Three Killer CEO Biases, Twelve Years Later

What We Got Right in 2014 — And What We Missed

By Joseph M. Durnford

A transaction can be carefully financed, thoroughly examined, and still fall short of an owner's objectives. Judgment under pressure deserves as much attention as the mechanics of the deal.

Twelve years ago, in the January / February 2014 issue of this magazine, former colleague Jeffrey Sasakura and I examined how cognitive bias can affect decisions about mergers and acquisitions. I still believe those questions matter. Experience does not make any of us immune to mistaken assumptions. Good counsel creates room to question them together.

I still think the diagnosis was right. I now think we stopped one step short of the answer.

In hindsight, an owner may recognize a question that could have changed the outcome. The practical challenge is to create room for those questions early, with the owner and advisory team examining the decision together.

The biases discussed in 2014

We named three biases that did the most damage. For readers encountering them here for the first time, a brief recap.

Bias #1, the Confidence Trap: the founder or CEO whose past success can make it difficult to recognize opportunities that do not fit the story they tell themselves about their company. We described a former client, the founder and chief executive of a once-successful direct-selling business, who turned down a succession of acquisition offers — each higher than the last — expecting that the next year would bring something better. The final offer he declined was for nearly $100 million. The market shifted, the business model became obsolete, and the company eventually closed its doors. The eventual loss was substantial, illustrating how difficult it can be to judge when to hold a business and when to consider a transition. I now refer to this as the entrepreneur's dilemma — trusting that the future is in their control.

Bias #2, the Bandwagon: the CEO who follows the crowd into safety when the market is offering once-in-a-cycle opportunities, or into euphoria when the market is offering exit-at-the-top liquidity. The 2008 financial crisis was the textbook case. As most CEOs hunkered down and the M&A market

froze, Barclays — under then-CEO Bob Diamond — acquired Lehman Brothers' U.S. investment banking business out of bankruptcy for $250 million in cash and entered the top tier of global investment banks. The opportunity was visible to every CEO with capital. Most could not see past the prevailing negativity.

Bias #3, Missing the Forest for the Trees: the CEO who gets lost in the details of a transaction and forgets the original strategic objective that justified pursuing it. We described the owner of a 100-unit retail jewelry business who, in choosing between two finalists, became enamored with the prestige of one buyer — the chance to sell to Warren Buffett — and began evaluating the deal on criteria that had not been part of the original objectives. The competing bid, from an Indian acquirer relatively unknown in the U.S., was nearly twice the price and met every stated objective. He eventually corrected, accepted the higher cash offer, and the transaction closed successfully. But the moment of bias nearly cost him the value he had set out to maximize.

We closed the article with a short section titled "Beware of Outsider Bias." It was, in retrospect, the most important part of the piece, and the part I have thought about most often in the years since.

What I missed

In 2014, we described how professional responsibilities and incentives can influence the perspective each advisor brings. That observation needs care: experienced lawyers, accountants, bankers, and wealth advisors regularly challenge assumptions and recommend delaying or declining a transaction. Different perspectives are a strength when the team examines them together.

That was the right diagnosis. It was also incomplete.

The issue is not that one profession favors closing while another favors caution. It is that even a capable team can divide a complex decision into separate assignments without explicitly connecting the conclusions. Counsel may identify a legal exposure, the accountant an earnings concern, and the wealth advisor a liquidity need. The owner benefits when those findings are considered together before the team commits to a course of action.

The additional role I now emphasize is an experienced ownership advisor who helps connect those perspectives, tests the business alternatives, and keeps the owner's objectives in view. That person works with the existing team rather than replacing it. A sound recommendation may be to proceed, renegotiate, wait, or walk away.

The question is whether the team has made responsibility for that overall assessment explicit. A lawyer, CFO, board member, wealth advisor, or transaction advisor may already be fulfilling it effectively. Where additional experience would help, bringing in a financial and business negotiation leader can strengthen the team.

