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STAKEHOLDER PRESERVATION OR APPROPRIATION? THE INFLUENCE OF TARGET CSR ON MARKET REACTIONS TO ACQUISITION ANNOUNCEMENTS

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This study examines how target corporate social responsibility affects the economic gains for acquirers, as reflected in market reaction to an acquisition announcement, from two distinct perspectives: stakeholder preservation versus stakeholder appropriation. The stakeholder preservation perspective suggests that positive market reaction to an acquisition stems from potential new value creation by honoring implicit contracts and maintaining good relationships with target stakeholders. By contrast, the stakeholder appropriation perspective posits that positive market reaction is primarily derived through wealth transfer to acquirers by defaulting on implicit contracts with target stakeholders. Using a data set of acquisitions in the United States, we find that target corporate social responsibility is positively associated with acquirer abnormal returns upon an acquisition announcement. Moreover, stakeholder value congruence between the merging firms strengthens this positive relationship, whereas business similarity between them weakens it. These findings align with the stakeholder preservation perspective and challenge the stakeholder appropriation perspective.

How do target stakeholders affect the extent acquirers benefit from merger and acquisition (hereafter, “acquisition”) activities? Two distinct perspectives offer important insights into this issue: stakeholder preservation and stakeholder appropriation. The stakeholder preservation perspective suggests that acquirers benefit from acquisitions through new value creation by enlisting trust and a reciprocal relationship with target stakeholders (Deng, Kang, & Low, 2013). On the contrary, the stakeholder appropriation perspective posits that acquirers obtain economic benefits by appropriating rents from target stakeholders (i.e., wealth transfer) to acquirers (Shleifer & Summers, 1988). To date, though, it has been unclear which perspective is more relevant for explaining the role of

target stakeholder relationships in influencing value gain for the acquirer.

To address this issue, we extend recent studies that focus on acquirer corporate social responsibility (CSR) by shifting attention to target CSR. From the stakeholder preservation perspective, the protection of stakeholders’ implicit contracts in high-CSR targets can potentially create new value for acquirers. Compared with those of a low-CSR target, stakeholders of a high-CSR target have higher stakes involved in their implicit contracts, which likely become more vulnerable in an acquisition. The willingness of acquirers to provide protection for these implicit contracts demonstrates their goodwill. The target stakeholders, in turn, will likely reciprocate with greater trust and cooperation when interacting with the acquirers, which can be a key source of potential new value creation for the acquirers (Graebner, Heimeriks, Huy, & Vaara, 2017).

By contrast, the stakeholder appropriation perspective posits that acquirer gains are primarily obtained through wealth transfer from target stakeholders to acquirers (Shleifer & Summers, 1988). As stakeholders

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of high-CSR targets possess more favorable terms in implicit contracts with target firms, greater potential for wealth transfer emerges as acquirers may alter or default on the stakeholders' implicit claims. For instance, acquirers may appropriate target stakeholders by dismissing target managers and employees, defaulting on employee promotion opportunities and pension plans, and renegotiating contracts with customers and suppliers to enhance their market power (Fee & Thomas, 2004; Shleifer & Summers, 1988).

Taken together, both perspectives may predict a positive relationship between target CSR and gains for acquirers. However, their underlying mechanisms (new value creation vs. wealth transfer) differ. Our purpose in the present research is to tease out the relationship between the two perspectives (i.e., whether one is more dominant than the other, or both are relevant under different contingencies). Given the difficulty of directly observing the perspective an acquirer adopts in an acquisition, we specify conditions under which the underlying mechanisms of the two perspectives are likely to prevail. By doing so, we are able to infer the relevance of each perspective in an acquisition. Specifically, we introduce two moderators—stakeholder value congruence and business similarity—as contingencies that are expected to alter the positive relationship between target CSR and acquirer gain. Following the logic of prior studies (Edwards & Cable, 2009), “value congruence” captures the extent to which merging firms are similar in values, norms, and philosophies about stakeholder management, while “business similarity” indicates the resource overlap between merging firms (King, Dalton, Daily, & Covin, 2004).

The two different perspectives predict opposite moderating effects for each of the two contingency factors. From the stakeholder preservation perspective, value congruence fosters the formation of common ground and trust and reduces the in-group–out-group bias between the merging firms, amplifying the positive effect of high-CSR targets on acquirer announcement return. Conversely, business similarity favors the elimination of redundancies in terms of physical and human resources, which are in conflict with the key tenets of the stakeholder preservation perspective. Therefore, business similarity increases the cost of honoring target stakeholders' implicit contracts, thereby weakening the relationship between target CSR and acquirer gain. By contrast, from the stakeholder appropriation perspective, high value congruence between the merging firms makes wealth transfer through target stakeholder appropriation more challenging because of the potential resistance of acquirer stakeholders, weakening the positive effect

of target CSR on financial gain for the acquirer. By contrast, business similarity is expected to strengthen the above effect because high business similarity indicates that acquirers can better justify their defaulting on stakeholders' implicit contracts.

Given the recognized efficiency and forward-looking nature of the financial market, potential acquirer gains from target CSR—either from new value creation due to greater trust between the acquirer and target stakeholders, based on the rent preservation perspective, or from defaulting on implicit contracts with target stakeholders, based on the rent appropriation perspective—are likely reflected in market responses and incorporated into changes in stock prices upon acquisition announcement. Market reaction to an acquirer has long been regarded in previous studies as effective in capturing gain from potential value-added activities for the acquirer (e.g., Cuypers, Cuypers, & Martin, 2017; Kim & Finkelstein, 2009; Sears & Hoetker, 2014; Zaheer, Hernandez, & Banerjee, 2010). We accordingly develop our hypotheses and test our key arguments by examining how target CSR affects market reaction to acquisitions. Using a data set of U.S. public firms involved in acquisitions, we find that target CSR is positively associated with acquirer abnormal returns upon an acquisition announcement. Moreover, stakeholder value congruence between the merging firms strengthens this positive relationship, whereas business similarity between them weakens it. These results suggest that the stakeholder preservation perspective prevails against the stakeholder appropriation perspective. This finding, along with our conceptualization, is important in terms of reconciling the debate in the acquisition literature regarding how target stakeholders affect acquisition outcomes.

THEORETICAL BACKGROUND AND BASELINE HYPOTHESIS

Target CSR and Implicit Contracts with Target Stakeholders

CSR reflects firms' broad array of strategies and operating practices that are designed and developed to deal with internal and external stakeholder relationships (Surroca, Tribó, & Waddock, 2010; Waddock, 2004). CSR is also considered equivalent to “meeting the demands of multiple stakeholders” (Ruf, Muralidhar, Brown, Janney, & Paul, 2001: 143), and the level of a firm's CSR captures the quality of the firm's stakeholder relations (Waddock & Graves, 1997). Therefore, it is widely acknowledged that the CSR of firms is positively associated with the quality of its relational capital

(Thompson & Heron, 2006) and stakeholder management (Freeman, 1984; Waddock & Graves, 1997).

A firm's relational capital is in turn commonly associated with valuable implicit contracts between the firm and its stakeholders. The notion of the firm as a nexus of explicit and implicit contracts posits that the value of the firm is the sum of the values of all existing claims on the firm (Coff, 1999; Jensen & Meckling, 1976). Unlike explicit contracts, which are normally court enforceable, implicit contracts—which are based on informal agreement and unwritten codes of conduct—are vague and not legally binding (Baker, Gibbons, & Murphy, 2002). Thus, no explicit cost is involved in defaulting on an implicit contract. Meanwhile, an implicit contract is a mutual and reciprocal obligation, involving exchanges over time among parties in the relationship and binding the actions of one party to those of the other by making invasion costly (Rousseau, 1989). Implicit contracts are thus generally self-enforcing: the promised continuity of practices and commitments is the key to sustaining these contracts (Weick, 1981). Therefore, neither of the two parties are willing to breach the implicit contract (McGuire, Sundgren, & Schneeweis, 1988) because the value of relational capital based on implicit contracts is usually sufficiently large that neither party wishes to renege (Baker et al., 2002). From the firm's perspective, the breaches of implicit contracts commonly carry substantial implicit costs, such as those associated with lost trust (Robinson, 1996) and reputation (Aguinis & Glavas, 2012: 940), which can have negative long-term implications for firm financial performance and even competitive advantages (Berman, Wicks, Kotha, & Jones, 1999).

However, the relationship between the potential loss of reputation and the invasion of implicit contracts is no longer relevant when there are changes in the contractual environment. Such changes may occur when the firm becomes a target of takeover and the control right is transferred to the acquirer (Shleifer & Summers, 1988; Walsh & Ellwood, 1991). Given its noninvolvement in establishing the implicit contracts with target stakeholders, the acquirer is not bound by the contracts formed between the target and its stakeholders (Davis & Stout, 1992). Thus, the reputation of the acquirer is not as closely tied to target stakeholders as that of the target firm. Consequently, in the case of an acquisition, the implicit claims of target stakeholders face a greater risk of not being honored by the acquiring firm.

Two perspectives—stakeholder preservation and stakeholder appropriation—exist that might help

understand what may happen to target stakeholders and their implicit contracts during acquisitions and the implications for acquirer gain, which is reflected in the market reaction to an acquisition announcement. We highlight two distinct mechanisms (i.e., new value creation and value transfer) to clarify the predictions from the two perspectives, respectively.

Stakeholder Preservation Perspective

The stakeholder preservation perspective emphasizes the benefits of protecting target stakeholders by honoring the claims of their implicit contracts. In an acquisition, actions from the acquirer and the target are perceived as unpredictable and easy to misinterpret, and target stakeholders particularly are in a vulnerable position (Stahl & Sitkin, 2010). Instead of considering defaulting on stakeholder implicit contracts as an opportunity for wealth transfer, the stakeholder preservation perspective recognizes the potential negative effects of such an action, which commonly causes “anxious paralysis” among target stakeholders (Cannella & Hambrick, 1993). From this perspective, not exploiting the vulnerability of target stakeholders in an acquisition helps the acquirer build trust and establish new implicit contracts with target stakeholders, which constitute an important source of new value creation for acquirers.

