Servaes and Zenner (1996) find that firms using investment banker advice have less prior acquisition experience than firms handling the transaction in-house. Haspeslagh and Jemison (1991) provide insight about theprocesses of searching for, analyzing, valuing and purchasing companies. Acquisitions may differ in their structure and degree of relatedness, but basic acquisition processes (e.g., narrowing target candidates, procuring financing, and negotiating deal structure and price) tend to be similar for all acquiring firms. As firms accumulate more acquisition experience, their ability to learn (i.e., absorptive capacity) will increase (Zahra and George, 2002).The fundamental nature of these processes suggests that firm learning is cumulative and companies benefit from prior acquisition experience. Consistent with the organizational learning literature (Huber, 1991; Levitt and March, 1988), this knowledge accumulation cannot be assigned to a particular prior occurrence. When firms lack this accumulated knowledge, the need for external professional advisors is increased. Therefore, we predict that prior acquisition experience will be negatively related to the multiple advisor hiring decision.

3.1.3 Relative Size

Consistent with Quinn and Cameron's (1983) thesis on the importance of size and complexity, Park (2003) finds that firm size governs acquisition decisions. Similarly, Krishnan, Miller and Judge (1997) find that relative acquirer-target size influences acquisition outcome. Hunter and Walker (1990) argue that financial advisors add value to merger transactionsdue to their expertise in the capital markets. This ability to add value and the importance of expertise are likely a function of transaction complexity. Therefore, we predict a positive relation between complexity (as measured by relative transaction size) and multiple advisors.

3.1.4 Transaction Value

As transactions grow in size, complexity (e.g., deal structure, due diligence, synergy opportunities, intangibles, contingencies) increases. Such complexity can increase the need for advisory assistance (Eisenhardt, 1989; Beckman and Haunschild, 2002). We predict a positive relation between transaction value and the decision to engage multiple advisors.

3.1.5 Friendliness

As an extension of our complexity argument, the acquirer's bid approach can impactthe needfor decision making help. Hunter and Jagtiani (2003) find that non-friendly transactions take longer and are more difficult to complete. They conclude that this outcome is attributable to the associated complexity. Coff (1999) argues that such transactions are more difficult because of the restricted information flows about the target. The acquirer's ability to understand synergistic opportunities is central to its pre-deal preparation, and the target's cooperation can mitigate knowledge deficiencies. This, of course, is not always the case as the acquisition may be unwelcomed by the target. We therefore predict a negative association between friendliness and multiple advisors.

3.2 Reputation

Successful completion of mergers and acquisitions can depend on the expertise and reputation of the financial and legal advisors. Bowers andMiller (1990) report that investment bank reputation affects shareholder returns. Hunter and Jagtiani (2003) find that top-tier investment banks, as measured by number and dollar amount of transactions, have a timelier and higher rate of completion for merger transactions. Kale, Kini, and Ryan (2003) find that the reputation of the financial advisors explains significant differences in the characteristics and performance of the transaction.

Legal advisors in merger and acquisition transactions act as intermediaries between acquirers and targets as well as between firms and governmental agencies. While it is difficult to measure the value from legal advisors, Servaes and Zenner (1996) suggest that legal advisors enable deal completion. We predict that the engagement of multiple financial and legal advisors is positively related to advisor reputation.

3.3 Response to Competitive Representation

Managers routinely compete in their chosen product market, and learn to develop strategies and tactics to outmaneuver opponents (Chen, 1996). Mizruchi and Fein (1999) also suggest that mimetic isomorphism leads managers to follow peer strategies. Assuming the pursuit of competitive advantage, these actions and responses are formulated with the intention of offsetting moves of competitors (Ferrier, 2001). Ferrier, Smith and Grimm (1999) find that industry status (e.g., market leader) and firm reputation can influence competitors' responses. Though competitive dynamics research focuses on product markets, the underlying competitor analysis intuition mirrors decision making in other contexts. Concern for competitors' actions is fundamental to strategic decision making (Barney, 1988; Barney, 1991; Chen, 1996; Porter, 1980). Likewise, acquisition decision makers cannot ignore their negotiation table counterparts.

