Spotlight
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Why do some companies buy what they know, while others look elsewhere?

Persistent underperformance, not one-off crises, is what pushes firms to acquire outside their core industry

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Acquisitions are a standard tool in corporate strategy. The harder question is what to acquire. Some firms buy businesses closely related to their own—similar industry, similar skills, easier integration. Others make unexpected leaps into unfamiliar sectors. Two firms facing the same market conditions can land on opposite sides of this choice, and the usual explanations—industry shocks, resource synergies, macroeconomic cycles—do not fully account for why.

This study approaches the question through behavioral theory. Drawing on the Behavioral Theory of the Firm, the authors argue that how firms process their own underperformance is what determines the boldness of their acquisition strategy. Not all underperformance is the same. A sharp one-off dip prompts a different response than a slow accumulation of missed targets, and the difference matters for where firms ultimately look when they decide to acquire.

WHAT WE STUDIED

The authors analyzed acquisition activity across **1,409 private Swedish firms** over seven years (2001–2007), combining financial data from RAMS with employer-employee records from LISA. The focus was not just on whether firms made acquisitions, but on how related those acquisitions were to the acquiring firm—measured by both industry similarity and skill similarity of the workforce.

The theoretical contribution rests on two novel constructs. **Relative attainment discrepancy** captures how much worse current performance is than the firm's own prior underperformances—essentially, whether today's shortfall feels exceptionally bad by the firm's own historical standards. **Persistent attainment discrepancy** tracks how often the firm has fallen below its aspirations over time, capturing the accumulation of repeated disappointment. These two measures allow the study to separate severity from frequency in a way earlier research did not.

KEY INSIGHTS

Below-aspiration performance sparks local search

Firms that fall short of their performance aspirations respond, at first, by looking close to home. They acquire businesses in the same industry or with similar skill sets. This pattern is consistent with the behavioral theory idea of problemistic search: when something goes wrong, firms seek incremental fixes within familiar territory before considering anything more disruptive. Related acquisitions offer smoother integration, lower perceived risk, and a clearer path to recovery. The instinct is to solve the problem with what you already know.

Persistent underperformance drives distant search

The pattern changes when underperformance becomes chronic. Firms that have repeatedly fallen short over time shift toward acquisitions that are less related to their core business. The study finds a clear negative association between persistent attainment discrepancy and acquisition relatedness: the more often a firm underperforms, the further afield it looks. This is not crisis-driven behavior. It is the gradual recognition that incremental fixes are not closing the gap, which opens the door to strategic moves the firm would not have considered after a single bad year.

One-off severity is not enough to trigger bold moves

Perhaps the most counterintuitive finding: firms do not respond to exceptionally bad single-period performance by taking bigger strategic risks. Even when current performance dips well below prior low points, firms still lean toward related acquisitions. Severity alone does not push firms out of their comfort zone. This challenges the common assumption that dramatic downturns trigger dramatic strategic responses. The data suggest the opposite—firms absorb big shocks by doubling down on what they know, and only change direction when the shortfall becomes a pattern.

Persistence eventually overrides the local-search instinct

The interaction analysis shows that repeated underperformance gradually erodes the preference for related acquisitions. Firms that start out responding to performance gaps with local search will, if the gap persists, eventually abandon that approach. There is a behavioral tipping point where the accumulated evidence of failure outweighs the comfort of familiarity, and strategic search widens as a result.

TAKEAWAYS

Track patterns, not just point performance

Standard financial dashboards show whether this quarter hit its target. They rarely show how many quarters in a row have fallen short. The research suggests this pattern—the frequency of missed aspirations—is a more meaningful signal of strategic fatigue than any single data point. Firms that monitor only current performance miss the signal that matters most for strategic reorientation.

Watch for the comfort trap

The instinct to solve problems with familiar tools is powerful and often correct. But when repeated local-search efforts fail to close a performance gap, continuing to deploy the same approach becomes its own strategic risk. Leaders who recognize persistent shortfall should treat it as a signal to consider genuinely different options, not as a reason to try harder with the same playbook.

Treat persistent shortfall as a strategic signal

Sustained below-aspiration performance is more than a financial concern. It is a behavioral trigger that will eventually reshape strategic choices—whether leaders plan for it or not. Firms that recognize this early can design the shift deliberately, through foresight and structured strategic review, rather than reacting under pressure when the tipping point arrives.

IMPACT

The study makes a clear contribution to the Behavioral Theory of the Firm by showing that not all underperformance shapes search behavior in the same way. By separating the severity of a shortfall from its frequency, the authors resolve a long-standing ambiguity in the literature about when firms respond to poor performance with incremental adjustment versus transformative change. The answer is that persistence, more than severity, drives the shift from local to distant search. For practitioners, the contribution is a more precise vocabulary for thinking about strategic inflection points—when to stay the course and when accumulated evidence of failure justifies a more fundamental change in direction.

RECOMMENDATIONS

1. **Measure persistent shortfall, not just current performance.** Build internal metrics that track how often the firm has fallen below its aspirations over a multi-year window, not just whether it missed the most recent target.
2. **Integrate behavioral indicators into strategic review.** Augment traditional financial KPIs with measures of performance persistence so that boards and leadership teams can detect strategic fatigue before it becomes a crisis.
3. **Reassess strategy when local search keeps failing.** If repeated acquisitions and initiatives within the core business are not closing the performance gap, treat that as evidence that the problem may require a different kind of solution, not more of the same.
4. **Build foresight processes, not reactive pivots.** Proactively evaluate adjacent and non-related opportunities while performance is strong, so that strategic diversification can be deliberate rather than forced by accumulated underperformance.

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