Specifically, honoring implicit contracts with target stakeholders can mitigate the uncertainty and vulnerability they face. Target stakeholders are likely to reciprocate by cooperating with the acquirer (Gouldner, 1960; Stahl & Sitkin, 2010), facilitating the extension of existing trust (which originates from stakeholders' good relationships with the target) to the acquiring firm (Stahl & Sitkin, 2010). With great trust, the communication between the acquirer and target stakeholders will be well facilitated (Bauer & Matzler, 2014; Conant & Kaserman, 1989). Moreover, target stakeholders likely develop a sense of belonging and a shared identity with the acquirer (Colman & Lunnan, 2011) and thus can “enter” new implicit contracts with the acquiring firm proactively (Mahoney, 2012).

Such positive effects are likely to be more salient when a target has a high level of CSR, for two reasons. First, in a high-CSR target, stakeholders are treated better and commonly enjoy more favorable terms in their implicit contracts with the target firm. Thus, stakeholders of a high-CSR target are more vulnerable in an acquisition, due to the higher stakes involved in their implicit contracts. If the implicit contracts are not honored by the acquirer, then these

stakeholders will experience much greater losses than their counterparts of a low-CSR target. In this case, if target stakeholders' vulnerabilities are not exploited (i.e., their implicit contracts are preserved by an acquirer), then the stakeholders will feel more goodwill from the acquirer, which in turn fosters greater trust between the two parties (Dyer & Chu, 2003; Krishnan, Geyskens, & Steenkamp, 2016). Consequently, the stakeholders become more willing to reciprocate by participating in a coordinative and active manner during acquisition integration processes.

Second, a high-CSR target firm has generally developed a positive culture of mutual trust between the firm and its stakeholders (Surroca et al., 2010). Given that such a culture fosters the stakeholders' beliefs, values, and practices over time, the stakeholders may internalize the trust culture as part of their disposition (Jones, Felps, & Bigley, 2007), which make them likely to trust others. More importantly, such a propensity to trust can be carried across situations and contexts even when interacting with unfamiliar parties or actors (Colquitt, Scott, & LePine, 2007; Mayer, Davis, & Schoorman, 1995; Whitener, Brodt, Korsgaard, & Werner, 1998). McKnight, Cummings, and Chervany (1998) suggested that propensity to trust based on trusting intention and beliefs helps foster the trust between two parties that do not even have any prior interactions or common experiences.

Thus, an acquirer is able to enlist greater trust from stakeholders of a high-CSR target than a low-CSR target due to the greater goodwill they feel from the acquirer as well as their inherent propensity or disposition to trust others. Consequently, the acquirer is likely to obtain more reciprocal actions from target stakeholders, thereby realizing greater new value creation. Accordingly, shareholders can perceive acquiring a high-CSR target as a sound investment, evoking positive market reaction.

Stakeholder Appropriation Perspective

In contrast with the stakeholder preservation perspective, the stakeholder appropriation perspective emphasizes that acquirers realize gains through the breach of implicit contracts of target stakeholders, such as employees, suppliers, and managers (Krug, Wright, & Kroll, 2014). This idea originates from a classical study by Shleifer and Summers (1988). As argued above, given that the acquiring firm does not have the same obligations as the target in honoring stakeholders' implicit claims, an acquisition offers an ideal timing and setting for acquirers to appropriate target stakeholders. In addition, given that

targets are generally positioned in disadvantageous standings after an acquisition (Krug & Nigh, 2001; Shen, Tang, & Chen, 2014), acquirers commonly act as "leaders" and targets act as "followers" (Haspeslagh & Jemison, 1991). Such an imbalance between the merging firms further provides acquirers with greater power to appropriate target stakeholders (Fee & Thomas, 2004).

This perspective posits that acquiring high-CSR targets enhances acquirers' value gain, which may positively affect shareholders' perception, leading to high acquirer announcement returns. The value gain for acquiring firms is primarily a result of wealth transfer from target stakeholders to the acquirer because target stakeholders are expendable (Shleifer & Summers, 1988). Replacing or cutting the compensations of target managers and other overpaid employees and renegotiating price or other contractual terms with customers and suppliers, for instance, are regarded as the important sources of value creation (Fee & Thomas, 2004; Krug et al., 2014; Shleifer & Summers, 1988). Specifically, an acquirer may benefit from refusing to compensate the supplier of a target for investing in a buyer-specific plant (Shleifer & Summers, 1988). An acquirer can also gain value at the expense of customers by raising product prices (Fee & Thomas, 2004; Stigler, 1964) and of suppliers by lowering the input prices to the earlier agreed-upon levels (Hoskisson, Gambeta, Green, & Li, 2018). Moreover, an acquirer may appropriate target managers by revising or defaulting on implicit contracts with them, including reducing compensations, forfeiting promotion promises, or even dismissing them altogether (Agrawal & Walkling, 1994; Haleblan, Devers, McNamara, Carpenter, & Davison, 2009; Jensen & Ruback, 1983). Pontiff, Shleifer, and Weisbach (1990) showed that an acquirer might default on the pension plans of target employees to reduce costs.

According to the stakeholder appropriation perspective, the potential for target stakeholder appropriation is likely to increase with the level of target CSR. In a high-CSR target, target stakeholders are likely to have more favorable terms in their implicit contracts with the target, providing greater opportunities for wealth transfer from the stakeholders to the acquiring firm. Consistent with this argument, Davis and Stout (1992) suggested that, in a takeover deal, an acquirer can potentially abrogate the implicit contracts between the target and its stakeholders (e.g., layoffs or other concession bargaining) to realize value, especially when a target is saddled with high and increasing stakeholder benefits.

Agrawal and Walkling (1994) also find that target firm managers who are highly compensated prior to takeovers are more likely to receive reduced compensation after the acquisition. Similarly, high-CSR targets usually provide favorable terms in implicit contracts with their employees, such as generous pension plans. In this case, acquirers may gain more from defaulting on a target preexisting employee pension plan contract with generous terms and re-signing a less costly one (Pontiff et al., 1990). For instance, when Honeywell acquired Elster in 2015, it faced a decision about whether to close Elster's two generous pension funds with its employees. Investors and analysts estimated that honoring the two pension funds would result in a direct cost of roughly £134 million to Honeywell and thus insisted that Honeywell should default on these pension contracts.

Therefore, high CSR in a target not only offers greater potential for wealth transfer according to the stakeholder appropriation perspective, but also enables new value creation from greater trust between the merging firms according to the stakeholder preservation perspective. And these potential value gains are often reflected in positive market reaction to the acquisition of a high-CSR target. In line with these arguments, Zaheer et al. (2010) documented that the level of trust between merging firms, fostered by their prior alliances, is positively associated with acquirer abnormal returns around the acquisition announcement date. In another study, Alderson and Chen (1986) argued and found that the stock market reacts positively to the reversion of pension plans in acquisitions, a signal of appropriation of target stakeholders.

In sum, both perspectives predict a positive relationship between target CSR and market reaction to an acquirer upon acquisition announcement. We thus offer the following baseline hypothesis:

Hypothesis 1. Target CSR is positively associated with acquirer announcement returns.

UNPACKING THE TWO PERSPECTIVES

Although stakeholder preservation and appropriation perspectives make the same prediction, the underlying mechanisms suggest two distinct ways of redeploying target stakeholders, which require a nuanced approach to understand which perspective is more likely to prevail. Our purpose in this section is to tease out the two perspectives by exploring the boundary conditions under which the proposed relationship in Hypothesis 1 may vary. Specifically,

we introduce “stakeholder value congruence” and “business similarity” between merging firms as two contingencies, and clarify how, under these contingencies, the mechanisms underlying the two perspectives play out differently in terms of the benefits and costs associated with honoring versus defaulting on implicit contracts with target stakeholders.

Moderating Role of Stakeholder Value Congruence

The concept of “value congruence” originates from research on person–organization fit (Chatman, 1989; Kristof, 1996). It is defined as “the similarity between values held by individuals and organizations” (Edwards & Cable, 2009: 655). This concept is also used in the analysis of person–person fit such as value congruence between employees and supervisors (Meglino, Ravlin, & Adkins, 1989) and that between leaders and followers (Zhang, Wang, & Shi, 2012). The concept is further applied in the interfirm context, especially in the strategy field. Interfirm value congruence is argued to be helpful in cultivating interfirm trust and promoting interfirm commitment (Sarkar, Cavusgil, & Evirgen, 1997; Stahl & Sitkin, 2010). For instance, value congruence between alliance partners has been found to have a positive influence on collaborative relationships between the partners (Lavie, Haunschild, & Khanna, 2012).

We apply the concept of value congruence to the acquisition context to refer to the similarity between values held by the acquiring and target firms. Specifically, we focus on the merging firms' values pertaining to their respective stakeholders. Accordingly, we propose a construct termed “stakeholder value congruence,” referring to the extent to which the merging firms are overlapped in terms of philosophies of stakeholder management and beliefs about the importance of stakeholders.

Stakeholder preservation and stakeholder value congruence. From the stakeholder preservation perspective, we expect that stakeholder value congruence between merging firms will strengthen the effect of target CSR on acquirer gain, for the following reasons. First, larger stakeholder value congruence between merging firms suggests a higher level of common ground between the acquirer and target in managing and relating with their stakeholders. “Common ground” refers to the sum of two parties' mutual, common, or joint knowledge, beliefs, and suppositions (Clark, 1996). On the one hand, high common ground allows a target to better anticipate and interpret an acquirer's intentions and actions (Puranam, Singh, & Chaudhuri, 2009). Thus, the

potential goodwill resulting from the protection of a high-CSR target is more readily received and reciprocated by target stakeholders through greater trust and cooperative actions. On the other hand, higher common ground facilitates the communication between merging firms and makes them more willing to learn and accept new practices from each other (Allatta & Singh, 2011). Thus, the high common ground allows an acquirer and its stakeholders to better understand and be more receptive of preexisting implicit contracts with stakeholders of high-CSR targets, making it easier to honor these contracts with little resistance from acquirer stakeholders.

Second, the merging firms with high stakeholder value congruence are likely to have similar stakeholder management styles in terms of beliefs, value, and practices, which can reduce the in-group–out-group bias between the merging firms (Stahl & Sitkin, 2010). Consequently, the merging firms are less likely emphasize their own distinctiveness and instead will highlight the importance of cohesiveness, thereby making the reciprocal exchanges more efficacious.

