Building Organizational (Dis-)Abilities

The Impact of Learning on the Performance of Mergers and Acquisitions

Building Organizational (Dis-)Abilities

The impact of learning on the performance of mergers and acquisitions

Het ontstaan van organisationele (on)vaardigheid

De invloed van leren op het succes van fusies en overnames

Thesis

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To Paola

PREFACE

Stephen King, the American novelist, describing how difficult it is to write a long work of fiction once said that it "is like crossing the Atlantic Ocean in a bathtub". I found this metaphor so funny the first time I read it. Yet, back then I had no idea that these words one day would have *felt* true, like they did while writing this dissertation. Writing a long work of science, as much as writing fiction, requires an intense mental and physical effort. And if this work is now complete, and I managed to cross my personal ocean, it is thanks to a fervent effort on my part, but also to the great help I received from some wonderful people I encountered along the way. Therefore, before delving into the rest of the manuscript, I feel obliged to acknowledge the help of those who supported me and without whom this work would probably not exist. The first of these people is certainly Prof. Taco Reus. Taco, since we first met, you have gone great lengths to teach me the craft of research. Without you I would probably still be looking for meaningful research questions. I am thankful for all the times you pushed me during these years and for the wisdom you bestowed on me. I know: we still disagree about the difference between a coherent theoretical framework and a mere 'laundry list' of variables. I hope that one day we will be able to resolve our little dispute. Second, I want to thank Prof. Arjen Slangen. Arjen, since we started to collaborate you have been a welcoming and reassuring presence in my life. I learned a lot from you. Thank you for the support in developing this work and for having taken my conception of meticulousness to a whole new level. Third, I feel particularly indebted to Dr. Mirko Benischke. Mirko, thank you for the help with the craft of this dissertation and for having invited me to work together. You are a fantastic researcher: the way you work never fails to inspire me. I hope our collaboration will last forever and ever. Fourth, an important figure in my academic path has been Dr. Hein Roelfsema. Since summer 2016, Hein has been my supervisor at the Utrecht School of Economics (U.S.E.) where I have been working as a lecturer in international management (and in a few other things). Hein, perhaps you didn't realize it, but the trust you placed in me by giving me complete freedom to organize teaching activities has strengthened my self-confidence considerably, and this, in turn, has had important positive influences on the development of this work. Thanks for this and thanks

for showing me the importance of infringing, from time to time, academic conventions. You are a great person and probably the primary cause of my strong attachment to U.S.E.

The years of the PhD I spent at the Rotterdam School of Management have been some of the most intense of my life. During these years I have got to know a whole crowd of people that deeply changed the way I look at things and made me discover more of myself. Several of these people went from being colleagues to being friends, and perhaps they are those who most affected my thinking and being. While they may not have contributed materially to the development of this dissertation (some have), they influenced me and, by extension, my work in countless indescribable ways. I feel indebted to them for their influence, but most of all for their friendship, that I hope will continue for the ages to come. I want to thank you guys one by one to tell you a tiny bit of what you mean to me. Ona, thank you for being the person you are, reflective, deep, savvy, ironic, open-minded. You taught me more than you imagine about what it means to be an intellectual, because you are a *true* intellectual. Diana – Socia – thank you for sharing office, house, holidays in the wild and all the delights and pains of doctoral education. This long journey wouldn't have been the same without you. Wendong, thank you for treating me like a friend from day one and allowing me to be part of the great *Chinese family* (大家庭). I am glad our cultures are so similar when it comes to friendship. I learned so much from you and your Chinese wisdom. Thomas, thank you for being the mix of tenderness and hyper-rationality that you are. I hope during these years to have absorbed a bit of your Germanism. It is thanks to you if I understand cycling not only as a sport but also as an evasion and a way of life. It may not be *my* way of life, but now I understand it. Rick, thank you for stopping by my office almost every day for a chat as long as I have been in Rotterdam. Your genuine interest in people and their vicissitudes tells a lot of the kind-hearted person you are. Ron, brother, thank you for crossing my path. Getting to know you has been a revelation: our striking similarities in terms of almost everything have taught me much of who I am, or could have been, without realizing it. Samer, unfortunately we met too late to fully enjoy each other's friendship. Yet, your being unwilling to suppress your values to please others has taught me the importance, and the beauty, of self-respect. Even if one always pays a price for this, this is real freedom.

I would also like to thank all those who, in the years in The Netherlands, have left a mark on me and whose presence I have enjoyed. So, thank you Agnieszka, Alina, Balazs,

Emre, Hendra, Hesam, Ilaria, Ingrid, Kevin, Krishnan, Lameez, Leendert, Luca, Luigi, Maria Rita, Omar, Pengfei, Radina, Roxana, Saeed, Saeedeh, Shara, Silviu, Ying. Thank you for the great moments you have gifted me with.

Like most PhD students, I have been confronted by a number of challenges along the way. If I didn't give up, and didn't crack up, during these moments, I owe it to my family that provided me with solid emotional foundations that (surprisingly) always allow me to endure difficult situations and recover fast from temporary defeats. Thank you, Mom, Dad, and Gina: it is thanks to your love and support if I have been able to climb to these heights! No matter how cheesy it might sound, I think I owe a lot of my best qualities also to my grandparents who have (painstakingly) raised me in the years when it was most difficult to have me around. In particular, my grandmother Liliana has been a tremendous example for me. No matter where you are, nonna, a piece of you will always be with me. But family are not only people who are kin to you; family includes also people that as long as they are around nothing can scratch you. These people are certainly not less family than relatives; and you, Giacomo, Filippo, Giulio, Federico, Dario, Giuseppe, Alessio, Tommaso, Caterina, Carolina, Alessandra, Vincenzo, Mirko, Rosanna, Panos, Natalia, Roberta, Valentina are family, blood of my blood. You are the most amazing thing that has ever happened to me.

Finally, my greatest gratitude goes to Paola who has been in the bathtub with me all this time while crossing this ocean. Sbalus, together we have been through storms and sunny days and have been anxiously waiting to see land on the other side. I don't know how I would have made it without you, really. Without your encouragements and your advice, that I have often ignored, but when I followed brought benefits that last to this day. So far I have been the helmsman of our little boat, the one who has decided where to go. You can take the lead now and know that I will follow you anywhere. The only thing that matters, really, is that we keep paddling together.

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Riccardo Valboni

Den Haag, September 2019

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Chapter 1. Introduction

1.1   Learning and the Performance of Mergers and Acquisitions

Since the 1960s, mergers and acquisition (M&A) activity has been on the rise across the corporate world. In the period 2008–2017 companies across the world made an average of 40,774 M&A deals spending an average of \$3.2 trillion per year in domestic and cross border acquisitions (KPMG, 2018).

Despite the increase in the value and number of M&A deals, successfully completing a merger and integrating an acquired firm is a remarkably complex process, which often ends in failure. In a recent survey of 1,000 senior managers of multinational corporations (MNCs), the consultancy firm Deloitte found that 40% of executives were not satisfied with the performance of their deals. While many blamed industry downturns for the poor performance of the deals, 32% admitted that M&A deals did not succeed due to "execution gaps" (Deloitte, 2019, p. 14). Barkema and Schijven assess the situation more bluntly: "[Even though] acquirers often know "*what* needs to be done, […] many firms do not quite seem to know *how* to do it" (2008: 595). It appears then that many executives need to learn how best to manage the different phases of the M&A process.