We, therefore, predict that the acquiring company's advisor hiring choices will influence (or be influenced by) the targetchoices.We are not making a causal direction prediction on whether targets are responding to the selection of multiple advisors by the potential acquirers or whether acquirers are responding to the selection of multiple advisors by the target. However, Bowers and Miller (1990) argue that bidders usually act first in merger negotiations. So the choice of advisors by the target is likely influenced by the acquirer's choice, but the temporal order is not tested here.We expect a positive relation between the number of financial and legal advisors and the choice made by the target firm.

4. Sample and Methodology

4.1 Data Sources

Data on M&A transactions are collected from the Thompson Financial Securities Data Company (SDC) database. Our sample consists of 3,694 U.S. mergers and acquisitions announced and finalized between January 1, 1995 and December 31, 2006. Supplemental data were obtained from Compustat and CRSP databases. To enable us to collect required data, we include only public U.S. acquirers in our sample.

4.2 Dependent Variables

In this analysis, we examine the engagement of multiple financial and legal advisors in merger and acquisition transactions on the acquirer side of the transaction. Our two dependent variables are **Acquirer Financial Advisors** and **Acquirer Legal Advisors.** The Advisor variable is coded 0 for no advisors, 1 for one advisor, and 2 for multiple advisors.

4.3 Definition of Independent Variables

Hypothesized Complexity Variables

Relatedness (Related): We use a rough measure of relatedness using 2-digit SIC codes. We use an indicator variable, Relatedness, which equals 1 if the target and acquirer have the same 2-digit SIC code, and 0 otherwise.

Acquirer Prior Acquisition Experience (Experience): We measure acquirer experience by the number of acquisition transactions over the previous ten-year period. We collect data from 1986 to 2006 to calculate this continuous variable.

Relative Transaction Size (RelSize): We use a variable Relative Transaction Size, defined as the value of the transaction divided by the sum of the value of the transaction and acquirer total assets to proxy for transaction size and complexity.

Value of the transaction (Valtrans): We include the value of transaction as reported by SDC..

Friendliness (Friendly): SDC classifies the initial reception of each transaction as agreed, hostile, neutral, solicited, unsolicited but not hostile, or not applicable. The data is coded 1 if agreed, 0 otherwise.

Hypothesized Reputation Variables

Financial Advisor Reputation (Reputation): Carter and Manaster (1990) report a ranking of financial advisors for IPOs based on their hierarchy in "tombstone" announcements.Longhran and Ritter (2004) adapt the Carter-Manaster rankings by including market share of the advisors. Both rankings yield similar results. We use the Longhran and Ritter (2004) rankings. We code the reputation of financial advisor 1 if the investment bank is ranked as "prestigious" (>=9) on Longhran and Ritter ranking, 0 otherwise.

Legal Advisor Reputation (Reputation):

For legal advisor reputation we rely on the market share ranking in the *American Lawyer* each year for the reputation of the legal advisor. The *American Lawyer* ranking is based on the total number of mergers handled. The ranking using the total value of the deals was essentially the same. We code the reputation of the legal advisors 1 if the firm is a top-10 firm for the year, 0 otherwise.

Hypothesized Response Variables

Target Financial (Legal) Advisors (Targetadv): A dummy variable coded 0 if no advisor, 1 for a single advisor, 2 for multiple advisors.

Control Variables

Acquirer Size: We include the log of acquirer total assets to control for size. As an alternate, we also used the log of net sales. Results for the two variables were similar.

Post 2000: We observe a drop in merger and acquisition activity after the tech bubble burst in early 2000. In addition, several highly publicized corporate failures occurred in the early 2000's that may have affected the use of external advisory services. To control for this shift, we include a variable to capture the differences in the two time periods. Mergers and acquisitions after January 1, 2000 are coded 1, 0 otherwise.