By contrast, merging firms with incongruent stakeholder values likely confront difficulties by anticipating, interpreting, and adjusting to each other's actions, causing larger in-group–out-group bias. For target stakeholders, adapting to the acquirer's stakeholder management style is difficult. They may then be more likely to develop feelings of hostility (Chatterjee, Lubatkin, Schweiger, & Weber, 1992). Consequently, an acquirer experiences more difficulty enlisting the trust and reciprocity of target stakeholders, even with the intended protection of a high-CSR target. In addition, value incongruence raises barriers from the acquirer and its stakeholders to understanding and appreciating the terms of stakeholder implicit contracts, especially when the target stakeholders have generous claims in their implicit contracts with a high-CSR target, causing greater resistance to honor the implicit contracts with the target stakeholders.

Synthesizing the aforementioned arguments, the stakeholder preservation perspective suggests that stakeholder value congruence between merging firms is more likely to facilitate an acquirer's effort to enlist trust and reciprocity from target stakeholders through the protection of a high-CSR target. Greater perceived trust between the merging firms is then expected to result in more positive market reactions to acquirers upon acquisition announcement. Thus, we predict the following:

Hypothesis 2a (Stakeholder preservation perspective). Stakeholder value congruence strengthens the positive relationship between target CSR and acquirer announcement returns.

Stakeholder appropriation and stakeholder value congruence. As noted, the stakeholder appropriation perspective focuses on wealth transfer from target stakeholders to the acquirer by defaulting on implicit contracts with them. According to this perspective, the market may react positively to the acquisition by anticipating potential value gain for the acquirer from appropriating target stakeholders. However, in the case of high stakeholder value congruence, the acquirer and the target have a higher level of common ground and share a similar philosophy in stakeholder management. As argued earlier, such value congruence generally allows a better understanding, as well as a lower in-group–out-group bias between the merging firms, facilitating reciprocal exchanges (Stahl & Sitkin, 2010). Accordingly, the market often associates a high value congruence with a greater level of cooperation and mutual support between the merging firms and thus anticipates potential value gain for the acquirer (Bauer & Matzler, 2014; Chatterjee et al., 1992).

However, when an acquirer breaches the implicit contracts with the stakeholders of a target that has high value congruence with the acquirer, it sends conflicting signals to the market. While high value congruence signals that the firm achieves value gain by cooperating with target stakeholders, appropriating the target stakeholders is clearly in conflict with such a signal, raising doubts among investors about the potential benefits of stakeholder appropriation. With the presence of stakeholder value congruence between the merging firms, market reaction to the acquisition becomes less positive. We thus predict the following:

Hypothesis 2b (Stakeholder appropriation perspective). Stakeholder value congruence weakens the positive relationship between target CSR and acquirer announcement returns.

Moderating Role of Business Similarity

“Business similarity” captures the extent to which an acquirer and its target are similar in business operations, reflecting the degree of resource or product–market overlap between them (King et al., 2004). With high business similarity, acquirers may suffer from resource redundancies that reduce the firms' efficiency (Capron, Mitchell, & Swaminathan, 2001). To improve efficiency, acquiring firms may take

appropriate steps to combine similar resources by eliminating redundancies. For instance, the merger between computer makers Hewlett-Packard (HP) and Compaq was expected to achieve a cost saving of \$2 billion by eliminating resource redundancies across all functions, from administration, procurement, and manufacturing to product development and marketing (Dyer, Kale, & Singh, 2004).

Stakeholder preservation and business similarity.

From the stakeholder preservation perspective, reducing resource redundancies under high business similarity, which inevitably hurts at least some of the target stakeholders, sends a conflicting signal to the market. In particular, the stakeholder preservation perspective emphasizes trust building, reciprocal behaviors, and enhancement of motivation (especially intrinsic motivation) by protecting target stakeholders. To this end, the market expects the acquirer to ensure target stakeholders' autonomy to a certain extent to promote their commitment and foster their sense of belonging and trust (Datta & Grant, 1990). However, high business similarity favors elimination of redundancies that help improve efficiency. Thus, an acquisition under high business similarity generally leads to disruptions to target stakeholders and their implicit contracts, such as employee layoffs and other forms of contract alterations or terminations (Aguilera & Dencker, 2004; Graebner et al., 2017; Puranam et al., 2009).

According to the stakeholder preservation perspective, the market reacts positively to an acquisition by anticipating potential value gain for the acquirer by protecting the implicit contracts with target stakeholders. However, high business similarity signals a high likelihood of potential disruptions of target stakeholders associated with redundancy elimination, which is incompatible with the tenets of stakeholder preservation. For the above reasons, we expect that high business similarity is likely to dampen the impact of preserving stakeholders of high-CSR targets on new value creation from an acquisition and thus lead to less positive market reaction. According to the stakeholder preservation perspective, we predict the following:

*Hypothesis 3a (Stakeholder preservation perspective).
Business similarity weakens the positive relationship between target CSR and acquirer announcement returns.*

Stakeholder appropriation and business similarity.

By contrast, the stakeholder appropriation perspective suggests that acquirer gain is more likely to be realized through wealth transfer from target stakeholders. In the case of high business similarity, given the existence of resource redundancies between the merging firms, the appropriation of target CSR is in line with the necessity

of generating efficiency-based synergies (Sears & Hoetker, 2014). In the earlier example of the HP-Compaq merger, Carly Fiorina, CEO of HP, claimed that, along with the effort to eliminate redundancies, HP was expected to cut 15,000 jobs to boost the business (Hearst Newspapers, 2002). In the case of business similarity, target stakeholder appropriation is in line with efficiency gains. In addition, such appropriation actions are more likely to be perceived as legitimate and are less likely to trigger strong negative sentiments of the public.

Second, an acquisition with high business similarity is known as "related acquisition" (Ellis, Reus, & Lamont, 2009), which can often quickly increase the market share of the acquirer due to potential economies of scale (Fee & Thomas, 2004; Singh & Montgomery, 1987) and provide the acquirer with greater bargaining power in negotiating with stakeholders (e.g., suppliers and customers). Consequently, the acquirer may become even more dominant in controlling "price, quantity, and the nature of the product in the marketplace" (Singh & Montgomery, 1987: 379) and thus implement wealth transfer from target stakeholders (e.g., renegotiating or defaulting on unfavorable contracts) effectively.

In sum, when business similarity is high, acquirers are in a better position to take advantage of the implicit contracts with stakeholders of high-CSR targets and maximize the potential for value gain from wealth transfer. Anticipating these factors, the stock market will likely react more positively to an acquisition announcement. According to the stakeholder appropriation perspective, we predict the following:

*Hypothesis 3b (Stakeholder appropriation perspective).
Business similarity strengthens the positive relationship between target CSR and acquirer announcement returns.*

METHOD

Data and Sample

We started our data collection on the basis of a sample of acquisitions from the Securities Data Company (SDC) database (e.g., Gong, Zhang, & Xia, 2019; Graffin, Haleblan, & Kiley, 2016; Iyer and Miller, 2008; Puranam, Singh, & Zollo, 2006). We then obtained stakeholder-related information for both the acquirer and target firms from the KLD (Kinder, Lydenberg, Domini & Co.) data set, which has been widely used in stakeholder research and is considered the best available database for compiling comprehensive measures of stakeholder relationships (e.g., Ioannou & Serafeim, 2015; Koh, Qian, &

Wang, 2014; Shiu & Yang, 2017; Waddock & Graves, 1997; Wang & Choi, 2013). The stock market information on acquirer stock returns was obtained from the Center for Research in Security Prices, financial and corporate governance data from Compustat, and executive compensation data from ExecuComp. Data for constructing the measure of *business similarity* were mainly from SDC, the United States Patent and Trademark Office, and the Occupational Employment Statistics.

We focused on the following deal types: acquisition, merger, and acquisition of majority interests defined by SDC. To ensure that the acquisitions were meaningful, we required that the transaction value must exceed \$1 million (Bereskin, Byun, Officer, & Oh, 2018; Shi, Hoskisson, & Zhang, 2017) to be included in the sample. With these criteria as a basis, our initial sample had 3,829 deals. The sample size was reduced to 1,649 after merging with the Compustat database and then dropped further to 487 after merging with the KLD data. After the additional removal of observations with missing data in our dependent variable, moderators, and key control variables, our final sample included 237 deals from the period between 2000 and 2012. The other key variables based on KLD, ExecuComp, and Compustat and moderators were lagged by one year; thus, the data period of these variables was from 1999 to 2011. Among the 237 deals, 123 acquirers were involved in only one deal and 42 acquirers in two or more deals.

Dependent Variable

Following prior studies (e.g., Halebian, Pfarrer, & Kiley, 2017; Shen et al., 2014), we used acquirer cumulative abnormal return (CAR) to capture *acquirer announcement return*. If the market believes that an acquirer will benefit from the acquisition, the market will react positively to an acquirer around the announcement of an acquisition deal (Zaheer et al., 2010). In our study, *acquirer announcement return* was the three-day CAR around the deal announcement date with the event window $[-1, +1]$. For better coefficient manifestation, acquirer CAR was multiplied by 100.

Following Wade, Porac, Pollock, and Graffin (2006), we used Eventus, a program from the Wharton Research Data Services, to calculate CAR. Given that the acquisition announcement could happen on a nontrading day, we used the “autodate=yes” option in Eventus (Gong et al., 2019) with an estimation window of $[-210, -11]$, indicating that the estimation started 210 days and ended 11 days prior to the deal announcement date (Deng et al., 2013; Schuler,

Shi, Hoskisson, & Chen, 2017). The interval offered sufficient time to estimate the expected stock returns and mitigate the concern of information leakage (Wade et al., 2006). Furthermore, we required that at least the 100-day stock returns within the above estimation window were available such that we had sufficient information to predict expected returns. Accordingly, the abnormal return (*AR*) on day t was estimated using the following:

$$AR_t = R_t - (\alpha + \beta * R_{mt}) \quad (1)$$

where R_t is the daily stock return of a focal acquirer and R_{mt} is the daily stock market return on day t based on a value-weighted method. *AR* is the actual daily stock return minus the expected daily stock return. *Acquirer CAR_t* for the event window $[-1, 1]$ is the sum of abnormal returns in the three days. The formulation was as follows:

$$\begin{aligned} & \text{Acquirer announcement return}_t[-1, 1] \\ &= \sum_{t=-1}^{t=1} AR_t \end{aligned} \quad (2)$$

Independent and Moderating Variables

Target CSR was measured on the basis of the five dimensions of KLD data: environment, employee, community, diversity, and product (e.g., Choi & Wang, 2009; Koh et al., 2014; Tang, Qian, Chen, & Shen, 2015). Each dimension consisted of two components: strengths and concerns. “Strengths” represent “policies, procedures, and outcomes that enable a firm to have a positive impact on the focal issue,” and “concerns” represent “policies, procedures, and outcomes that tend to have a negative impact on the focal issue” (Khan, Serafeim, & Yoon, 2016). Each component contained several items, and each item was a binary indicator showing whether a firm fulfilled a certain criterion. For instance, the “generous giving” item in the community dimension was coded as 1 if “the company has consistently given over 1.5% of trailing three-year net earnings before taxes . . . to charity, or has otherwise been notably generous in its giving” (KLD database), and 0 otherwise.