Research on M&As suggests that managers learn how to perform M&As in essentially three ways. First, they learn from their individual and firms' experience. As firms make acquisitions, executives become aware of the requirements and challenges that characterize the different stages of an M&A deal. In the process, managers develop best practices to tackle such challenges (e.g. Ashkenas, DeMonaco, & Francis, 1998; Barkema & Schijven, 2008; Ellis, Reus, Lamont, & Ranft, 2011; Haleblian & Finkelstein, 1999). These best practices are then encoded into organizational routines which provide blueprints and formal procedures that are used to manage subsequent acquisitions—even by managers who were not involved in previous deals (Argote, Beckman, & Epple, 1990). Companies, such as General Electric and Bank One, that often make acquisitions, are known to have a wide set of such formalized routines that staff members follow when engaging in new M&A deals (Ashkenas et al., 1998; Winter & Szulanski, 2001). While codified organizational

experience enables managers of acquiring firms to successfully execute M&As, experience can be a double-edge sword: organizational capabilities developed based on past experience may prove harmful in the future. This is because M&A deals tend to be highly specific, i.e., their outcomes depend on the idiosyncratic characteristics of the target and the context in which the target is active (Haleblian & Finkelstein, 1999). Thus, best practices and organizational routines that an acquiring company develops in response to past acquisitions might be inappropriate for managing a focal acquisition if the focal deal differs significantly from previous deals (Finkelstein & Haleblian, 2002).

The second form of learning is contextual. Managers learn how to proceed in a given acquisition by deliberately analyzing the characteristics of the target organization and the relation between their firm and the target (Jemison & Sitkin, 1986). While contextual learning should happen throughout the entire merger process as managers monitor the unfolding of events and implement actions consistent with the scenarios that arise, information gathering is often concentrated at the beginning of a deal—during the due diligence phase. Using information available at that moment, managers articulate the objectives of the acquisition and formulate action plans aimed at attaining such objectives. Yet, the tendency to focalize learning in the earlier stages of the acquisition often gives rise to determinism: the habit to stick to original plans even when such plans do not deliver the expected results. Although qualitative evidence has documented the negative effects of such behavior (Haspeslagh & Jemison, 1991), companies often still conceive contextual learning as a discrete, upstream activity rather than a continuous investment to be done throughout the entire course of the deal.

Third, managers learn vicariously, i.e., using information they receive from other parties active in their market environment. Vicarious learning may derive from having direct connections with actors who possess acquisition-related knowledge (Beckman & Haunschild, 2002) and by observing the behaviors of unconnected third parties, such as competitors (see Baum, Li, & Usher, 2000). The importance of vicarious learning has been emphasized in previous studies showing that, by observing others, firms gain valuable insights about when to acquire, what to acquire, and how much to offer for a certain target firm (Beckman & Haunschild, 2002; Baum et al., 2000). Vicarious learning however occurs

only if a firm directs its focus in the right direction, otherwise it may not materialize or, even worse, it might be a source of misleading information (Baum & Ingram, 1998).

Given the importance of learning in enabling the success of M&As, the aim of this dissertation is to extend the existing knowledge on the impact of these three ways of learning—experiential, contextual, and vicarious—on post-merger performance. In the first study (hereafter Study 1), I investigate how a firm's experience with domestic acquisitions influences the performance of its international acquisitions. By using insights from transfer of learning theory (Gick & Holyoak, 1987; Thorndike & Woodworth, 1901), the attention-based view (Ocasio, 1997) and dynamic capability theory (Teece, Pisano, & Shuen, 1997), I demonstrate that a firm's domestic M&A capabilities adversely affect its performance in cross-border M&As. Study 1 contributes to the growing literature on the negative transfers of learning in organizations (e.g. Ellis et al., 2011; Haleblian & Finkelstein, 1999) which highlights how experience may harm rather than support firm performance.

In the second study (hereafter Study 2), I address the following question: What are the effects of pre-deal target performance on the relation between the top management teams (TMTs) of the target and the acquirer and on post-merger performance? Drawing on the behavioral theory of the firm (Cyert & March, 1963), I argue that poor pre-deal target performance invites acquiring managers to implement organizational changes in the target firm. These changes, in turn, generate task conflict between the TMTs of acquiring and acquired firms, and this conflict has a curvilinear effect on post-deal performance. Notably, while moderate task conflict leads to mutual learning and a positive effect on post-deal performance, too little or too much task conflict leads to either little learning or distracts managers from integration activities and leads to a negative impact on performance. The study underlines how the reaction of acquiring managers to information about the target firm available in the early stage of an acquisition may have unintended consequences at later stages.

In the third study (hereafter Study 3), I focus on the information that acquirers receive from investors and financial analysts at the moment they announce an acquisition. Drawing on information asymmetry theory (Akerlof, 1970), I show that the reactions of these external actors provide additional information to acquirers about the actual value of the target firm. As these signals reduce information asymmetries between the acquirer and the target, they

influence the acquirer's decision to continue or abandon an initiated acquisition. The study draws attention to the importance of vicarious learning from investors and financial analysts – an issue that has received little attention from M&A researchers.

In sum, although the number and value of acquisitions has reached an all-time high, successful execution of an M&A remains a challenging task. Managers learn to cope with the challenges experientially, contextually, and vicariously. Learning, however, can be a double-edged sword: incorrect generalizations from past experience, and limited attention to information signals during the M&A process may hinder the performance of M&As.

In the rest of the introduction, I provide a more elaborate overview of the three studies that comprise the dissertation. Thereafter, in chapters 2, 3, and 4, I present each study in full.

1.2   Dissertation Overview

1.2.1   Study 1: The Effect of Domestic Acquisition Experience on Cross-Border Acquisition Performance

In the first study titled, "Why domestic acquisition experience often harms foreign acquisition performance" I investigate the effect of a firm's prior domestic acquisition experience on the performance of its international acquisitions. Several studies pertaining to the international business (IB) domain have argued, and found, that having international experience with a certain foreign expansion mode such as licensing, joint venture, greenfield investments or acquisitions facilitates new internationalization endeavors through the same mode. According to this literature, international experience breeds capabilities that facilitate the process of cross-border expansion producing positive effect on the international performance (e.g. Barkema, Bell, & Pennings, 1996; Basuil & Datta, 2015). Yet, while the literature has made significant efforts to determine the impact of capabilities developed through international experience, scholars have almost overlooked the impact that capabilities developed through *domestic* experience with a certain expansion mode have on international ventures implemented through the same mode.

In this study I set out to answer this question. Given the dominance of acquisitions as a vehicle of foreign expansion over the last decade, I focus on foreign expansions in the form of acquisition deals. As such, the specific question I ask in this study is "What is the effect of acquisition-related capabilities bred during *domestic* acquisitions on the ability of a firm

to make *cross-border* acquisitions?" Building on transfer theory of learning (Gick & Holyoak, 1987; Thorndike & Woodworth, 1901), the attention-based view (Ocasio, 1997) and dynamic capability theory (Teece, Pisano & Shuen, 1997), I argue that the effect of domestic experience on international M&A performance is negative. Firms with domestic acquisition experience develop routines that are tailored to the integration of domestic targets (Ellis et al., 2011). Yet, such domestic acquisition capabilities are often ill-suited to the management and integration of foreign targets. By behaving abroad as they did domestically, managers in acquiring firms are likely to violate formal and informal institutional norms in the country of the target firm. This, in turn, leads to problems in the assimilation of the acquired organization, increased costs and reduced post-integration synergies. In line with research on transfers of learning, thus I argue that domestic acquisition experience produces *negative transfer effects* (Cormier, 1987) in the context of cross-border acquisitions.