5. Results

Descriptive Statistics

Panel A of Table 1 shows the number of transactionsby year. The number of transactions increased during the late 1990s only to drop in 2000 as the stock market indexes dropped dramatically with the bursting of the technology bubble. We also separate the sample based on the number of financial or legal advisors engaged for the transaction.

Insert Table 1 here

In 1996, only 72% of the acquirer firms engaged a financial advisor. It is interesting to note that after 2001, every transaction included financial advisors for the acquiring firms. Previous research has shown that financial advisors are more likely to be hired in complex deals, when the bid is hostile, the deal value is large, and the bidder has less acquisition experience (Servaes and Zenner, 1996; Kale, Kini and Ryan, 2003; and da Silva Rosa, Skott and Walter, 2004). Since 2001, virtually all acquiring firms used a financial advisor. Legal advisors represented the acquirer for every transaction in our sample. Obviously, management believes that one should not undertake even relatively simple transactions without legal advice. But for our study, the interesting question is why firms moved increasingly to multiple legal advisors. The trend to engage multiple advisors is greater in the 2000s relative to the 1990s. In the 1990s, 11.4% of the acquirer firms elected to engage multiple financial advisors. This percentage increased to 20.0% in the 2000s. Multiple legal advisors were engaged in 34.5% of the transactions in the 1990s while 50% of the firms elected to engage multiple legal advisors in the 2000s.

Although we focus on the acquiring side of the transaction, we include summary statistics on advisor engagements for both the acquiring and target side of the transaction since the acquirer engagement decision may be affected by the choice of target advisors. In Table1, Panel B and Panel C, we include frequency data for financial advisors andlegal advisors for both acquirers and target firms. During the 1995-2006 time period, acquiring and target firms both engaged a single financial advisor in 2,188 (59.2%) of the 3,694 transactions. They both employed multiple financial advisors in 167 (4.5%) of the transactions. When the acquiring firm employed a single financial advisor, 485 (13.1%) of the target firms engaged multiple financial advisors and similarly, if the target firm employed a single financial advisor, 401 (10.8%) of the acquiring firms engaged multiple advisors.

This suggests that both parties are reacting to the characteristics of the transaction. In the 573 instances where the acquirer firm engaged multiple financial advisors, 167 (29%) of the target firms also engaged multiple financial advisors. Panel C presents the distribution for legal advisors. At least one legal advisor is engaged in every transaction. In the choice of engaging a single legal advisor or multiple advisors, we observe a pattern similar to the financial advisors. In 1,536 (41.5%) transactions both the acquiring and target firm engaged a single legal advisor. In 950 (25.7%) of the transactions, both the acquiring and target firm engaged multiple legal advisors. When the acquiring firm employed a single legal advisor, only 609 (16.5%) of the target firms engaged multiple legal advisors and similarly, if the target firm employed a single legal advisor, only599 (16.2%) of the acquiring firms engaged multiple legal advisors. Again, this distribution is consistent with either transaction characteristics driving the choice on legal advisors.

Univariate Analysis

Table 2 presents univariate analyses of descriptive statistics for the acquiring firms. Descriptive data is presented for the sample as a whole in Panel A and is presented separately for acquiring firms that engaged no financial advisors, one financial advisor, and those with multiple financial advisors. In Panel B, we find that acquiring firms that engage multiple financial advisors (relative to one financial advisor) differ significantly on a number of characteristics. Acquirers engaging multiple financial advisors are significantly larger based on the mean total assets ($32.55B vs $17.75B) and mean net sales ($7.31B vs $5.01B). The value of the transaction ($4.75B vs $1.21B) is significantly larger for firms that engage multiple financial advisors. In addition, acquirers with multiple financial advisors are more likely to employ multiple legal advisors (1.67 vs1.41) and their target firms are also more likely to engagemultiple legal advisors(2.10 vs 1.60) and multiple financial advisors (1.37 vs 1.18). These statistics are all significant at $p < .01$.