We constructed *target CSR* following two steps. Note that KLD dimensions are not comparable with each other; for instance, the community dimension consists of eight strength items and four concern items, whereas the product dimension comprises 12 strength items and five concern items. Accordingly, and following Koh et al. (2014) and Wang and Choi (2013), we first standardized the strength and the concern scores in each dimension for each target

firm. Specifically, we subtracted the strength or the concern score in each dimension from its sample mean and then divided them by its sample standard deviation. Second, we used the sum of standardized strength scores (i.e., environment strength, employee strength, community strength, diversity strength, and product strength) minus the sum of standardized concern scores (i.e., environment concern, employee concern, community concern, diversity concern, and product concern) to measure *target CSR*. The detailed descriptions of the KLD strengths and concerns, based on RiskMetrics (2010).

Stakeholder value congruence was measured as the degree to which the stakeholder portfolios of the acquirer and target were similar, which was further operationalized as the Mahalanobis distance (MD) between the merging firms' stakeholder portfolio (multiplied by -1). The MD has been widely used to measure the structural difference between two portfolios (e.g., Kim & Finkelstein, 2009; Zhou & Guillén, 2015).¹ Specifically, by combining the five dimensions of KLD data (environment, employee, community, diversity, and product) and the two indexes (strength and concern), we constructed a column vector comprising 10 elements to capture the stakeholder portfolio of the merging firms, S :

$$S = \begin{pmatrix} \text{Environment strength} \\ \text{Environment concern} \\ \text{Employee strength} \\ \text{Employee concern} \\ \text{Community strength} \\ \text{Community concern} \\ \text{Diversity strength} \\ \text{Diversity concern} \\ \text{Product strength} \\ \text{Product concern} \end{pmatrix} \quad (3)$$

Stakeholder value congruence was then computed as follows:

$$\begin{aligned} & \text{Stakeholder value congruence} \\ & = -\sqrt{(S_{Acquirer} - S_{Target})^T W^{-1} (S_{Acquirer} - S_{Target})} \end{aligned} \quad (4)$$

where W^{-1} is the inverse of the pooled covariance matrix. As expressed in the formula, the *stakeholder*

¹ Regarding the distinction between *target CSR* and *stakeholder value congruence*, the former is a point in a multidimensional space, whereas the latter is the reverse value of geometric distance between two points in such space. Thus, the two variables differ from each other theoretically and empirically.

value congruence is equal to the MD between the column vector $S_{Acquirer}$ and column vector S_{Target} , multiplied by -1 .

Business similarity was captured as the degree of similarity between the merging firms in terms of resources and strategies. In particular, we utilized three indicators to construct this variable: (1) *similarity in product market*, (2) *similarity in human capital*, and (3) *similarity in technology resource*. Following Lubatkin, Srinivasan, and Merchant (1997: 66), we calculated *similarity in product market* based on the four-digit Standard Industrial Classification (SIC) code industries in which the merging firms participate. In particular, it was measured as the reverse value of the sum of the numbers of the acquirer's four-digit SIC industries and the target's four-digit SIC industries minus the number of overlapped four-digit SIC industries between the merging firms.

Similarity in human capital captures the similarity in occupation types that the merging firms contain, as employees' occupation is the main domain for human capital development (Grimpe, Kaiser, & Sofka, 2019; Lee, Mauer, & Xu, 2018). The more similar the human capital portfolio, the more similar the employee knowledge and skills and, to an extent, the product features are (Hatch & Dyer, 2004; Mayer, Somaya, & Williamson, 2012). *Similarity in human capital* was calculated as the reverse value of the MD in occupation portfolio between the acquirer and the target. The occupation portfolio of a certain firm was denoted with a column vector, H as $(occupation_1, \dots, occupation_n, \dots, occupation_N)^T$, capturing the scope of occupations in a firm. The subscript n in $(1, N)$ was the occupation code index. The scalar $(occupation_n)$, also called vector element, was the proportion of firm employees in a certain occupation. We took several steps to identify occupations and computed scalars for each firm. First, we extracted the occupation employment data from the Occupational Employment Statistics of the U.S. Bureau of Labor Statistics. The program reported the occupation data at the aggregate level by state, metropolitan area, and industry for more than 800 occupations. Given that some firms may operate in multiple industries, we utilized the Compustat Business Segment database to extract industry information. Accordingly, the scalar $(occupation_n)$ was computed using the following formula:

$$occupation_n = \sum_{i=1}^I w_i O_{n,i} \quad (5)$$

where w_i represents the ratio of sales in industry segment i to total sales and $O_{n,i}$ represents the

proportion of firm employees in occupation n of industry segment i . Applying the above procedures, *similarity in human capital* was measured as follows:

Similarity in human capital

$$= -\sqrt{(H_{Acquirer} - H_{Target})^T W^{-1} (H_{Acquirer} - H_{Target})} \quad (6)$$

where W^{-1} is the inverse of the pooled covariance matrix, $H_{Acquirer}$ is the acquirer's human capital profile, and H_{Target} is the target's human capital profile. A negative sign was added to take the reverse value, such that a higher value means greater similarity in human capital.

Similarity in technology resource was constructed by comparing patent classes of the merging firms using information from the United States Patent Classification system of the United States Patent and Trademark Office (Bloom, Schankerman, & Van Reenen, 2013; Grieser & Liu, 2019; Li, Qiu, & Wang, 2019). This measure was similarly constructed as the reverse value of the MD in terms of technology resources, captured by comparing the patent portfolios between the merging firms. Like the procedures of constructing the similarity in human capital, the patent portfolio of a firm was denoted as the column vector P , which was defined as $(patent_1, \dots, patent_n, \dots, patent_N)^T$, capturing the scope of technology-related activities in a firm. The subscript n in $(1, N)$ was the patent class index that was extracted from the United States Patent Classification system. The scalar $(patent_n)$ was the proportion of patents awarded to a firm (i.e., the ratio of patents in patent class n to the total number of patents in the same year). Applying the above procedures, *similarity in technology resource* was measured as follows:

Similarity in technology resource

$$= -\sqrt{(P_{Acquirer} - P_{Target})^T W^{-1} (P_{Acquirer} - P_{Target})} \quad (7)$$

where W^{-1} is the inverse of the pooled covariance matrix, $P_{Acquirer}$ is the acquirer's technology resource profile, and P_{Target} is the target's technology resource profile.

As each of the three components captures a different aspect of firm resources, combining them can help provide a comprehensive measure of business similarity. Therefore, we constructed a composite measure by taking the average of the standardized scores of the above three similarity measures, with a higher score representing greater

business similarity between merging firms. Such an operationalization² is consistent with practices in prior studies (e.g., Lara, Osma, & Penalva, 2016; Miner-Rubino & Cortina, 2007). In a robustness test, we reran all models using the three similarity measures separately. The results are highly consistent with our reported findings (see Table 3 in the Results section, below).

Control Variables

We included a set of control variables typically considered in the acquisition literature. At the firm level, we controlled for *acquirer size* and *target size* by including acquirer and target market values, given that the size of merging firms may affect acquisition processes and acquirer announcement returns (e.g., Moeller, Schlingemann, & Stulz, 2004; Shen et al., 2014). We then used the natural logarithm transformation of these two variables to mitigate the skewness concern. In addition, we included *acquirer slack* and *target slack*, which are also considered to affect acquisition outcomes (Hitt, Harrison, & Ireland, 2001). Slack was measured as the ratio of the sum of cash and cash equivalent to market value (Tang et al., 2015). We also included *acquirer CSR*, which had been argued to have influence on acquirer announcement returns (Deng et al., 2013). *Acquirer CSR* was measured by following the same procedure for constructing *target CSR* (see above).

We controlled for *acquirer recent announcement return*, which may affect acquirer announcement returns (Haleblian et al., 2017). It was measured as the average abnormal returns (with window $[-1, 1]$) of a focal acquirer's acquisitions over the past three years (Haleblian et al., 2017). Moreover, *acquirer acquisition experience* was included, as it may affect an acquirer's ability to extract value from a target (Cuypers et al., 2017). This variable was calculated as the number of acquisitions that an acquirer conducted over the past three years. Executives' interests may also affect the financial outcome of a takeover deal (Devers, McNamara, Haleblian, & Yoder, 2013). *Acquirer CEO total compensation* was included because CEOs may seek increase in

² To validate this operationalization, we performed a confirmatory factor analysis to further assess its appropriateness (i.e., using the three similarities in product market, human capital, and technology resource to capture *business similarity* between the merging firms). The results showed that the one-factor model fitted the data well (RMSEA < 0.05, CFI > 0.95, TLI > 0.95). Thus, the selection of the three similarity measures for the composite similarity measure was further validated (Hooper, Coughlan, & Mullen, 2008; Taasobshirazi & Wang, 2016).

compensation through acquisitions (Haleblian et al., 2009; Wowak, Mannor, & Wowak, 2015). CEO total compensation (in millions) was measured as the sum of salary, bonus, other annual pay, and the total value of restricted stock. Given the skewness of this measure, we transformed it using natural logarithm.

We considered *target financial distress*, measured by the Altman Z-score (Miller & Reuer, 1996), which reflects the asset quality of a target and may consequently affect shareholder reaction. We included *target debt ratio* as an additional control as it affects a target's financial capability and reflects its potential slack (Gong et al., 2019; Iyer & Miller, 2008; Morrow, Sirmon, Hitt, & Holcomb, 2007). In addition, acquirer announcement returns may be better when the acquirer has prior alliances with the target preceding the takeover deal (Zaheer et al., 2010). Therefore, we also included the number of *prior alliances between the merging firms*.