In the study, I further hypothesize that (1) negative transfer effects are contingent on the involvement of acquiring firm headquarter (HQ) managers that function as a channel for the application of domestic acquisition routines which are often situated at the HQ level (2) the occurrence of negative transfers depends on the heterogeneity of previous domestic acquisition experience. Specifically, a more heterogeneous experience is associated to the development of abilities to adapt learned routines. Yet, while such adaptation sometimes attenuates negative transfer effects, in other circumstances it strengthens them resulting in an even more negative post-deal performance. I test these claims on a sample of 876 cross-border acquisitions undertaken by 520 US-listed firms in the period 2000-2011 and find substantial support for the proposed hypotheses.

The study contributes to scholarship on the learning pitfalls in the context of acquisitions (e.g., Haleblian & Finkelstein, 1999) and to IB research by showing the detrimental consequences of transferring domestic experiences internationally.

1.2.2   *Study 2: The Effect of Pre-Deal Target Performance on the Relation Between the Top Management Teams (TMTs) of Merging Firms and on Post-Deal Performance*

In the second study titled, "How pre-deal target performance affects post-deal performance in international acquisitions: The mediating role of task conflict between top management

teams" I investigate the impact of the pre-deal performance of a target firm on M&A post-deal performance. While scholars have studied the impact of targets' pre-deal performance on important integration decisions, such as the retention of acquired top managers (e.g. Bilgili, Calderon, Allen, & Kedia, 2017; Kini, Kracaw, & Mian, 2004; Martin & McConnell, 1991) and the degree of target post-merger restructuring (e.g. Denis & Kruse, 2000), the relation between the target's pre-deal performance and post-deal performance has remained poorly understood.

Using insights from the behavioral theory of the firm (Cyert and March, 1963), I argue that this relationship is mediated by task conflict, i.e., disagreements about post-deal decisions, between the TMTs of merging firms. If the target's pre-deal performance is low, acquiring managers are likely to undertake organizational changes in the target in order to improve its performance. These changes, however, disrupt ingrained processes and power structures of the target and stir task conflicts between the TMTs of the acquiring and target firms. Conversely, if pre-deal target performance is high, managers of the acquiring firm tend to preserve organizational and power structures of the target in order to protect its value generating mechanisms, leading to low levels of task conflict. As a whole, therefore**,** there is a negative relation between pre-deal target performance and task conflict.

Task conflict, in turn, has a nonlinear (inverted-U shape) relation with post-deal performance. Low levels of task conflict are associated with low post-deal performance as low task conflict implies little interaction across the TMTs. This prevents mutual learning, which is vital for realizing post-M&A synergies (Graebner, 2004). In the same vein, high levels of task conflict are associated with poor post-deal performance because such conflicts divert managers' attention to interpersonal conflict instead of on the integration process (Loughry & Amason, 2014). A moderate level of task conflict, instead, leads to superior post-deal performance as it fosters the mutual exchange of information that allows executives to realize a more effective integration (De Dreu, 2006).

I find support for these hypotheses in a survey-based study of cross-border acquisitions—a setting in which interactions and collaboration between TMTs of merging companies are particularly important (Shimizu, Hitt, Vaidyanath, & Pisano, 2004).

In addition, I hypothesize that the effect of pre-deal target performance on task conflict and on post-deal performance is moderated by the international M&A experience of

the acquirer. In particular, to prevent interpersonal clashes, more experienced acquirers tend to reduce the level of conflict in takeovers of poorly-performing targets. At the same time, being more confident in integrating highly-performing targets more experienced acquirers tend to generate moderate levels of task conflict in these acquisitions. The results show that due to their different way of dealing with the target and its management, experienced acquirers tend to have a better post-deal performance than less experienced acquirers.

This study contributes to M&A research by highlighting the link between a target's pre-deal performance and post-deal performance. The study also responds to scholarly calls for more research on the "human side" of mergers and acquisitions (Sarala, Vaara, & Junni, 2017) to uncover how emotions and behaviors of actors involved in M&A processes contribute to the creation or destruction of corporate value.

1.2.3   Study 3: The Influence of Market and Financial Analysts' Reactions on the Decision to Complete or Abandon an Announced Acquisition

In the third study entitled "Analyzing the influence of external information on acquisition completion decisions: The role of market reactions and financial analyst assessments", I investigate the role played by information derived from investors and financial analysts in reducing the information asymmetry between the acquirer and the target firm. While scholars have been interested in how managers use external information to reduce information gaps when choosing the target firm, researchers have overlooked that information asymmetries continue to exist even when the target has been chosen and the deal announced (Chakrabarti & Mitchell, 2016). Companies however continue learning about the true value of the target by observing the reactions of external actors to the news of the acquisition. Reactions of investors, financial analysts, and credit rating agencies to the acquisition announcement provide important signals about the true value of the acquired firm. Indeed, these market actors often possess privileged information about the target that is unavailable to acquiring managers, and are more efficient at processing public information than the average acquirer is (e.g. Asquith, Mikhail, & Au, 2005; Chung, Frost, & Kim, 2012; Huang, Mian, & Sankaraguruswamy, 2009). As such, their positive reactions provide a signal that the target firm has been correctly valued and that the combination of the companies is expected to produce future benefits. Conversely, negative reactions indicate

that either the target has not been correctly valued or that investors or analysts do not believe the acquisition will bring benefits to the acquirer. By providing extra information to the buyer, these reactions reduce information asymmetries between merging firms thus influencing the buyer's decision to proceed with or abandon the initiated acquisition. I measure investor reactions using cumulative abnormal returns on the acquirer's shares (e.g., Haleblian & Finkelstein, 1999), whereas to measure the reactions of financial analysts and credit rating agencies I use changes in analyst recommendations, target prices, and credit ratings over the days surrounding the acquisition announcement (Bannier & Hirsch, 2010; Chung et al., 2012; Gerritsen, 2014; Yook, 2003).

The results of the study show that acquiring firms use information derived from investors and financial analysts to decide whether to complete or abandon an acquisition. Yet, as I hypothesize, (1) they do so more when the target is public than when it is private (Capron & Shen, 2007); and (2) they are more responsive to external information when the signals they receive from investors and analysts are concordant rather than discordant.

Study 3 contributes to the M&A literature by showing that managers continue to reduce information asymmetries even after a deal has been announced and use the information they receive to inform their acquisition strategy. The study further suggests that information from investors and financial analysts in the wake of a merger announcement is a prominent source of vicarious learning (Schijven & Hitt, 2012).

Table 1.1 summarizes the three studies in the dissertation.

Table 1.1 Overview of studies in the dissertation

	Study 1	Study 2	Study 3
Title	Why domestic acquisition experience often harms foreign acquisition performance	How pre-deal target performance affects post-deal performance in international acquisitions: The mediating role of task conflict between top management teams	Analyzing the influence of external information on acquisition completion decisions: The role of market reactions and financial analyst assessments
Research question	What is the effect of domestic M&A experience on the performance of cross-border acquisitions?	How does pre-deal target performance influence post-deal performance?	Do reactions from the stock market and financial analysts influence the likelihood for a firm to complete or abandon an announced deal?
Type of learning	Experiential	Contextual	Vicarious
Theoretical lens	Transfer of learning theory	Behavioral theory of the firm	Information asymmetry theory
Data source(s)	Archival data	Archival and survey data	Archival data
Design	OLS moderated regressions on 876 cross-border acquisitions made by 520 US firms from 211 different industries between 2000 and 2011	OLS mediated-moderated regressions on 111 cross-border acquisitions made by firms from 28 countries and 29 industrial sectors between 2009 and 2013	Logit moderated regressions on 1143 acquisitions made by 688 US firms from 235 industries between 2010 and 2013

Declaration of Contributions

In compliance with the requirements of the Erasmus Research Institute of Management, I hereby declare the contributions to the chapters composing this doctoral dissertation.