Insert Table 2 here

Friendlinessdiffers significantly between acquiring firms that use multiple financial advisors and one financial advisor. When the transaction is amicable, the acquirer is less likely to employ multiple financial advisors (.85 vs .92) relative to one financial advisor. We also observe significant differences in relative size (.35 vs .24) and advisor reputation for acquirer financial and legal advisors. These differencesare significant at $p < .01$.

In the univariate analysis, we do not find significant differences for the experience of the acquirer based on merger and acquisition activity over the prior 10 year period. As ancillary tests, we include measures of returns surrounding the announcement date and a measure of the days to completion from the announcement date to the effective date. We do not observe significant differences in 5 day or long term returns to acquiring shareholders around the announcement date. While mergers and acquisitions appear to take longer for deals engaging no advisors, we do not find a significant drop in the days to completion for firms engaging multiple advisors. We also combine the subset that engages no financial advisors and one financial advisor. When we compare this subset to acquiring firms that employ multiple financial advisors, our findings are unchanged and significance levels are consistent with those reported in Table 2.

Multivariate Analysis

Our ordered logitmodel includes complexity variables, reputation variables, and control variables.

$$Advisors_{t} = \alpha_{t} + \beta 1 Related_{t} + \beta 2 Experience_{t} + \beta 3 RelSize_{t} + \beta 4 ValTrans_{t} + \beta 5 Friendly_{t} + \beta 6 Reputation_{t} + \beta 7 TargetAdv_{t} + \beta 8 Size_{t} + \beta 9 Post2000 + \varepsilon_{t} \quad (1)$$

Insert Table 3 here

The Decision to Engage MultipleAcquirer Financial Advisors

Table 3, Panel A, presents the results of the multivariate analysis for the Number of Acquirer Financial Advisors using an ordered logit model. The coefficients on the fivecomplexity variables are statistically significant at $p < .01$. There is a negative association between relatedness and the number of financial advisors suggesting that complexity and the necessary expertise decrease as firms engage in merger and acquisition activity within their industry.A negative relation is also observed between firm merger and acquisition experience and number of financial advisors engaged, suggesting that acquirer firms are less likely to engage multiple financial advisors as they gain experience and expertise with merger and acquisition activity.

Mergers and acquisitions that create conflict may exhibit more information asymmetry making the transaction more complex. We find that our measure, friendliness, reflects this concern as there is a negative and significant relation between the size of the financial advisor team and friendliness. This suggests that when the parties agree to the transaction, there is less information asymmetry and less need for multiple financial advisors. As the relative size and the value of the transaction increases, more financial advisors are engaged as indicated by the positive and significant relation. This is consistent with the notion that size increases complexity and risk, and that firms react by seeking additional financial expertise. In summary, these findings are consistent with our hypotheses that complexity is related to the engagement of multiple financial advisors.

The results of the reputation are also as hypothesized. We find a positive and significant relation between the number of financial advisors and the reputation of the acquirer financial advisors ($p < .01$). This suggests that reputation is not a substitute for the size of the advising team as larger financial advisor teams are related to high reputation financial advisors. We include two control variables, acquirer size and post-2000.We find a positive and significant ($p < .01$) relation between the number of acquirer financial advisors and firm size. Large acquirers, perhaps due to greater financial resources or due to size-related complexity are more likely to hire multiple financial advisors. Furthermore, we find that beginning in the year 2000, acquiring firms are significantly more likely to engage multiple financial advisors. Again, this is consistent with attempts to deal with complexity in the post-bubble period.

Our response to competitive representation variables provide some insight on the acquiring firm's choice to engage multiple financial advisors as a reaction to the choice of advisors by the target firm. When the acquiring firm engages multiple financial advisors, we find a similar reaction to the size of the target firm financial advisor team ($p < .01$). This decision may reflect the incentive to reduce risk by not allowing the opposing party to have a competitive advantage with respect to financial advice.