At the deal level, we included a *hostile takeover* dummy variable, which was coded as 1 if the deal attitude was hostile and 0 otherwise, because an acquirer is likely to appropriate target stakeholders if a deal is hostile (Shleifer & Summers, 1988). The *number of bidders* in an acquisition was also controlled (Deng et al., 2013; Shen et al., 2014). To control for potential estimation bias caused by serial acquirers, we constructed a dummy variable called the *serial acquisition indicator*, which was coded as 1 if an acquirer had more than one takeover deal in our sample and 0 otherwise.

At the macro level, we controlled for *bull market*, indicating whether the stock market was in the bull stage, following the procedure outlined by Gabisch and Lorenz (1987). The rationale is that investors may react differently to the bull market versus other market stages (Lubatkin et al., 1997). We identified the market trend by examining the turning points (peaks and troughs) in a time series of historical stock market. A bull market trend was characterized by a general upward movement lasting at least six months, as a stable cycle was represented by at least a six-month period that showed no discernible movement.³ Finally, we

applied industry and year fixed effects to mitigate the concern for unobserved time-invariant heterogeneity.

Estimation Procedures

We used Heckman two-stage models to estimate our coefficients with robust standard errors adjusting for acquirer-level clustering. Our study may be subject to self-selection bias (Shaver, 1998), as our explanatory variable, target CSR, was not a random treatment variable: acquirers may select which targets to acquire based on their CSR levels. To address this concern, we employed a Heckman two-stage model. In the first-stage *probit* model, we coded the dependent variable as 1 if the level of target CSR was higher than that of the acquirer, and 0 otherwise (it is reasonable to assume that an acquirer uses its own CSR level as a reference point in evaluating the target).

We included three instrumental variables in the first-stage model. The first was the *religiosity* of the state where the acquirer was located, which proxies for the religious orientation of the acquirer. Religious denominations generally promote the values of integrity, kindness, trust, loyalty, and fairness, thus disciplining managers to be more stakeholder oriented (Angelidis & Ibrahim, 2004; Deng et al., 2013). Therefore, *religiosity* is likely to be positively associated with acquirers' CSR tendency. Although it is unlikely that *religiosity* will affect acquirer announcement return, it likely has an impact on their tendency to acquire a target with higher CSR. This variable was measured as the rates of adherents per 1,000 population in the state where an acquirer firm was located. The data were from the Association of Religion Data Archives (<http://www.thearda.com>). The second instrumental variable was acquirers' *CSR discrepancy*, which captures the extent to which an acquirer had lower than expected CSR. A firm with high *CSR discrepancy* has a greater incentive to increase its CSR level than one with low *CSR discrepancy*. Accordingly, an acquirer with high *CSR discrepancy* may be more likely to select a target with higher CSR, which helps reduce the discrepancy. Meanwhile, no direct or systematic mechanism links *CSR discrepancy* to *acquirer announcement return*. This variable was constructed using the following steps. We initially regressed firm size, R&D intensity, return on assets, firm slack, dividend paid, and institutional ownership on firm CSR. This regression gave us the residual value (i.e., the actual CSR minus the expected CSR). Thereafter, we changed the sign of the residual value to obtain a measure that indicated

³ Alternatively, we used a more comprehensive measure from the National Bureau of Economic Research (NBER), called "business cycle." This data set maintains a chronology in the U.S. business cycle. The chronology comprises the alternating dates of peaks and troughs in economic activity; a "recession" is a period between a peak and a trough, and an "expansion" is a period between a trough and a peak (NBER, 2020). The results obtained using the NBER business cycle data were consistent with our main findings.

the directional difference between the expected CSR and the actual CSR. The third instrumental variable was *corporate tax rate in acquirer state*. Due to potential tax savings associated with CSR, acquirer state tax rate may affect the propensity for a firm to acquire a high-CSR target. However, the state tax rate will unlikely affect acquirer announcement return. Data for corporate tax rate were compiled based on the Tax Foundation and the University of Michigan's World Tax Database.⁴

Further examining the strength of our instrumental variables empirically, we applied an *F*-test by regressing the first-stage dependent variable on the instruments only (Koh et al., 2014; Kotha, Zheng, & George, 2011). The *F* statistic was 26.07, significantly above the critical value of 12.83 (Larcker & Rusticus, 2010; Stock, Wright, & Yogo, 2002), indicating that the three variables—*corporate tax rate in acquirer state*, *religiosity*, and *CSR discrepancy*—jointly serve as strong instruments. Following prior studies (e.g., Lee, Mun, & Park, 2015; Wang, Choi, & Li, 2008), we included control variables in the second-stage into the first-stage selection model. Year and industry dummies (two-digit SIC codes) were also included.

RESULTS

Table 1 presents the descriptive statistics and correlations for the variables in our study. In line with previous studies, the mean value of CAR as a measure of the *acquirer announcement return* is negative (Campbell, Sirmon, & Schijven, 2016; Cuypers et al., 2017; Graffin et al., 2016). As expected, the correlation between *target CSR* and *acquirer announcement return* is positive, providing preliminary evidence for the argument that target CSR enhances acquirer announcement return. We conducted a variance inflation factor (VIF) test to check for the multicollinearity problem. The maximum VIF is 4.16, and the mean VIF is 1.73, which are both below 10. Thus, our estimations were not subject to multicollinearity concerns (Cohen, Cohen, West, & Aiken, 2003).

In the first-stage Heckman model, we find that *acquirer size* is negatively associated with the propensity to acquire a target with high CSR. For the three instrumental variables, *CSR discrepancy* is positively significant, indicating that firms with high CSR discrepancy are more likely to acquire a high CSR target, which is consistent with our prediction. However, the *corporate tax rate in acquirer state* and *religiosity of acquirer* are insignificant, although with expected signs. Possibly, the state-level measures of these variables cannot capture the social orientation of a firm effectively.

Table 2 reports the results of second-stage Heckman regressions used to test our main hypotheses. Model 1 is the baseline model including the control variables only. Among the control variables, *acquirer size*, *acquirer recent announcement return*, *acquirer acquisition experience*, and *number of bidders* show positive and significant effects on acquirer announcement return, whereas the effect of *target size* is significantly negative. Model 2 adds the two moderators. Models 3 to 5 add the main predictor and its interactions terms, respectively. Model 6 is the fully specified model that includes all predictor variables and interactions terms.

Hypothesis 1 posited that *target CSR* would be positively associated with the *acquirer announcement return*. Models 3 to 6 reveal that this relationship is positive and significant ($\beta = 0.19$, $p < .10$ in Model 3; $\beta = 0.73$, $p < .05$ in Model 6). Thus, Hypothesis 1 is supported. In terms of economic magnitude, a one standard deviation increase in target CSR will result in 0.68% higher return than the mean announcement abnormal return.

Hypotheses 2a and 2b provided the opposite predictions of the interaction between *stakeholder value congruence* and *target CSR*. Specifically, Hypothesis 2a suggested that *stakeholder value congruence* would strengthen the positive relationship between *target CSR* and *acquirer announcement return*. By contrast, Hypothesis 2b posited that *stakeholder value congruence* would weaken the positive relationship. The coefficient of the interaction between *target CSR* and *stakeholder value congruence* is positive and significant ($\beta = 0.13$, $p < .05$ in Model 4; $\beta = 0.16$, $p < .01$ in Model 6). The result supports Hypothesis 2a, suggesting that the stakeholder preservation perspective dominates.

Hypotheses 3a and 3b were also competing hypotheses, regarding the interaction between *business similarity* and *target CSR*. Hypothesis 3a stated that *business similarity* would weaken the positive relationship between *target CSR* and *acquirer announcement return*.

⁴ The World Tax Database (<https://www.bus.umich.edu/otpr/otpr/default.asp>) provided information on state corporate tax rates from 1913 to 2002, and the Tax Foundation (<https://taxfoundation.org/publications/state-corporate-income-tax-rates-and-brackets/>) provided data on state corporate tax rates from 2000 to 2014. We used the Tax Foundation as the main source of corporate tax rate data and utilized the World Tax Database as a complementary source.

TABLE 1
Descriptive Statistics

Variable	Mean	SD	1	2	3	4	5	6	7	8	9
1 Acquirer CSR	1.31	7.16	1								
2 Acquirer size	9.42	1.75	.12	1							
3 Acquirer slack	0.14	0.15	.07	-.19	1						
4 Acquirer recent announcement return	-0.01	0.03	.12	-.08	.04	1					
5 Acquirer acquisition experience	0.84	1.33	.16	.43	-.14	-.09	1				
6 Acquirer CEO total compensation	2.04	1.04	.00	.60	-.10	-.06	.31	1			
7 Target size	6.89	1.37	-.13	.35	-.18	-.10	.02	.19	1		
8 Target slack	0.20	0.21	.19	-.17	.32	.03	.06	-.14	-.32	1	
9 Target financial distress	1.99	8.33	.07	.15	-.03	.03	.03	.14	.24	-.26	1
10 Target debt ratio	0.19	0.30	-.21	.05	-.05	-.05	-.03	.02	.09	.03	-.15
11 Prior alliances between the merging firms	0.11	0.49	.17	.12	-.02	.04	.23	.15	.15	.08	.03
12 Hostile takeover	0.03	0.17	-.03	-.07	-.04	-.05	-.04	-.14	.07	-.06	-.02
13 Number of bidders	1.11	0.38	-.04	-.11	.04	-.07	-.06	-.12	-.001	.03	-.13
14 Bull market	0.29	0.45	.13	.08	.14	.09	.16	.06	-.04	.15	.05
15 Serial acquirer indicator	0.48	0.50	.21	.45	-.12	-.11	.45	.21	.06	.02	.04
16 Stakeholder value congruence	-3.62	1.79	-.26	-.52	.05	-.05	-.16	-.28	-.19	.05	-.05
17 Business similarity	-0.45	0.81	.03	-.16	.17	-.08	.04	-.11	-.15	.07	-.10
18 Target CSR	-1.02	3.61	.25	-.07	.01	.12	.07	-.09	-.05	.06	.08
19 Acquirer announcement return	-1.17	5.84	.11	.04	-.11	.22	.08	-.01	-.23	.01	-.13

Variable	10	11	12	13	14	15	16	17	18	19
11 Prior alliances between the merging firms	-.03	1								
12 Hostile takeover	.03	-.04	1							
13 Number of bidders	-.02	-.06	.15	1						
14 Bull market	-.04	.09	-.001	.06	1					
15 Serial acquirer indicator	-.05	.07	-.02	-.06	.02	1				
16 Stakeholder value congruence	-.08	-.05	.09	-.02	-.02	-.16	1			
17 Business similarity	-.08	.04	-.02	.08	.05	.04	.20	1		
18 Target CSR	-.12	.13	-.09	.06	.04	.04	.07	.03	1	
19 Acquirer announcement return	.11	-.05	.05	.10	-.01	-.07	-.07	-.10	.10	1

Notes: $n = 237$. Correlations with absolute value greater than or equal to .13 are significant at the .05 level.