Chapter 1. This chapter has been developed independently by me, the author of the dissertation. In revising the chapter, I incorporated comments from Prof. Dr. Taco Reus and Dr. Ona Akemu.

Chapter 2. The study presented in this chapter is the result of a joint collaboration between me, Prof. dr. Taco Reus, and Prof. dr. Arjen Slangen. The work on this study started from an initial idea of Prof. dr. Taco Reus which was subsequently extended by incorporating ideas of Prof. dr. Arjen Slangen and mine. As for the material development of the study, I conducted the literature review, the data collection and the statistical analyses, and wrote the first draft of the paper. The first draft was then improved through a series of iterations done by Prof. dr. Arjen Slangen, Prof. dr. Taco Reus and me.

Chapter 3. The study in this chapter is the result of a joint effort between Prof. dr. Taco Reus and me. The initial idea of this study originated from discussions between me and Prof. dr. Reus. Subsequently, I conducted the literature review in preparation for the study, coordinated the data collection, performed the statistical analyses included in the study and wrote the first draft. Then this first draft was improved by Prof. dr. Reus and me. Since the data on which the study is based were collected by means a survey instrument, we benefited from the collaboration of several master students (working under my supervision) in contacting sample firms and obtaining their responses. The survey questionnaire we used, all the work surrounding the implementation of the web-based survey, and a substantial part of the effort of getting in contact with sample companies were done by me and Prof. dr. Reus.

Chapter 4. The study presented in this chapter is the result of a joint collaboration between Dr. Mirko Benischke, Ruben Verdoorn, MSc and me. The initial idea of this project was of Dr. Benischke and was implemented as a trial study in the master thesis of Ruben Verdoorn, who at the time was Dr. Benischke's student. The study in Chapter 4 is a conceptual and methodological extension of that initial study. In the development of Chapter 4, I conducted the data collection and the statistical analyses, and co-produced the first draft of the paper together with Dr. Benischke. The first draft was then improved by Dr. Benischke and me.

Chapter 2. Why Domestic Acquisition Experience Often Harms Foreign Acquisition Performance[1]

ABSTRACT

We study the effect of domestic acquisition experience on cross-border acquisition (CBA) performance, drawing on transfer theory and complementary insights from the attention-based view and dynamic capabilities perspective. We argue that domestic acquisition experience generates domestic acquisition routines and that their attention-saving nature, combined with superficial similarities among domestic and foreign deals, causes these routines to be applied to CBAs, where their lack of consideration of national institutional differences produces negative transfer effects. We therefore hypothesize that domestic acquisition experience has a negative effect on CBA performance. We also hypothesize that this effect depends on the degree to which an acquirer's headquarters is involved in the CBA and on the degree to which a firm's domestic acquisition experience has fostered a capability to engage in institutional adaptation or a capability that discourages such adaptation. We find substantial support for our hypotheses in an analysis of 876 CBAs by US firms and discuss the implications of our findings for strategy research.

2.1   Introduction

One of the key claims of global strategy research is that firms expanding abroad through modes such as contractual alliances, equity joint ventures (JVs), and acquisitions benefit from having foreign experience with the expansion mode chosen, since such experience generates valuable knowledge of how to implement the mode abroad. This claim has received widespread empirical support, as many studies have found that a firm's total foreign experience with the chosen expansion mode as well as its experience with that mode in the

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[1] Different versions of this paper were presented at the Academy of Management Conference and at the Strategic Management Society Conference. The paper is co-authored with Arjen H. L. Slangen and Taco H. Reus.

foreign target country or supranational region are positively related to the performance of the new foreign venture (Barkema, Bell, & Pennings, 1996; Barkema & Drogendijk, 2007; Gao, Pan, Lu, & Tao, 2008; Hitt, Li, & Xu, 2016).

Whereas scholars have extensively studied how a foreign venture's performance depends on a firm's experience with the chosen expansion mode abroad, scant attention has been paid to how that performance is affected by the firm's experience with the same mode at home. This is surprising considering that many internationalizing firms have significantly more domestic than foreign experience with any given expansion mode. For instance, in their study of cross-border acquirers from various countries, Dikova and Rao Sahib (2013) report that these firms on average had made twice as many domestic acquisitions as foreign acquisitions. When implementing a foreign expansion mode, firms likely attempt to capitalize on their domestic experience with that mode (Nadolska & Barkema, 2007; Reuer, Shenkar, & Ragozzino, 2004) but the extent to which they succeed in doing so has so far remained largely unclear.

In this paper we aim to shed more light on this issue by exploring the effect of a firm's experience with domestic acquisitions on the performance of its cross-border acquisitions (CBAs). We focus on acquisitions because they have become an increasingly popular mode of foreign expansion in recent decades relative to other equity-based expansion modes such as greenfield investments, with their value reaching a peak of $868 billion in 2016 (UNCTAD, 2017). Moreover, given the generally high complexity and uncertainty associated with acquisitions, cross-border acquirers are likely to attempt to leverage their acquisition experience across deals (Shimizu, Hitt, Vaidyanath, & Pisano, 2004), making acquisitions suitable objects for exploring the performance consequences of having domestic experience with the mode chosen for expanding abroad.

Using transfer theory from cognitive psychology (Cormier, 1987; Gick & Holyoak, 1987; Thorndike & Woodworth, 1901), and complementary insights from the attention-based view (Bouquet, Morrison, & Birkinshaw, 2009; Ocasio, 1997) and dynamic capabilities perspective (Teece, Pisano, & Shuen, 1997; Winter, 2003), we propose that domestic acquisition experience contributes to the development of domestic acquisition routines, whose attention-saving nature in combination with superficial similarities between domestic and foreign deals causes these routines to be applied to CBAs. However, domestic

acquisition routines do not account for institutional differences between an acquirer's home country and the country of a CBA target, causing the application of such routines to CBAs to generate what transfer theorists call 'negative transfer effects'. We therefore hypothesize that, all else equal, domestic acquisition experience has a negative effect on CBA performance.

We also argue that domestic acquisition experience-induced negative transfer effects in CBAs depend on a CBA's characteristics and the composition of a firm's domestic acquisition experience. Firstly, we contend that these effects are stronger for CBAs that are larger or whose activities are more closely related to the acquirer's, since such CBAs are generally characterized by higher involvement of the acquirer's HQ, where domestic acquisition routines are typically situated. Secondly, we contend that domestic experience-induced negative transfer effects in CBAs also depend on the contextual diversity in a firm's domestic acquisition experience. The reason, we propose, is that such diversity is likely to have fostered dynamic acquisition capabilities rather than static routines, although not necessarily the type of capabilities required for successfully executing CBAs. Subnational diversity in domestic acquisition experience, on the one hand, is likely to have fostered a capability to adapt acquisition practices across institutional contexts, limiting the occurrence of domestic experience-induced negative transfer effects in CBAs. Accordingly, we hypothesize that such diversity weakens the negative effect of domestic acquisition experience on CBA performance. Industry diversity in domestic acquisition experience, on the other hand, is likely to have fostered a capability to adapt acquisition practices across industry contexts. This capability is likely to magnify domestic experience-induced negative transfer effects in CBAs, since it is likely to draw acquirers' attention to unique features of the industry of a CBA target and away from unique features of the institutional environment in which the target resides. We therefore hypothesize that industry diversity in domestic acquisition experience strengthens the negative effect of such experience on CBA performance. We find substantial support for our hypotheses in an analysis of the accounting performance of 876 US cross-border acquirers over the period 2000-2011.

