

Laurence Capron

Dean of Faculty

Professor of Strategy

The Sauvage Family Chair for Academic Excellence

The Paul Desmarais Chaired Professor of Partnership and Active Ownership

Key Finding

Firms that diversify their growth strategies last longer than those using M&A alone.

Business Application

Acquiring another firm does not constitute a strategy. It is just one tool in the corporate growth toolbox.

Looking at the growth strategies of iconic firms like L'Oréal, Google, Johnson & Johnson and AB InBev, there can be little doubt that acquisitions are among the most powerful tools for achieving corporate growth. Done well, acquisitions provide a strong platform for a firm's growth and survival. Done badly, they can end in its rapid decline or failure. Mergers and acquisitions, as the axiom states, often create more headlines than value. Indeed, some studies suggest that 70% of deals fail to achieve their objectives. Acquisitions are a crude means of obtaining specific resources and pursuing growth. In my research I have found that many acquisitions fail to extract the value of the target firm's capabilities, even when full control of the target firm is gained. Acquisitions often come with superfluous resources that the acquiring firm will need to restructure and divest. An overreliance on acquisitions adds to the acquiring firm's risk and requires substantial financial and human resources. In sum, acquisitions are costly and disruptive.

It is therefore crucial to understand when acquisition is the right tool to implement a growth strategy and how to use it effectively. While most M&A experts and scholars focus on how to execute an M&A transaction, very few pay attention to the step that precedes M&A execution: selection. Acquisitions have to be selected carefully and only after the firm has reviewed other methods of growth. It is often preferable to reserve acquisitions for cases where neither internal development, purchase contracts nor alliances are suitable. Yet my research has revealed a tendency among business leaders to jump into M&A execution without reviewing alternative options as the basis of a more carefully considered growth strategy. Executives must learn to walk away from deals that don't make sense and consider alternative growth methods. Sometimes it makes sense to take over other firms (Buy); sometimes it makes more sense to enter into partnership with them or have a looser relationship, e.g. taking a stake in the other firm (Borrow). But at other times it's more logical to focus on the internal organisation and go it alone (Build).

Read more: L. Capron and W. Mitchell, 2012, *Build, Borrow or Buy: Solving the Growth Dilemma*, Harvard Business Review Press, 2012.



Laurence Capron is INSEAD Dean of Faculty, Professor of Strategy, the Paul Desmarais Chaired Professor of Partnership and Active Ownership and holds the Sauvage Family Endowed Chair for Academic Excellence. She is a leading expert on mergers and acquisitions, alliances and business portfolio strategy. To know more, visit her [website](#).

Research interests: mergers and acquisitions; corporate strategy; alliances; business portfolio strategy; corporate development; capability development.