The Decision to Engage Multiple Acquirer Legal Advisors

We next examine the decision to engage multiple legal advisors. Our results are presented in Table 3, Panel B. Legal advisors provide different expertise than financial advisors, but nonetheless provide information that mitigates some of the complexity in merger and acquisition transactions.We find mixed results for our five complexity variables. The relation between multiple legal advisors and the size of the acquirer legal advisory team, relative size and value of the transaction is positive and significant at $p < .01$suggesting that size issues increase legal risk and legal complexity sufficient tojustify hiring a larger legal advisor team.

However, Friendliness, relatedness, and acquirer experience are not significant in the hypothesized direction. These findings suggest that the number of legal advisors engaged or the decision to broaden the legal advisor team is less sensitive to the acquirer firm industryand experience. It may be that complexity from a legal perspective may be more ambiguous and may not be captured by these variables. The reputation of the acquirer legal advisors is positive and significantly related to the number of legal advisors employed for the transaction ($p< .01$). Acquirer firms also appear to be sensitive to the legal advisor representation on the target side of the transaction. The coefficient on number of target firm legal advisors is positive and significant at $p < .01$ level. The relation between the number of legal acquirer advisors and both acquirer firm size and post-2000 transactions are also positive and significant at $p < .01$.

6. Conclusion

In this study, we examinefactors that affect the engagement ofmultiple financial and legal advisors in merger and acquisition transactions. We find that acquirers solicit extra financial advice when the transaction is complex. We find that acquirer firms are more likely to engage multiple *financial* advisors when 1) the acquirer is large; 2) the size of the transaction and the relative size to the acquirer is large; 3) the transaction is less thanamicable; 4)the acquirer has less experience in merger and acquisition activities, 5) the acquirer and target are in unrelated industries, 6) the company on the other side of the transaction has engaged multiple financial advisors, 7) the reputation of the acquirer financial and legal advisors is high; and 8) the transaction occurred after the year 2000. We find that the acquirer is most likely to engage multiple *legal* advisors when 1) the acquirer is large; 2) the transaction value and relative size of the transaction is large; 3) the company on the other side of the transaction has engaged multiple legal advisors; 4) the reputation of the legal and financial advisor is high; and

5) the transaction occurred after the year 2000. Results on reputation suggest that reputation is not a substitute for the size of the advisory team.

Our interpretation of these results is that complexity plays a significant role in the decision to engage multiple financial and legal advisors for M&Atransactions. Such complexity stems from the common obscurities associated with size, unfamiliar challenges of valuing a target in an unrelated industry, lack of prior M&A experience, potentially combative negotiations and general climate in the M&A market.

Though direct value creation impact is not apparent in this study, our findings reveal the preferences demonstrated by managers. If we assume that, on balance, managers are attempting to gain a competitive advantage and create value, these managerial preferences may reflectmanagers'beliefs about long-term value-adding advisory team decisions. That is, acquisitions are inherently difficult and certain conditions demand the need for extra advice—particularly advice from external professional specialists.

One limitation of our study is that we were not able to examine the expertise of in-house counsel and in-house financial analysts. Further research might also consider the on-going relationship between advisors and firms that engage multiple advisors.

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Table 1: Frequency of Advisors (1995-2006)

PANEL A		**Financial Advisors**			**Legal Advisors**		
Year	Total	No Advisors	One Advisor	Multiple Advisors	No Advisors	One Advisor	Multiple Advisors
1995	284	60	194	30	0	199	85
1996	293	81	190	22	0	228	65
1997	417	70	294	54	0	275	143
1998	461	80	331	50	0	282	179
1999	475	83	328	64	0	277	198
2000	308	5	246	57	0	157	151
2001	265	2	213	50	0	132	133
2002	173	0	147	26	0	94	79
2003	218	0	183	35	0	106	112
2004	259	0	207	52	0	135	124
2005	274	0	217	57	0	129	145
2006	267	0	191	75	0	131	136
	3694	381	2741	572	0	2145	1549
%		10.3	74.2	15.5	0	58.1	41.9