Our study makes several contributions to the strategy literature. First, we extend the use of transfer theory to the domain of global strategy by showing that the international transfer of domestic experience-based practices often has negative performance

consequences. Prior transfer theory-based studies in strategic management attempted to explain the performance of acquisitions in general (Finkelstein & Haleblian, 2002; Hayward, 2002) or that of domestic ones in particular (Ellis, Reus, Lamont, & Ranft, 2011) rather than the performance of CBAs. Second, we enrich transfer theory by infusing it with insights from the attention-based view and dynamic capabilities perspective to provide a more complete account of the conditions under which negative transfer effects are likely to occur in the context of acquisitions. Specifically, we show that the magnitude of such effects crucially depends on the involvement of an acquirer's HQ in a CBA and the contextual diversity in the acquirer's domestic experience base.

2.2   Theoretical Background

Starting with Thorndike and Woodworth (1901), cognitive psychologists have extensively studied transfers of learning, which take place when individuals performing an activity use problem-solving practices that they developed during previous activities. One of the key findings of this research stream has been that people's tendency to apply problem-solving practices across tasks depends on their perception of the similarities between the tasks. The greater these perceived similarities, the higher individuals' inclination to perform the focal task by means of problem-solving practices developed during previous tasks (Cormier, 1987; Ellis, 1965; Gick & Holyoak, 1987).

However, not all similarities between tasks cause transfers of learning to be effective. In order for such transfers to have positive performance effects, the tasks concerned need to be structurally similar, meaning that individuals must be able to complete them through the same set of problem-solving practices (Blanchette & Dunbar, 2000; Gick & Holyoak, 1987). Often however, tasks merely share so-called 'surface similarities', defined as commonalities that are irrelevant for task outcomes (Gick & Holyoak, 1987). In these cases, transfers of learning tend to have negative performance effects since they result in the use of experience-based practices that are unsuited for the task at hand. Cognitive psychology research indicates that such negative transfer effects occur frequently because individuals often mistakenly use surface similarities as criteria for transferring experience-based practices across tasks, given that such similarities are often more easily observable than structural ones (Gick & Holyoak, 1987; Holyoak & Koh, 1987).

Building on these insights from cognitive psychology, strategy scholars have begun to argue that, besides individuals, firms also may have developed experience-based practices and mistakenly apply these practices to activities for which they are poorly suited. Most studies of such transfers of learning at the level of firms have focused on the act of making acquisitions, exploring the conditions under which this act is likely to be characterized by negative transfer effects (for a review, see Barkema & Schijven, 2008). Overall, these studies found that negative effects are likely to arise when the focal acquisition is made in a different industry or has a different size than the acquirer's preceding acquisitions (Ellis et al., 2011; Haleblian & Finkelstein, 1999; Hayward, 2002). For instance, Finkelstein and Haleblian (2002) found that a firm's second acquisition generates poorer performance than its first one when the two acquisitions are made in different industries, suggesting the occurrence of negative transfer effects when acquisition practices gained in a given industry are applied to acquisitions made in different industries. Similarly, Ellis et al. (2011) found that whereas large acquisitions enhance the performance of firms that are experienced in such acquisitions, they worsen the performance of firms that are experienced in small acquisitions, suggesting that negative transfer effects may also arise when practices originating from similarly-sized acquisitions are applied to acquisitions belonging to a different size class.

However, besides differing along the strategic dimensions of industry and size, acquisitions may also differ from each other in terms of their spatial focus, with some of them being domestic and others being international (Bertrand & Zitouna, 2008; Moeller & Schlingemann, 2005; Very & Schweiger, 2001). Below we extend transfer theory to acquisitions of these different spatial types by examining how a firm's experience with domestic acquisitions affects the performance of its cross-border acquisitions. In developing our conceptual framework, we complement transfer theory with insights from the attention-based view and dynamic capabilities perspective, so as to arrive at a richer and more complete theory of the conditions under which transfer effects are likely to occur within firms.

2.3   Hypothesis Development

2.3.1   *The Effect of Domestic Acquisition Experience on CBA Performance*

Acquisitions are among the most popular modes of corporate expansion, since they enable firms to rapidly realize growth and obtain new strategic assets, both at home and abroad (Shimizu et al., 2004). By making acquisitions in their home country, firms learn how to manage acquired entities in a domestic context, as they increasingly gain knowledge about how to integrate such entities, how to manage and retain their key employees, and how to realize domestic synergies, among others (Nadolska & Barkema, 2007). The more domestic acquisitions a firm makes, the more experienced and skilled it becomes at executing such acquisitions, causing it to gradually develop domestic acquisition routines: stable sets of semi-automatic practices for handling domestically-acquired units (cf. Cyert & March, 1963; Nadolska & Barkema, 2007; Nelson & Winter, 1982). Some of the practices contained in these routines – such as the sequence of post-acquisition restructuring – may be documented in manuals or templates, whereas others – such as the management of acquired employees – may be more tacit (Zollo & Singh, 2004). Domestic acquisition routines are generally developed and maintained at a firm's HQ, since decisions on domestic deals and their *ex post* management are typically made at that level of the corporate hierarchy (Haspeslagh & Jemison, 1991; Nadolska & Barkema, 2007).

When making a CBA, firms will likely draw on their domestic acquisition routines for several reasons. First, CBAs show relatively easily observable "surface similarities" with domestic deals (Finkelstein & Haleblian, 2002), in that they concern the same mode of expansion and therefore require the execution of the same general strategic process. Furthermore and as a result, the choice of CBA target and post-acquisition approach is usually made, or guided, by the same HQ executives as those responsible for domestic acquisitions. Finally, these executives have cognitive constraints (Simon, 1955) and usually a myriad of other responsibilities, leading them to rely on established routines where possible, so as to economize on cognitive effort and time (Nadolska and Barkema, 2007; cf. Cyert and March, 1963; Nelson and Winter, 1982).

Although domestic and cross-border acquisitions share surface similarities, they are structurally very different. Unlike domestic acquisitions, CBAs are made in foreign institutional environments and therefore require acquirers to account for formal and informal

institutional differences between their home country and the country of the foreign acquisition target (Morosini, Shane, & Singh, 1998; Xu & Shenkar, 2002). These differences may pertain to such institutions as work-related values, management practices, worker rights, accounting standards, and currencies. Routines developed from domestic acquisition experience generally do not account for these national institutional differences, since such routines have been developed within the institutional context of an acquirer's home country. As explained below, their application to CBAs is therefore likely to result in negative transfer effects.

These effects, we contend, stem from two important shortcomings of domestic acquisition routines in an international context. First, such routines tend to be *incomplete*, in that they usually do not cover all institutional factors relevant to CBAs. As a result, firms applying domestic acquisition routines to CBAs will likely overlook or pay insufficient attention to institutions-related matters that are relevant to CBAs in general or to those of particular target countries, resulting in higher post-acquisition costs than anticipated. For example, HQ executives may underestimate exchange rate risks associated with buying foreign currency-denominated assets or overlook the powerful role of employee representatives in specific foreign countries—as US-based Walmart did when it made acquisitions in Germany (Verbeke, 2013).

Second, domestic acquisition routines are often *incompatible* with specific institutions in target countries. Consequently, firms applying such routines to CBAs are likely to use certain practices that are suboptimal if not unsuited for the specific national institutional context in which a CBA target resides, resulting in higher management costs and lower synergies. For example, when Walmart made its acquisitions in Germany, the firm implemented its domestic practice of relocating acquired executives within the country. Yet the use of this practice is uncommon in Germany and therefore led to the departure of many German executives, leaving Walmart short of knowledge of the German market (Verbeke, 2013).