By contrast, Hypothesis 3b maintained that *business similarity* would strengthen the positive relationship. The coefficient of the interaction between *business similarity* and *target CSR* is negative and significant ($\beta = -0.27, p < .05$ in Model 5; $\beta = -0.33, p < .001$ in Model 6). This result supports Hypothesis 3a, suggesting that the stakeholder preservation perspective also prevails.

Figures 1 and 2 illustrate the results, and further confirm our findings. The relationship between *target CSR* and *acquirer announcement return* becomes stronger when the level of *stakeholder value congruence* is high but becomes weaker when the level of *business similarity* is high. Specifically, the cross lines in Figure 1 suggest that, when *target CSR* is low, *stakeholder value congruence* between the merging firms can damage firm performance (low congruence is better), and *stakeholder value congruence* only helps when *target CSR* is high. Thus, Figure 1 shows that the *acquirer announcement return* is the highest with the

existence of high *target CSR* and *stakeholder value congruence*, which is consistent with the expectations from the stakeholder preservation perspective. The cross lines in Figure 2 suggest that, when *target CSR* is low, higher *business similarity* enhances *acquirer announcement return*, but *acquirer announcement return* is the highest with high *target CSR* and low *business similarity*. This finding is again more in line with the stakeholder preservation perspective and less with the stakeholder appropriation perspective.

Supplementary Tests

To ensure the robustness of our key results, we conducted a number of additional analyses.⁵

⁵ If not specifically mentioned, we have not shown the detailed results here because of space limitations. However, the detailed results of robustness checks are available from the authors upon request.

TABLE 2
Results of Main Analyses: Predicting Acquirer Announcement Return

Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Acquirer CSR	-0.01 (0.07)	-0.01 (0.07)	-0.06 (0.07)	-0.08 (0.06)	-0.07 (0.07)	-0.09 (0.06)
Acquirer size	0.82* (0.33)	0.83* (0.35)	0.82* (0.35)	0.78* (0.35)	0.79* (0.35)	0.74* (0.35)
Acquirer slack	-3.70 (3.05)	-3.87 (3.09)	-3.69 (3.15)	-3.46 (3.17)	-3.90 (3.07)	-3.65 (3.06)
Acquirer recent announcement return	37.46** (14.23)	37.92** (14.39)	36.53* (15.14)	38.12** (14.52)	35.96* (14.97)	37.83** (14.30)
Acquirer acquisition experience	0.65** (0.24)	0.64** (0.24)	0.59* (0.26)	0.70** (0.26)	0.57* (0.25)	0.71** (0.26)
Acquirer CEO total compensation	-0.61 (0.41)	-0.62 (0.42)	-0.61 (0.42)	-0.63 (0.43)	-0.63 (0.42)	-0.66 (0.43)
Target size	-1.02** (0.30)	-1.01** (0.31)	-1.00** (0.31)	-0.92** (0.32)	-1.02** (0.31)	-0.92** (0.32)
Target slack	-1.12 (2.18)	-0.99 (2.22)	-1.07 (2.22)	-1.24 (2.23)	-1.12 (2.25)	-1.35 (2.28)
Target financial distress	-0.06 (0.09)	-0.06 (0.09)	-0.06 (0.09)	-0.05 (0.09)	-0.06 (0.09)	-0.06 (0.09)
Target debt ratio	2.36 (1.74)	2.35 (1.75)	2.29 (1.81)	2.17 (1.80)	2.50 (1.90)	2.39 (1.89)
Prior alliances between the merging firms	-0.36 (1.09)	-0.37 (1.11)	-0.48 (1.11)	-0.68 (1.06)	-0.32 (1.08)	-0.53 (1.00)
Hostile takeover	1.94 (1.47)	2.08 (1.46)	2.60 [†] (1.44)	3.28* (1.50)	2.58 [†] (1.47)	3.42* (1.56)
Number of bidders	2.61** (0.91)	2.58** (0.94)	2.40* (0.98)	2.36* (1.01)	2.53** (0.95)	2.50** (0.95)
Bull market	-0.06 (0.90)	-0.03 (0.92)	-0.02 (0.91)	-0.01 (0.91)	0.01 (0.91)	0.04 (0.90)
Serial acquirer indicator	-2.01* (0.97)	-2.05* (0.98)	-2.00* (0.99)	-2.13* (1.00)	-1.80 [†] (1.00)	-1.93 [†] (1.01)
Stakeholder value congruence		-0.05 (0.25)	-0.10 (0.26)	0.01 (0.25)	-0.13 (0.26)	0.00 (0.25)
Business similarity		0.24 (0.50)	0.28 (0.48)	0.28 (0.49)	0.04 (0.49)	-0.004 (0.479)
Target CSR			0.19 [†] (0.11)	0.79* (0.33)	0.02 (0.13)	0.73* (0.31)
Target CSR × Stakeholder value congruence				0.13* (0.06)		0.16** (0.06)
Target CSR × Business similarity					-0.27* (0.12)	-0.33*** (0.10)
Inverse Mills ratio	0.64 (0.48)	0.64 (0.48)	0.81 [†] (0.43)	1.04* (0.41)	0.82 [†] (0.45)	1.10** (0.42)
Constant	-8.00* (3.99)	-7.94 [†] (4.10)	-8.46* (3.98)	-8.99* (3.83)	-8.13* (3.89)	-8.71* (3.62)
N	237	237	237	237	237	237
R ²	0.39	0.39	0.40	0.41	0.41	0.43

Notes: Standard errors in parentheses. Year and industry dummies are included. All tests are two-tailed.

[†] $p < .10$

* $p < .05$

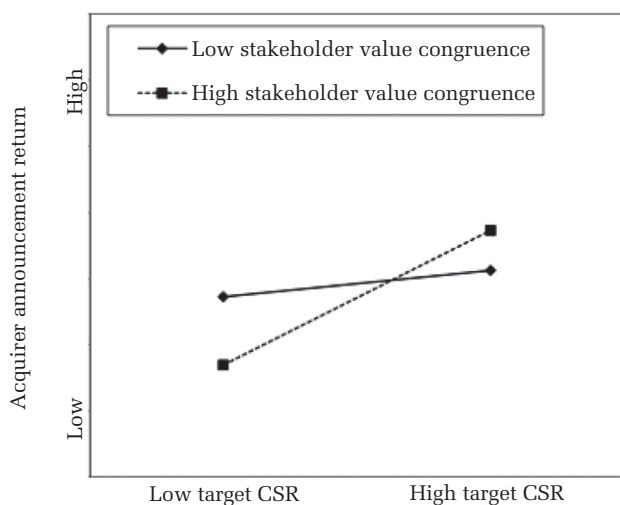
** $p < .01$

*** $p < .001$

Alternative measures of moderators. While we applied a composite measure of *business similarity* in our main model, as robustness checks, we ran separate analyses on the three measures of business

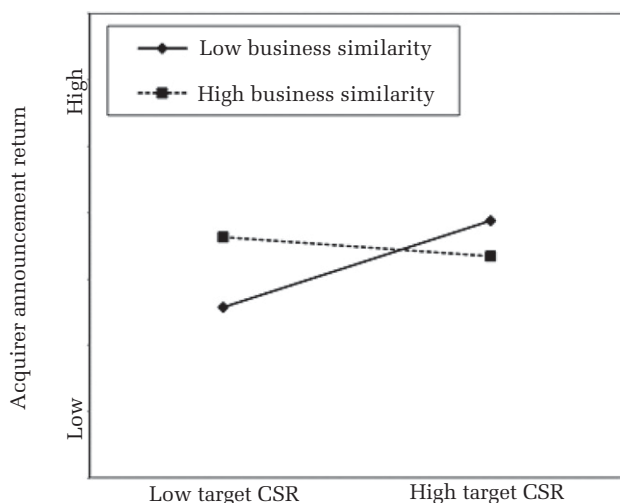
similarity separately. As shown in Table 3, we found largely consistent results with the main findings, lending additional support for the robustness of our results.

FIGURE 1
Interaction between Target CSR and Stakeholder Value Congruence



Our measure of *stakeholder value congruence* captured differences in the levels and portfolio structure of stakeholder management (CSR) between the merging firms. To understand the independent influences of differences in portfolio structure, we separated the structure difference from the level difference following the methodology of Mishina, Dykes, Block, and Pollock (2010: 709). Specifically, we extracted the common variance between the original measure of stakeholder value congruence and the level difference

FIGURE 2
Interaction between Target CSR and Business Similarity



by regressing the original measure of stakeholder value congruence on the level difference (i.e., the absolute difference between the aggregate acquirer CSR and the aggregate target CSR). We then used the residuals from the regression as a proxy of stakeholder value congruence in structure (Cohen et al., 2003).

Issues associated with the KLD data. In the KLD database, the items included for each stakeholder dimension were unbalanced across years. Some items appeared in a specific year but were absent in another year. For instance, the “non-layoff policy” item in the employee dimension only had nonmissing data from 1991 to 1993, and the “environmental management system” in the environment dimension was not recorded until 2006. In the product dimension, “R&D/innovation” and “social opportunities—access to health care” items were removed from the KLD data set for several years, implying that the KLD scores may not be perfectly comparable across years. Therefore, we examined the distribution of each item over time and required it to be considered in the calculation of target CSR as robustness checks; an item should have non-missing values in at least half of the sample period. After deleting unqualified items, we followed the standard procedures discussed above to construct an alternative measure of target CSR. The results were consistent with findings in our main analyses.