Panel B: Frequency of Financial Advisors

	Acquiring Firm			
Target Firm	No Financial Advisor	One Financial Advisor	Multiple Financial Advisors	Totals
No Financial Advisor	60 1.6%	67 1.8%	5 0%	132 3.6%
One Financial Advisor	288 7.8%	2188 59.2%	401 10.8%	2877 77.9%
Multiple Financial Advisors	33 1.0%	485 13.1%	167 4.5%	685 18.5%
Total	381 10.3%	2740 74.1%	573 15.5%	3694 100%

Panel C: Frequency of Legal Advisors

	Acquiring Firm			
Target Firm	No Legal Advisor	One Legal Advisor	Multiple Legal Advisors	Totals
No Legal Advisor	0	0	0	0
One Legal Advisor	0	1536 41.5%	599 16.2%	2135 57.8%
Multiple Legal Advisors	0	609 16.5%	950 25.7%	1559 42.2%
Total	0	2145 58.1%	1549 41.9%	3694 100%

Table 2: Univariate Analysis of Acquiring Firms

Panel A	All Mergers and Acquisitions				No Financial AdvisorsRetained			
	N	Mean	Median	Std Dev	N	Mean	Median	StdDev
Relatedness	3694	.66	1.00	.42	381	.78	1.00	.41
Acquirer Prior Acquisition Experience	3694	7.38	5.00	7.65	381	9.50	7.00	9.09
Relative Size of Transaction	3694	.24	.16	.24	381	.07	.02	.15
Value of Transaction ($ mil)	3694	$1650.88	$295.65	$6036.51	381	$189.72	$34.89	$1205.80
Friendliness	3694	.91	1.00	. 29	381	.96	1.00	.21
Number Target Financial Advisors	3694	1.08	1.00	.60	381	.94	1.00	.54
Number Acquirer Legal Advisors	3694	1.65	1.00	.98	381	1.10	1.00	.32
Number Target Legal Advisors	3694	1.63	1.00	.93	381	1.15	1.00	.39
Acquirer Total Assets ($ mil)	3694	$19262.81	$1617.85	$86165.36	381	$10135.01	$1574.20	$29358.34
Acquirer Net Sales ($ mil)	3641	$5128.44	$761.05	$12695.63	381	$2523.17	$301.55	$7617.00
Reputation Acquirer Financial Advisor	3694	.51	1.00	.50	381	0	0	0
Reputation Acquirer Legal Advisor	3694	.37	0	.48	381	.08	0	.27
Returns-short term	3240	.01	.01	.03	346	.01	.01	.03
Returns-long term	3256	.23	.15	.31	348	.31	.21	.33
Days to completion	3437	123	115	66.8	355	146	147	62.7

Panel B	One Financial AdvisorRetained				Multiple Financial Advisors Retained				Differences between One and Multiple Advisors
	N	Mean	Median	Std Dev	N	Mean	Median	StdDev	P-Value
Relatedness	2740	.65	1.00	.48	573	.64		.48	.17
Acquirer Prior Acquisition Experience	2740	7.07	5.00	7.31	573	7.50		7.91	.70
Relative Size of Transaction	2740	.24	.16	.23	573	.35	1.00	.24	<.01
Value of Transaction ($ mil)	2740	$1205.6	$291.40	$4035.6	573	$4751.	5.00	$12012.	<.01
Friendliness	2740	9	1.00	9	573	32	.33	83	<.01
Number Target Financial Advisors	2740	.92	1.00	.28	573	.85	$1182.99	.35	<.01
Number Acquirer Legal Advisors	2740	1.18	1.00	.51	573	1.37	1.00	.67	<.01
Number Target Legal Advisors	2740	1.58	1.00	.86	573	2.35	1.00	1.40	<.01
Acquirer Total Assets ($ mil)	2740	1.60	$1500.3	.88	573	2.10	2.00	1.21	<.01
Acquirer Net Sales ($ mil)	2740	$17753.	0	$85983.	573	$32548	2.00	$108242	<.01
Reputation Acquirer Financial Advisor	2740	58	$740.70	93	573	.99	$2622.20	.7	<.01
Reputation Acquirer Legal Advisor	2740	$5014.2	1.00	$12637.	573	$7312.	$1600.40	$14986.	<.01
Returns-short term	2404	1	0	36	484	96	1.00	71	.69
Returns-long term	2415	.53	.01	.50	486	.76	1.00	.43	.08
Days to Completion	2567	.38	.15	.48	515	.53	.01	.50	<.01
		.01	108	.03		.01	.14	.03	
		.23		.31		.2	118	.28	
		119		65.58		130		72.1	