All else equal, the higher a firm's domestic acquisition experience, the larger and the more strongly ingrained its pool of domestic acquisition routines will likely be and, hence, the more extensively HQ executives will likely draw on such routines when making CBAs.

Consequently, the higher a firm's domestic acquisition experience, the more strongly such experience will translate into negative transfer effects in CBAs. Therefore:

Hypothesis 1 (H1): *Domestic acquisition experience is negatively related to CBA performance.*

2.3.2   The Moderating Role of HQ Involvement

Although domestic acquisition experience will likely produce negative transfer effects in CBAs, the degree to which it does so will likely vary across CBAs. The reason, we argue, is that not all CBAs are characterized by the same degree of involvement of an acquirer's HQ, where domestic experience-based routines are typically situated. Studies utilizing the attention-based view have shown that HQ executives tend to allocate more of their attention to, and thus tend to be more closely involved in, activities that they perceive to be strategically more important to their firm (Bouquet & Birkinshaw, 2008; Hendriks, Slangen, & Heugens, 2018). The strategic importance that HQ executives assign to a CBA, and thus their level of involvement in it, is likely to depend on two factors: the size of the CBA target and the relatedness of its industry portfolio to that of the acquirer.

Larger CBAs are likely to be more consequential for firms and thus of greater strategic importance to them (Bresman, Birkinshaw, & Nobel, 2010; Ravenscraft & Scherer, 1987), causing HQ executives of acquiring firms to be more closely involved in such acquisitions (Kitching, 1967; Ellis et al., 2011). For example, when their firm makes a larger CBA, HQ executives are likely to shape and coordinate the post-acquisition integration process more actively, given the higher challenges and risks involved (Shaver & Mezias, 2009). They are also likely to be more committed to the development and implementation of strategic initiatives aimed at capitalizing on post-acquisition increases in bargaining power towards suppliers or buyers, given that the benefits of such initiatives are likely to be higher for larger CBAs. Consequently, domestic acquisition experience-based routines situated at an acquirer's HQ will likely be applied more elaborately to larger CBAs, causing domestic acquisition experience to result in greater negative transfer effects among such CBAs. We therefore hypothesize:

*Hypothesis 2a (H2a): CBA size strengthens the negative relationship between
domestic acquisition experience and CBA performance.*

The strategic importance of a CBA and, thus, the involvement of the acquirer's HQ
in the acquisition will likely also depend on the relatedness of the industry portfolios of the
two firms. More closely related industry portfolios generally allow for the realization of
larger synergies between an acquirer and an acquired firm (Datta, 1991; Singh &
Montgomery, 1987) and thus allow for greater improvements in the acquirer's strategic
position vis-à-vis its competitors. More specifically, merger partners with greater overlap in
their industry portfolios generally have greater opportunities to realize cost synergies by
integrating duplicate activities or sourcing inputs jointly, as well as better opportunities to
realize revenue synergies by selling related products through each other's distribution
channels (Bettinazzi & Zollo, 2017; Pablo, 1994). The higher the potential for such
synergies, the more closely HQ executives will likely attend to and be involved in the CBA
in order to coordinate and monitor the post-acquisition integration process required to realize
the synergy potential. Consequently, the higher this potential, the more elaborately the
acquirer's domestic acquisition experience-based routines will likely be applied to the CBA
and the larger the negative transfer effects ensuing from the CBA will likely be.

By contrast, the lower the relatedness between the industry portfolios of an acquirer
and a CBA target, the lower the synergy potential of the deal and, thus, the less strongly the
acquirer's HQ will likely participate in the management of the acquisition (Datta, 1991;
Singh & Montgomery, 1987). Consequently, the lower this relatedness, the less extensively
the acquirer will likely apply its domestic acquisition experience-based routines to the CBA
and, hence, the less these routines will cause negative transfer effects. Overall, we therefore
hypothesize:

*Hypothesis 2b (H2b): Acquirer-CBA industry relatedness strengthens the negative
relationship between domestic acquisition experience and CBA performance.*

2.3.3 *The Moderating Role of Contextual Diversity in Domestic Acquisition Experience*

Besides depending on CBA-specific factors, the extent of domestic acquisition experience-induced negative transfer effects in CBAs will likely also depend on the composition of an acquirer's domestic acquisition experience, in particular the contextual diversity in that experience. The greater the contextual diversity in a firm's domestic acquisition experience, the more heterogeneous the set of environments in which the firm has made domestic acquisitions and, hence, the less it has been able to use a fixed set of practices in making these acquisitions. Consequently, the contextually more diverse a firm's domestic acquisition experience, the less that experience will have translated into domestic acquisition routines. Because of this, firms with contextually diverse acquisition experience are likely to have developed a capability to adapt the acquisition process to the environment in which the acquisition target resides. This adaptation capability constitutes a form of dynamic capability, broadly defined as a capability to change organizational behavior (Winter, 2003; Zollo & Winter, 2002).

Contextual diversity in a firm's domestic acquisition experience may stem from either geographic diversification or product diversification (e.g., Hitt, Hoskisson, & Ireland, 1994). Firms may have acquired domestic targets headquartered in different subnational regions, whose formal and informal institutional environments tend to differ from one another (Au, 1999; Lenartowics & Roth, 2001; Meyer & Nguyen, 2005; Slangen, 2016), especially in large countries such as the US. They may also have acquired domestic targets across different industries, which may differ from one another in terms of technologies, workplace culture, economies of scale, and levels and types of competition, among others (Laamanen & Keil, 2008).

Subnational and industry diversity in domestic acquisition experience generate different types of acquisition-related adaptation capabilities. Subnational diversity in domestic acquisition experience, on the one hand, generates a capability to adapt acquisition practices across institutional contexts. For instance, such diversity in domestic acquisition experience will likely cause acquirers to be skilled at accounting for local labor laws and work-related values during the post-acquisition integration process. This type of domestic acquisitions-based capability is valuable for making CBAs, since the latter require the

adaptation of acquisition practices across institutional contexts as well (Perkins, 2014). The greater the subnational diversity in a firm's domestic acquisition experience, the stronger the firm's capability to adapt its acquisition practices to other institutional contexts and, hence, the lower the chance that its domestic acquisition experience will cause negative transfer effects in CBAs. At very high levels of subnational diversity in domestic acquisition experience, the resulting capability to adapt acquisition practices across institutional contexts may even be so strong that it generates positive transfer effects when applied to a CBA. Overall, we therefore hypothesize:

Hypothesis 3a (H3a): Subnational diversity in domestic acquisition experience weakens the negative relationship between such experience and CBA performance.

Industry diversity in domestic acquisition experience, on the other hand, likely generates a capability to adapt acquisition practices across industries. This form of diversity in domestic acquisition experience, we contend, causes such experience to amplify rather than mitigate negative transfer effects in CBAs. The root cause, we propose, is that adaptation capabilities are themselves "high-level routines" (Winter, 2003: 991) in that they concern a fixed way of adapting organizational behavior. They tend to form an organization's 'dominant logic' (Prahalad & Bettis, 1986) for engaging in adaptation. This dominant logic, in turn, shapes a firm's attentional focus when the adaptation capability is applied to a given strategic act. In the words of Bettis and Prahalad, "[o]rganizational attention is focused only on data deemed relevant by the dominant logic" (1995: 7). Consequently, firms with industrially diverse domestic acquisition experience and a resulting capability to adapt their acquisition practices across industries will likely focus their attention on particularities of the industry in which a CBA target operates and adapt their acquisition practices to these particularities. For instance, they will likely tailor the level of post-acquisition integration to the technological similarity between their own operations and those of the CBA target, presumably opting for higher integration levels when that similarity is higher.