Twelve years later, the same three biases, in a single situation

The clearest illustration I can offer is two related transactions I advised on in 2020 and 2021. Both involved the same company. In 2020 I advised the seller. In 2021 I advised the buyer. Each turned on a bias the 2014 article had named.

Electronic Transaction Consultants (ETC) is a Richardson, Texas-based provider of tolling and mobility software whose platform now processes more than two billion transactions annually, representing more than $3 billion in toll billings across more than 1,500 lanes in Texas, Georgia, California, Colorado, and Illinois. In 2020 it was owned by an Italian industrial conglomerate that had decided, for reasons rooted in its own portfolio narrative, that ETC was no longer core. That decision was a classic Bias #3. The parent's board saw ETC's recurring revenue, market position, and technology platform through the lens of a portfolio they had already mentally divested.

In September 2019 I was invited to advise the founder of ETC — who remained Chairman and held a minority stake — at a time when the Italian parent sought a divestiture of the business. He held a clear view of its strategic value. Based on the buyer universe my team and I developed, I advised the parent that ETC would likely sell in the $110–$120 million range. The parent's internal committee, working from a buyer universe of two parties it had previously approached, was confident the value would not exceed $50–$55 million and that the timeline to close would be quick.

In early 2020 we brought a broader field of strategic and financial buyers to the table and expected a competitive outcome close to the founder's expectation of $100 million. By April 2020, the pandemic collapsed the M&A market, and I advised the parent not to transact in those conditions. Driven by internal pressure to close before its mid-year fiscal year-end, and by its own value bias, the parent persisted. The process culminated in the sale of ETC to Align Capital Partners — a private equity firm that recognized the intrinsic value the parent had discounted, and that, unlike other interested buyers, did not withdraw under pandemic conditions. The transaction was later named the 2021 North Texas Deal of the Year by the Association for Corporate Growth.

Fourteen months later, the company was sold again.

In the months following the 2020 closing, I stayed close to the company and the market. One strategic acquirer remained on my mind — Quarterhill, a publicly traded intelligent-transportation platform that I considered the logical strategic home for ETC. Quarterhill had participated in the 2020 process but joined the pandemic-era bandwagon and opted out under the same uncertainty most CEOs were operating under that year. By February 2021 that uncertainty had receded. The strategic logic for the combination had only strengthened. But there was another bias to work past — this time on the buyer's side.

Quarterhill's CEO had concluded, on reasonable but ultimately incorrect grounds, that Align Capital — barely seven months into its hold — would not be willing to sell ETC. His reasoning was sound on the surface: most private equity holds run three to seven years, and a sub-twelve-month exit can carry tax and reputational implications. But it was a presumption — a bias that kept him from asking the question.

When I called Quarterhill's CEO to encourage him to pursue ETC, the conversation went roughly as follows.

> **CEO:** *"Why would a PE firm sell after only holding the asset for such a brief period?"*
>
> **Me:** *"They are smart and opportunistic investors. They are always open to a reasonable conversation."*
>
> **CEO:** *"Why do you think they would? And how can you help?"*
>
> **Me:** *"Align was founded by a team I have known for decades and I understand their economic model. I am positioned to negotiate a deal that delivers the returns they seek at a price that would still make strategic sense for your shareholders. As for how I can help — let me make the call, and let me guide you through the negotiation."*

Quarterhill brought me in as their special advisor, not as their investment banker — they were already well represented there. The negotiation took roughly seven months. On September 2, 2021, Quarterhill (TSX: QTRH, OTCQX: QTRHF) acquired ETC from Align Capital Partners for $120 million in cash — approximately 2.1 times the enterprise value at which Align had acquired the business fourteen months earlier. Align Capital realized approximately 3.5 times its invested capital.