Model overfitting. Given our relatively small sample size and the large set of variables included in the regressions, concern for potential model overfitting may emerge. To address this issue, we used two alternative sets of control variables to rerun all regression models based on the sample used in the main analyses. We started with the model specification without any control variable. The main effect was positive and significant. The moderating effect of stakeholder value congruence was qualitatively the same as our reported findings. The moderating impact of business similarity was also negatively significant. Subsequently, we used the model specification with essential control variables (i.e., acquire CSR, acquirer size, and target size). The results were again largely consistent with our main findings.

Variation in target ownership after acquisitions. Previous studies have suggested that the level and success of acquisition integration may be affected by the extent of target ownership held by an acquirer (Chatterjee, 1992; Pablo, 1994). Therefore, we conducted robustness analyses by rerunning models using different ownership percentages as cutoff points to determine the sample used for our regression analyses. When we limited the acquisition deals to those with acquirers having full (100%) target ownership,

TABLE 3
Robustness Tests Predicting Acquirer Announcement Return (Alternative Measures of Business Similarity)

Variable	Panel A					Panel B					Panel C				
	Business similarity in product market					Business similarity in human capital					Business similarity in technology resource				
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10	Model 11	Model 12	Model 13	Model 14	Model 15
Controls?	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Stakeholder value congruence	-0.09 (0.29)	-0.16 (0.30)	-0.04 (0.28)	-0.20 (0.29)	-0.07 (0.27)	-0.02 (0.25)	-0.07 (0.26)	0.04 (0.25)	-0.09 (0.26)	0.02 (0.25)	-0.03 (0.25)	-0.07 (0.25)	0.03 (0.25)	-0.08 (0.25)	0.04 (0.25)
Business similarity	0.18 (0.34)	0.25 (0.32)	0.22 (0.31)	0.24 (0.27)	0.20 (0.26)	0.10 (0.28)	0.09 (0.28)	0.10 (0.28)	-0.08 (0.31)	-0.07 (0.30)	-0.11 (0.42)	-0.09 (0.40)	-0.06 (0.40)	-0.15 (0.38)	-0.14 (0.35)
Target CSR		0.20 [†] (0.11)	0.79* (0.33)	0.07 (0.13)	0.75* (0.31)	0.19 [†] (0.11)	0.79* (0.33)	0.79* (0.33)	0.12 (0.11)	0.73* (0.34)	0.19 [†] (0.11)	0.19 [†] (0.11)	0.79* (0.33)	0.18 [†] (0.11)	0.83* (0.33)
Target CSR × Stakeholder value congruence			0.12* (0.06)		0.15** (0.06)		0.13* (0.06)			0.13* (0.06)			0.13* (0.06)		0.14* (0.06)
Target CSR × Business similarity				-0.10 [†] (0.06)	-0.13** (0.04)				-0.12* (0.06)	-0.12* (0.05)				-0.10 (0.10)	-0.14 [†] (0.08)
Constant	-7.82 [†] (4.01)	-8.33* (3.88)	-8.850* (3.76)	-7.37 [†] (3.86)	-7.76* (3.65)	-7.90 [†] (4.12)	-8.38* (3.99)	-8.92* (3.85)	-9.11* (3.92)	-9.65* (3.79)	-7.75 [†] (4.10)	-8.26* (3.99)	-8.81* (3.86)	-8.23* (4.00)	-8.81* (3.83)
N	237	237	237	237	237	237	237	237	237	237	237	237	237	237	237
R ²	0.39	0.40	0.41	0.41	0.42	0.39	0.40	0.41	0.40	0.41	0.39	0.40	0.41	0.40	0.41

Notes: Standard errors in parentheses. Year and industry dummies are included. Control variables were included in the regression analyses but omitted in the table to save space. All tests are two-tailed.

[†] $p < .10$
* $p < .05$
** $p < .01$

the results were fully consistent with our main findings. The results held with a 50% ownership cutoff.

Post-hoc analyses of primary and secondary stakeholder-related CSR. Some scholars (Freeman, Harrison, & Wicks, 2008; Godfrey, Merrill, & Hansen, 2009) have classified stakeholders into primary and secondary groups based on the extent of their relation to business operations. An acquirer may have different preferences for primary versus secondary stakeholders in terms of stakeholder preservation and appropriation. We conducted additional post-hoc analyses by dividing CSR into primary stakeholder-related and secondary stakeholder-related CSR. We constructed two sets of measures to capture the two different types of CSR. In the first set, the primary stakeholder-related CSR was the sum of KLD scores in the employee, product, and environment dimensions, whereas the secondary stakeholder-related CSR was the sum of KLD scores in the community and diversity dimensions. Given that some controversy has emerged in terms of whether the environmental dimension should be included in the primary or the secondary stakeholder category (Buisse & Verbeke, 2003; Eesley & Lenox, 2006), in the second set, following Mattingly and Berman (2006), we treated environment-related stakeholders as secondary stakeholders, to come up with alternative measures. Specifically, the primary stakeholder-related CSR was the sum of KLD scores in the employee and product dimensions, whereas the secondary stakeholder-related CSR was the sum of KLD scores in the community, diversity, and environment dimensions. Overall, the results showed that the impact of CSR in terms of primary stakeholders is stronger than that of secondary stakeholders on acquirer announcement return. This distinction confirmed the viewpoint of Godfrey et al. (2009) that primary stakeholders are closer to the core of business operations and that secondary stakeholders exert influences on those operations through primary stakeholders. Thus, when an acquirer undertakes stakeholder preservation or appropriation, it tends to pay more attention to the primary ones because of their greater influences. While more nuanced analyses on the differentiation of stakeholder types may be beyond the scope of this study, the question of how primary and secondary stakeholders in a target may make any difference in an acquisition is an interesting venue for future research.

Unobserved cultural factors. The construct of stakeholder value congruence may, to some extent, overlap with similarity in organizational culture between the merging firms. To ensure that the results associated with stakeholder value congruence are

robust, we conducted additional analyses by including several widely used proxies of cultural similarity as additional controls, including similarities in religion, ethnicity, and political ideology.

The first variable was constructed on the basis of religion, which has been argued to play an important role in organizational life and to be an important component of organizational attributes (Chan-Serafin, Brief, & George, 2013). The religion data were collected from the Association of Religion Data Archives. This data set records the populations of various religions, including American Baptist, Catholic, Episcopal, and United Church of Christ. Religion similarity was measured as the MD of religion composition in the states where the merging firms were located. The state information was obtained from the Compustat.

Second, we controlled for ethnic similarity, measured as the MD of ethnic origin composition in the states where the merging firms were located. The ethnicity of a region reflects the cultural background of the people in the region,⁶ which might be directly related to the organizational culture of firms located in the region. The ethnic origin data were collected from the U.S. census, which records the population of various ethnic origins, including British, German, Dutch, Irish, and West Indian. Although the ethnic origin data in the U.S. census only covered the data in 2000 and 2010, we used the data in 2000 because the data in 2010 did not cover questions pertaining to a respondent-level ethnic origin. They were integrated into single measure based on the factor analysis to represent the aggregate influence of these two measures.

Moreover, we controlled for the political ideology of the states where the merging firms are located, as political ideology also influences cultural domains (Jost, Federico, & Napier, 2009). Following the logic of previous studies (Deng et al., 2013; Ge & Liu, 2015),⁷ we coded political ideology similarity as 1 if the merging firms were located in the state(s) with same political ideology (democratic state or republican state), and 0 otherwise. Although the three

⁶ The assumption is that, when individuals emigrate from their native country to a new country, their cultural beliefs and values travel with them but their external economic and institutional environments are left behind (Fernández, 2011; Liu, 2016).

⁷ The list of democratic (blue) states can still be found at "Map of Red States and Blue States in the U.S." (2008), but the information presented on the webpage <http://azpundit.com/list-of-the-mostdemocratic-republican-states/> currently cannot be accessed.

dimensions of culture similarity (i.e., religion similarity, ethnicity similarity, political ideology similarity) do not necessarily capture all aspects of corporate culture, they account for general organizational culture-related attitudes or tendencies. The results of our robustness tests with these variables included were largely consistent with our primary findings.

Furthermore, we conducted several additional robustness tests. First, to ensure that our results were not deflected by outliers, we re-estimated the models by winsorizing all continuous variables at the 1% and 99% levels (Chen, Kale, & Hoskisson, 2018; He & Tian, 2013). The results were fully consistent with those using nonwinsorized measures. Second, we addressed the concern about artificial correlation (Hitt, Hoskisson, & Kim, 1997; Wiseman, 2009), as some control variables with common denominators may give rise to the issue. This issue applied to the size and slack of the acquirer and target. We re-estimated our models using the raw value of cash and cash equivalent to capture merging firms' slack. The results were fully consistent. As raw values may be highly skewed, we reran the models using the natural logarithm transformations of the raw values and found that the key results continued to hold.

DISCUSSION AND CONCLUSION

This study was motivated by the mixed arguments and evidence regarding how target stakeholders may affect acquirer value gain in an acquisition. There are two contrasting perspectives (i.e., stakeholder preservation vs. appropriation) about the role of target stakeholders in affecting acquirer gains (Bettinazzi & Zollo, 2017; Deng et al., 2013; Shleifer & Summers, 1988). Specifically, the stakeholder preservation and appropriation perspectives provide distinct implications about how target stakeholders should be treated in an acquisition in terms of whether their implicit contracts should be preserved or appropriated. In this study, we have carefully developed theoretical arguments based on each of the two perspectives and designed our research in a way that enabled us to examine and compare the two perspectives directly. Our empirical results provide stronger support for the stakeholder preservation perspective, highlighting that, in general, establishing trusting and cooperative relationships with stakeholders offers greater benefit than exploiting stakeholder vulnerabilities.