Relatedness: 1 if the target and acquirer have the same 2-digit SIC code, and 0 otherwise.

Acquirer Prior Acquisition Experience: Number of takeovers over the previous ten-year period.

Relative Size: Value of transaction (value of transaction + acquirer total assets)

Value of Transaction: Based on SDC data

Friendliness: Based on SDC data, coded 1 if agreed, 0 otherwise.

Number of Advisors: Continuous variable representing the number of advisors (Acquirer financial 0-6, legal 1-9; Target financial 0-5, legal 1-10)

Reputation Financial Advisor: 1 if reputation is >= 9 based on Ritter website, 0 otherwise.

Reputation Legal Advisor: 1 if top 10 legal advisors for year, 0 otherwise.

Returns-short term: Cumulative equal weighted returns -2 to +2 days surrounding the announcement date.

Returns-long term: Cumulative equal weighted returns -5 to 120 days surrounding the announcement date.

Days to completion: Number of days between announcement and effective date of merger.

Table 3 Regression Analysis

		Panel A: Acquirer Financial Advisors			**Panel B: Acquirer Legal Advisers**		
Dependent Variable: Financial (Legal)Advisors Hired by Acquirer	Predicted Sign	Co-efficient	Standard Error	Pr > ChiSq	Co-efficient	Standard Error	Pr > ChiSq
Intercept		1.38	0.31	<.001	-4.13	0.32	<.001
Intercept		-3.99	0.32	<.001			
Relatedness	-	-.348	0.09	<0.01	-0.00	0.08	0.96
Acquirer Prior Acquisition	-	-0.03	0.00	<0.01	0.01	0.00	0.06
Experience	+	3.29	0.24	<0.01	2.73	0.24	<0.01
Relative Transaction Size	-	-0.54	0.14	<0.01	0.09	0.15	0.49
Friendliness	+	1.60	0.11	<0.01	1.26	0.08	<0.01
Reputation	+	1.30	0.09	<0.01	0.49	0.08	<0.01
Post 2000	+	0.14	0.03	<0.01	0.23	0.03	<0.01
Acquirer Size	+	0.00	0.00	<0.01	0.00	0.00	<0.01
Value of transaction	+	0.41	0.09	<.001	0.75	0.08	<.001
Multiple target advisors							
	Likelihood Ratio 1217.7				Likelihood Ratio 1070.51		

N=3,033 due to missing independent regression variables
Dependent variable: coded 0 if no advisors, 1 if one advisor, 2 if multiple advisors.
Relatedness: 1 if the target and acquirer have the same 2-digit SIC code and 0 otherwise.
Acquirer Prior Acquisition Experience: Number of takeovers over the previous ten-year period.
Relative Transaction Size: Value of transaction (value of transaction + acquirer total assets)
Value of Transaction: Based on SDC data.
Friendliness: Based on SDC data coded 1 if agreed, 0 otherwise.
Multiple Target Advisors: coded zero, one, or more than one
Reputation (Financial Advisor): 1 if reputation is >= 9 based on Ritter website, 0 otherwise.
Reputation (Legal Advisor): 1 if top 10 legal advisors for year, 0 otherwise.
Post2000: 1 if after 1/1/2000, else 0.
Acquirer Size: Log of total assets