What the case proves

Reasonable people read this story differently depending on where they stand. The Italian parent recovered the capital it had decided to release — at almost exactly the $50–55 million internal expectation it had set, and roughly $55–65 million below the range I had advised was achievable if they were patient. When Quarterhill paid $120 million the following year — the upper end of the range we had originally identified — Align Capital earned a substantial return on a short hold. Quarterhill acquired an asset it had considered in 2020. The founder's interests were respected throughout; he and I remain friends today. By any conventional measure, every party left the table satisfied. By the measure that matters to the parent's balance sheet, the sequence illustrates why a team should test its assumptions together, while recognizing the uncertainty and pressures each party faced at the time.

> The two transactions illustrate how different assumptions, timing, and objectives can lead parties to different conclusions about the same asset. The useful question is what the owner and advisory team can learn from the sequence, rather than who deserves credit or blame.

Note what this case is not. It is not a story of operational transformation. During the hold, Align added a Chief Operating Officer and a Chief Technology Officer, streamlined the technology roadmap, expanded the pipeline with pandemic-era infrastructure backlog as a tailwind, and announced meaningful new customer wins. Each of those moves contributed to the strategic narrative supporting the second transaction, and Align deserves credit for executing them quickly. But ETC's EBITDA was essentially unchanged between the 2020 and 2021 closings — the operational improvements were beginning to compound, not yet flowing through the income statement. The sequence illustrates how different views of the asset, timing and willingness to act can create different outcomes. It is a reason to test assumptions constructively, not to presume that any participant was free of bias.

The lesson is that assumptions deserve a constructive challenge, whoever raises it. An experienced advisor can help the owner and existing team examine the financial, strategic, and human consequences together. Clear responsibilities and candid communication make that challenge more useful.

What I would change about the 2014 article

Two things.

First, the three biases we named are not the only ones that decide deals. I would add the inheritance bias — owners who cannot distinguish what their company is worth from what their family expects it to be worth. The loyalty bias — owners who cannot evaluate an offer because of what they think it implies about the team they built. The governance bias — boards and chairs whose practices were forged in earlier eras and have not been updated for the institutional sophistication of the counterparties now on the other side of the table. And, most consequential of all, the biases of inaction — the ones that keep owners from taking an inbound call seriously, from initiating a recapitalization that would diversify family risk, or from confronting a covenant trajectory before the lender does. The cost of inaction is often larger than the cost of a bad transaction, and it is almost never named on the same page.

Second, I would devote more attention to how the advisory team works together. Owners benefit from a coordinated view of legal protections, tax consequences, operating requirements, liquidity,

and transaction economics. Independent directors and special committees can support that work where appropriate; in a family business, an experienced ownership advisor can add perspective alongside the professionals already serving the owner.

What changed in my own practice

After three decades of advising owners, boards, and investors, I have come to place greater emphasis on connecting the decision to the owner's long-term interests. Transaction execution and broader ownership advice are complementary responsibilities. The value lies in knowing when each is needed and working constructively with the people best equipped to contribute.

That realization has reshaped my own practice. Increasingly, my work centers less on running broad auction processes and more on advising owners, boards, management teams, and family enterprises through consequential inflection points — unsolicited offers, recapitalizations, succession transitions, partner disputes, liquidity pressure, governance conflict, and strategic alternatives that reshape not only enterprises but the families that built them. When a broadly marketed process is not the right answer — which is often the case in sensitive or highly consequential situations — my role increasingly centers on helping owners evaluate alternatives, navigate negotiation dynamics, and maintain alignment between strategic, financial, governance, and family objectives.

In closing

The biases I named in 2014 still decide many of the deals I see. If anything, they have become more dangerous in a world of accelerated capital flows, information overload, artificial intelligence, compressed decision cycles, and increasingly complex ownership structures.

The responsibility for connecting the whole decision should be explicit, not assumed.

The strongest advisory relationships make room for a conversation about the whole decision before momentum narrows the options. An owner can benefit from a deal leader who connects strategic, financial, governance, and personal priorities while respecting each specialist's expertise. We lead the financial and business negotiation, working closely with counsel on the legal terms that give those decisions effect.

Find that person or build the relationship now. The moment that requires that kind of counsel rarely announces itself in advance.

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