In addition to its direct contributions to the conversations in the acquisition literature—especially those that focus on the period during the occurrence

of an acquisition and the process of post-acquisition integration—our arguments and findings provide important implications for the role of market in corporate control and anti-takeover devices more generally. A prevalent view in the field, especially in the corporate finance literature, regards the presence of takeover threat as playing the role of disciplining incompetent managers and diminishing agency problems (Agrawal & Knoeber, 1996; Jensen & Ruback, 1983; Qiu & Yu, 2009). This view lends support to the notion that the market for corporate control is an effective monitoring device that leads to enhanced resource allocation and managerial efficiencies (Manne, 1965). However, our findings suggest that such a view may be limited and even inappropriate, as it overlooks the various negative effects of takeover threat on target firms and their stakeholders (e.g., Cen, Dasgupta, & Sen, 2015; Chemla, 2005). By contrast, our study suggests that providing autonomy, security, and protection for target stakeholders is more conducive to value creation. Recent works in the related areas provide evidence in line with this argument. For example, Wang, Zhao, and He (2016) argued and found that a larger level of takeover protection, by reducing the power of market for corporate control, leads to managers' greater willingness to adopt a strategy toward firm-specific knowledge accumulation, which is an important source of a firm's superior performance and competitive advantage. Our study highlights the importance of providing a sense of security for stakeholders and protecting stakeholder benefits in general through role security and continuity of firm stakeholders.

Second, our study provides new insights into the literature on the relationship between CSR and market response, in terms of abnormal returns. Given that firm social practices have become increasingly prominent, some studies have directly examined market reactions to firms' CSR activities. For example, previous studies have shown that shareholders are likely to react positively to firms' CSR announcements (Arya & Zhang, 2009; Griffin & Sun, 2013), the issuance of CSR reports (Wang & Li, 2016), and firms' addition to the Domini (MSCI KLD) 400 Social Index (Ramchander, Schwebach, & Staking, 2012). Moreover, an emerging stream of inquiry has looked into the role of CSR in the acquisition context, but it has been confined to acquirer CSR. For example, Deng et al. (2013) demonstrated how acquirer CSR affects acquirer announcement returns, and found a positive relationship between the two. Bettinazzi and Zollo (2017) revealed that acquirer stakeholders' orientation toward employees, customers, suppliers,

and local communities matters for acquisition integration and acquisition success. Our study extends this stream of inquiry by providing novel theoretical approaches linking target CSR with acquirer announcement returns. Thus, it provides new insights into the conversation between the CSR and the acquisition literature (Parvinen & Tikkanen, 2007).

In addition, this study contributes to the acquisition literature that examines the role of similarities between acquirers and targets by highlighting the dark sides of similarity in the acquisition context. Previous studies in this area have generally documented positive effects of similarities between merging firms (Finkelstein & Halebian, 2002). For example, Stahl and Sitkin (2010) proposed a model of trust dynamics and suggested that similarities between merging firms are crucial for acquisition success, through their influences on target stakeholders' attitudinal and behavioral response to an acquirer. Studies in other contexts such as firm diversification have also suggested that similarities across multiple businesses enable a firm to leverage resources and capabilities better and reduce coordination costs (Palich, Cardinal, & Miller, 2000; Robins & Wiersema, 1995). By contrast, our study suggests that the influences of similarities between merging firms on acquisition outcomes are contingent on how the types of similarity interact with the treatment of target stakeholders. Under certain conditions, each type of similarity can be potentially detrimental. In particular, our results unveil that stakeholder value congruence increases the difficulties of implementing stakeholder appropriation, whereas business similarity may hinder stakeholder preservation. In this regard, our study suggests that the impact of similarities on value gain for an acquirer depends on what the acquirer intends to do with target stakeholders. Future studies should be cautious not to oversimplify the role of similarity in acquisitions.

It is necessary to note that our discussion of "stakeholder preservation" versus "stakeholder appropriation" in this paper should be differentiated from the discussion of "value creation and capture" in prior research. First, value creation and capture have been largely discussed in the within-firm context (Coff, 1999; Garcia-Castro & Aguilera, 2015; Mizik & Jacobson, 2003), while our discussion is across firms (i.e., between the acquirer and the target). The "value creation and capture" framing indicates that value creation is a process in which a firm and its stakeholders bring in resources and capabilities to create value, whereas value capture is a process of distributing value in a firm based on the

negotiation between the firm and its stakeholders. However, this framing does not apply to our research setting in which the acquirer is not involved in the value creation or generation process of the target firm, but it can gain benefits through stakeholder appropriation. Second, value creation and capture are sequential processes in previous studies (Lavie, 2007; Lepak, Smith, & Taylor, 2007; Priem, 2007), whereas stakeholder preservation and appropriation are essentially parallel in our study. Lepak et al. (2007: 180) interpreted value creation as "the process by which value is created," and that value capture includes "the mechanisms that allow the creator of value to capture the value." In our study, however, stakeholder preservation is not a prerequisite for stakeholder appropriation. Instead, the acquirer must choose between stakeholder preservation and stakeholder appropriation when redeploying the target stakeholders and their implicit contracts. Therefore, the introduction of "stakeholder preservation versus appropriation" is indispensable in our study.

The results of this study also have important practical implications for managers. First, when evaluating a potential acquisition, the managers of an acquirer should consider the role of target stakeholders. Our study finds support for the stakeholder preservation perspective. Accordingly, the managers should pay more attention to enlisting target stakeholder cooperation and support for a smooth acquisition process by preserving the implicit contracts with the target stakeholders. Nevertheless, the managers are not recommended to protect target stakeholders blindly without appropriate actions to deal with ineffective or unhelpful target stakeholders. Instead, managers should be aware of the complexity surrounding the ways in which target stakeholders contribute to new value creation. In practice, an acquirer should consider the benefits and costs of stakeholder preservation and appropriation and exert efforts to achieve better financial gains by integrating both sides.

Second, the managers of an acquirer should not assume that similarities between the merging firms are always beneficial for the acquirer. Practically, managers are commonly unaware of the potential adverse effects of similarities on the new value that an acquirer can obtain. The role of similarities in an acquisition is complex, and cannot be simplified as "black or white" in terms of their influence on acquirer gains (Bauer & Matzler, 2014). As demonstrated in our study, although stakeholder value congruence facilitates new value generation from the acquisition of a target with good CSR, business similarity can have a negative effect on new value creation

from CSR. Thus, managers should be aware that, although business similarity may independently be a source of synergy and acquirer gains from acquisitions, it might hurt acquiring firms when the target has good CSR.

Our study also has several limitations, which may provide avenues for future research. First, the underlying mechanism of the stakeholder preservation perspective involves a positive role of target stakeholders in terms of their cooperation and support. However, given data limitations, we were unable to measure directly how target stakeholders behave and react in an acquisition. But, this presents an opportunity for future research to explore this issue further, perhaps by utilizing other data and methods such as qualitative or survey approaches, to obtain an in-depth understanding of stakeholder behaviors during acquisition integration processes. Particularly, future studies might consider developing direct measures of stakeholder appropriation and preservation following the empirical approach proposed by Lieberman, Garcia-Castro, and Balasubramanian (2017), which allows an estimation of a firm's value creation and distribution among stakeholders, by comparing various stakeholders' inputs with their outputs. Similarly, our current measure of business similarity, while incorporating several aspects of firm resources and strategies, may still have limitations, as it may not be able to capture similarities between the acquirer and target's businesses fully in terms of strategies and resources. Additional research may consider exploring other potential methods, such as applying survey data, to confirm and substantiate our empirical work and theoretical propositions further.

Second, despite supporting findings for the dominance of the stakeholder preservation perspective, we do not intend to claim that appropriation of target stakeholders is entirely irrelevant in explaining acquisition outcomes. Appropriation may still be relevant under certain specific conditions, which deserves systematic examination by future studies. For instance, acquisitions between firms in labor-intensive industries may favor the appropriation of target stakeholders more than acquisitions between firms in knowledge-intensive industries (e.g., the high-tech industry). In labor-intensive industries, employees of firms have little specialized knowledge, and, consequently, acquisitions in such industries likely benefit more from the reduction of redundancies and improvement of efficiencies. In addition, as processes of acquisition integration may comprise progressive changes, target stakeholder preservation and appropriation may occur in different

stages of the integration process. For example, it might be possible that acquirers engage in stakeholder preservation in the earlier years after acquisition announcements for easing target resistance and motivating resource sharing but undertake the appropriation of target stakeholders in a later period for cost cutting and redundancy reduction. Future research may be able to identify some other contexts and boundary conditions that help provide a more dynamic and balanced understanding of the interplay between the two perspectives and discover when the stakeholder appropriation perspective may still play a role.

Third, our analysis focused on the overall CSR of target firms, but it does not discuss the heterogeneities among different stakeholder groups. As the main purpose of our paper was to analyze the two contrasting perspectives, a commonly used comprehensive measure of CSR was applied, to avoid further complicating the theoretical arguments and potential misinterpretations of our main purpose. However, we do realize that examining heterogeneities among different stakeholder groups is potentially valuable. For instance, a firm's stakeholders in the areas of communities, minorities, and the natural environment are often regarded as secondary. On the one hand, they may be considered as intangible and difficult-to-measure resources that are undervalued by the stock market. Employees and customers, on the other hand, are often categorized as primary or technical stakeholders who have an explicit contribution to firms' value creation (Kacperczyk, 2009). Given such distinctions, preservation and appropriation may occur simultaneously with different stakeholder groups. For instance, acquirers may preserve primary stakeholders, while implementing the appropriation of secondary stakeholders. The distinction between internal stakeholders and external stakeholders may also deserve future attention and investigation (Hawn & Ioannou, 2016). We hope that future studies can build on our work to explore these possibilities.

Fourth, given that the KLD database only covers the social performance of large U.S. companies (i.e., the 3,000 largest U.S. companies), the sample of our study consists of acquisitions between large public firms. Future research may extend our framework to explore a broader range of firms with different sizes in different institutional contexts. Moreover, we recognize the difficulty in measuring CSR and stakeholder relationships and the existence of certain reliability concerns associated with KLD data (e.g., Chatterji, Durand, Levine, & Touboul, 2016), even though they have been acknowledged as the most frequently used data source for CSR research to

date. In addition, we acknowledge the limitation of using the net CSR score (strength score minus concern score) to construct the key variables. Future research may explore other databases with either broad coverage of corporate social activities or in-depth coverage of certain aspects of social performance that allows the further development of CSR measures.

In conclusion, we have proposed a theoretical framework to untangle how target stakeholders affect acquisition outcomes, as reflected in announcement returns for an acquirer. Our results provide support for the stakeholder preservation perspective, which prevails against the stakeholder appropriation perspective. Our framework may inspire future research to enrich the understanding of the relationship between target CSR and acquisition outcomes further.

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