The higher the industry diversity in a firm's domestic acquisition experience, the stronger its capability to adjust its acquisition practices to the characteristics of a CBA

target's industry and, hence, the more the attention of HQ executives will be focused on these industry characteristics. Since managers have limited attention capacity (Hendriks et al., 2018; Ocasio, 1997), a higher attentional focus on industry characteristics will cause HQ executives to pay less attention to the national institutional context in which the CBA target resides, lowering the chance that they will notice relevant idiosyncrasies of that context and adapt their firm's domestic experience-based practices to these idiosyncrasies. Consequently, the higher the industry diversity in a firm's domestic acquisition experience, the more strongly such experience will generally translate into negative transfer effects in CBAs. Accordingly:

Hypothesis 3b (H3b): Industry diversity in domestic acquisition experience strengthens the negative relationship between such experience and CBA performance.

2.4   Methodology

2.4.1   Data Collection and Sample

To test our hypotheses, we collected data from Thomson Reuters SDC on CBAs completed by US public companies between 2000 and 2011, and on all domestic acquisitions made by these companies up to 2011. We use 2011 as the final year in order to be able to measure a CBA's performance three years after its completion. We focus on US acquirers to avoid potential confounding effects stemming from variation across acquirers' home countries and because US firms account for the bulk of CBAs worldwide (UNCTAD, 2017). Moreover, the US is characterized by substantial variation in institutional environments across states (Alesina & Zhuravskaya, 2011; Krug & Nigh, 2001), enabling us to calculate a meaningful measure of subnational diversity in domestic acquisition experience for US firms.

To make sure that the application of domestic acquisition experience-based practices to the analyzed CBAs would result in noticeable post-acquisition costs, we excluded CBAs with a value below $50 million, those that involved less than 50% of the acquired entity's shares,

Table 2.1 Sample characteristics

Target nation	Freq.	Target nation (cont'd)	Freq.
Algeria	1	Sweden	27
Argentina	9	Switzerland	25
Australia	38	Thailand	2
Austria	3	United Kingdom	192
Belgium	9	**Total**	**876**
Brazil	17		
Cameroon	1	**Completion year**	**Freq.**
Canada	167	2000	101
Chile	4	2001	77
China	22	2002	66
Colombia	2	2003	39
Czech Republic	3	2004	81
Denmark	14	2005	68
El Salvador	2	2006	84
Finland	8	2007	81
France	48	2008	66
Germany	88	2009	33
Greece	1	2010	89
Guatemala	1	2011	91
Hong Kong	8	**Total**	**876**
India	13		
Indonesia	1	**Deal value ($)**	**Freq.**
Ireland	6	50-100 million	257
Israel	27	101-500 million	420
Italy	16	501-1000 million	95
Japan	16	1001-5000 million	89
Luxembourg	3	>5000 million	15
Malaysia	1	**Total**	**876**
Malta	1		
Mexico	17		
Morocco	1		
Netherlands	28		
New Zealand	3		
Norway	15		
Philippines	2		
Poland	6		
Portugal	2		
Romania	3		
Singapore	4		
South Africa	4		
Spain	15		

Target industry	Freq.	Target industry (cont'd)	Freq.
Amusement and Recreation Services	3	Hotels, Rooming Houses, Camps, and Other Lodging Places	9
Apparel and Accessory Stores	4	Industrial and Commercial Machinery and Computer Equipment	64
Apparel, Finished Products from Fabrics and Similar	4	Insurance Agents, Brokers, Service and Carriers	9
Automotive Repair, Services and Parking	2	Local and Suburban Transit and Interurban Highway Transportation	1
Business Services	144	Lumber and Wood Products, Except Furniture	2
Chemicals and Allied Products	78	Measuring, Photographic, Medical, and Optical Goods, and Clocks	60
Coal Mining	1	Metal Mining	17
Communications	21	Mining and Quarrying of Nonmetallic Minerals, Except Fuels	2
Construction - General Contractors and Operative Builders	1	Miscellaneous Manufacturing Industries	6
Construction - Special Trade Contractors	6	Miscellaneous Repair Services	1
Depository Institutions	14	Miscellaneous Retail	7
Eating and Drinking Places	2	Motion Pictures	1
Educational Services	2	Motor Freight Transportation	4
Electric, Gas and Sanitary Services	30	Nondepository Credit Institutions	5
Electronic and Other Electrical Equipment and Components	85	Oil and Gas Extraction	38
Engineering, Accounting, Research, and Management Services	14	Paper and Allied Products	9
Fabricated Metal Products	14	Personal Services	4
Food and Kindred Products	36	Petroleum Refining and Related Industries	1
Food Stores	3	Pipelines, Except Natural Gas	1
General Merchandise Stores	3	Primary Metal Industries	9
Health Services	9	Printing, Publishing and Allied Industries	11
Heamy Construction, Except Building Construction, Contractor	1	Real Estate	19
Holding and Other Investment Offices	16	Rubber and Miscellaneous Plastic Products	12
Home Furniture, Furnishings and Equipment Stores	3	Security and Commodity Brokers, Dealers, Exchanges and Services	13

(continued)

Target industry (cont'd)	Freq.	Target industry (cont'd)	Freq.
Stone, Clay, Glass, and Concrete Products	6	Transportation Services	6
Textile Mill Products	4	Water Transportation	5
Tobacco Products	2	Wholesale Trade - Durable Goods	14
Transportation by Air	1	Wholesale Trade - Nondurable Goods	13
Transportation Equipment	24	**Total**	**876**

and those in tax havens (since entities registered in such havens are often merely shell companies)[2].

The data on the performance of CBAs were obtained from Datastream, Thomson Reuters SDC, and the acquiring firms' 10-K filings at the US Securities and Exchange Commission. The data on the moderating variables were obtained from the latter two sources, and so were those on CBA-level and acquirer-level control variables. The data on country-level control variables were obtained from Hofstede (1980) and the World Bank. We managed to obtain complete data on all our variables for a sample of 876 CBAs made by 520 US firms whose main industries spanned 221 4-digit SIC codes. Table 2.1 shows the distribution of the CBAs across countries, years, size classes and sectors.

2.4.2   Dependent Variable

Following at least 20 prior studies with a combined sample size of over 29,000 acquisitions (see Table 1 in King et al., 2004), we measure the performance consequences of a CBA by the acquiring firm's return on assets (ROA) in the third year after the acquisition. Using the difference between that ROA and the acquirer's ROA in the year prior to the acquisition (Ellis et al., 2011) yielded similar results.

2.4.3   Main Independent Variables

Domestic acquisition experience. We measure a firm's domestic acquisition experience at the time of the focal CBA by a weighted count of the firm's acquisitions of US targets.

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[2] The following countries were considered to be tax havens: Aruba, Bahamas, Bermuda, British Virgin Islands, Cayman Islands, Netherlands Antilles, and US Virgin Islands. The inclusion of these countries yielded qualitatively similar results.

Consistent with our focus on CBAs with a value of at least 50 million US dollars, we only counted domestic deals in that same value range as reported in Thomson Reuters SDC. We did so because small domestic acquisitions are unlikely to contribute substantially to the development of domestic acquisition routines, given that the execution of such acquisitions generally requires only limited HQ attention[3].

Yet even sizeable domestic acquisitions are likely to differ from each other in the degree to which they shape the domestic acquisition routines that firms may apply to CBAs. Specifically, this degree is likely to be higher for domestic acquisitions that are larger and made closer before the focal CBA. It is likely to be higher for larger domestic acquisitions because such acquisitions are likely to have been perceived as strategically more important and are thus likely to have been characterized by higher HQ involvement, causing them to have had a bigger impact on a firm's domestic acquisition routines. Likewise, domestic acquisitions made closer before the focal CBA will likely shape a firm's domestic acquisition routines at the time of the CBA more strongly because more recent domestic acquisitions are more likely to have been executed by the same HQ executives as those responsible for executing the focal CBA. Older domestic acquisitions, on the other hand, may have been executed by managers who left since and took tacit elements of the firm's domestic acquisition routines with them (Anand, Gray, & Siemsen, 2012; Argote, Beckman, & Epple, 1990; Argote & Miron-Spektor, 2011). In calculating a firm's domestic acquisition experience at the time of the focal CBA, we therefore assigned a higher weight to larger and more recent domestic acquisitions previously made by the firm. Specifically, we weigh each prior domestic acquisition by (i) the share of its deal value in the book value of the acquirer's total assets at the time of the acquisition, as well as by (ii) the inverse of the number of years between the domestic acquisition and the focal CBA (cf. Haunschild & Sullivan, 2002; Madsen & Desai, 2010). More formally, we used the following formula:

$$Domestic\ acquisition\ experience_A = \sum_{i=1}^{n} 1 * \frac{deal\ value_i}{total\ assets_A} * \frac{1}{y_i} \tag{1}$$

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[3] A practical reason for excluding small domestic acquisitions is that for these acquisitions the HQ address required for calculating the subnational diversity in a firm's domestic acquisition experience was often not reported in Thomson Reuters SDC.

where *A* is the acquiring firm, *i* a given domestic acquisition previously made by the firm, and *y* the number of years between that acquisition and the focal CBA. We log transformed the calculated values to reduce the skewness of the variable[4].

CBA size and relatedness. We measured the size of a CBA by its deal value in millions of US dollars as reported in Thomson Reuters SDC and log transformed the raw deal values to account for the skewedness of their distribution. We measured relatedness of the industry portfolios of the CBA target and the acquiring firm by applying Haleblian and Finkelstein's (1999) scoring method to matches between the firms' SIC codes as listed in Thomson Reuters SDC. Specifically, we assigned a relatedness score of 6 if the primary SIC code of the target and that of the acquirer matched at the four-digit level, a score of 4 if these codes matched at the three-digit level, and a score of 2 if they matched at the two-digit level. Likewise, we assigned a score of 3, 2, or 1 if the closest match between the secondary SIC codes of the two firms occurred at the four-digit, three-digit, or two-digit level, respectively. We then summed the two scores, resulting in a measure that ranges from 0 to 9.

Contextual diversity in domestic acquisition experience. We measured subnational diversity in a firm's domestic acquisition experience at the time of the focal CBA using the following Blau (1977) index:

$$1 - \sum_{i=1}^{n} \rho_i^2 \tag{2}$$

where ρ is the share of acquisitions that a firm made in US state *i* in the total number of domestic acquisitions that it made prior to the focal CBA. We assigned each domestic acquisition to a US state based on the address of the acquired entity's HQ listed in Thomson Reuters SDC. An index value of 0 indicates that a firm made all its domestic acquisitions in the same state, whereas a value close to 1 indicates that it made them in many different states. Following Hayward (2002), we measured the industry diversity in a firm's domestic acquisition experience by a similar Blau index based on the 4-digit primary SIC codes of all domestic entities that a firm had acquired prior to making the focal CBA. An index value of

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[4] Since several sample firms had no domestic acquisition experience, we followed the custom practice of adding 1 to the raw experience value before taking the natural logarithm. We did the same for the below-mentioned control variables measuring other types of acquisition experience.

0 indicates that a firm made all its domestic acquisitions in the same industry, whereas a value close to 1 indicates that it made them in many different industries.

2.4.4   *Control Variables*

Perhaps the main factor that we need to control for is a firm's CBA experience, since such experience may be correlated with both domestic acquisition experience and CBA performance (Basuil & Datta, 2015). We measured a firm's CBA experience in the same way as we measured its domestic acquisition experience. That is, we identified those acquisitions with a value of at least 50 million US dollars that the firm had made abroad prior to the focal CBA and applied equation (1) to these acquisitions in order to assign greater weight to larger and more recent CBAs. We log transformed the calculated values to reduce skewness. Since our measures of domestic acquisition experience and CBA experience exclude acquisitions with a value below 50 million US dollars, we also created a control variable for a firm's experience with such 'small' acquisitions, again by applying equation (1).

Furthermore, we control for the equity stake that the acquirer obtained in the CBA target, ranging from 50% to 100%. We do so because this stake may affect CBA performance by shaping the chosen post-acquisition approach (Haspeslagh & Jemison, 1991; Malhotra & Gaur, 2013) and thus synergy realization and post-acquisition conflict. Since an acquirer's performance after a CBA may depend in part on the firm's performance prior to the CBA, we control for the latter performance by entering the acquirer's ROA in the year before the CBA (Haleblian & Finkelstein, 1999; Haleblian, Kim, & Rajagopalan, 2006). We also control for an acquirer's international footprint, since that footprint may influence the amount of attention that HQ executives pay to foreign rather than domestic activities (Hendriks et al., 2018) and, thus, the performance outcome of a CBA. Specifically, we enter the average of two ratios, i.e. (i) an acquirer's foreign sales to total sales and (ii) the ratio of the book value of the acquirer's foreign assets to that of its total assets (Carpenter, Pollock, & Leary, 2003; Sullivan, 1994). Both ratios were measured for the year of the focal CBA. We control for an acquirer's size by entering the natural logarithm of the book value of its total assets in thousands of US dollars in the year of the CBA (Beckman & Haunschild, 2002) and for its degree of diversification across industries by entering the natural logarithm

of the number of different one-digit SIC codes among its primary and secondary industries in the year of the CBA. We control for an acquirer's leverage by entering the book value of its total debt to that of its common equity in the year of the CBA (Haleblian & Finkelstein, 1999; Haunschild & Miner, 1997). We also enter a dummy variable coded 1 for acquirers that made one or more other acquisitions in the year they made the focal CBA and 0 for acquirers that made no other acquisitions that year. We do so because serial acquirers may incur time compression diseconomies (Laamanen & Keil, 2008; Vermeulen & Barkema, 2002) and thus realize lower CBA performance (Hayward, 2002; Kusewitt, 1985).

Since firms with more domestic acquisition experience may be more tempted to make CBAs in countries that are institutionally more distant, and since such CBAs may be more challenging and thus perform more poorly, we also include measures of the formal and informal institutional distance between the US and each host country (Dikova, Rao Sahib, & Van Witteloostuijn, 2010). Specifically, we control for formal institutional distance by calculating the Euclidean distance between a host country and the US on the World Bank's six dimensions of governance quality, using the dimension scores reported for the year of the focal CBA (Kaufmann, Kraay, & Mastruzzi, 2009)[5]. Likewise, we control for informal institutional distance by applying Kogut and Singh's (1988) cultural distance index to the scores of a host country and the US on Hofstede's (1980) cultural dimensions[6]. Besides controlling for differences in institutional environments across host countries, we also control for the level of economic growth in the host country by including its average GDP per capita growth rate over the three-year period following the CBA. Finally, we enter year and industry fixed effects based on the completion year of the focal CBA and the primary 1-digit SIC code of the acquirer, respectively.

2.4.5   *Statistical Analysis*

We estimated our statistical models using OLS regression analysis. To test hypotheses 2a through 3b, we interacted a firm's domestic acquisition experience with the moderating

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[5] These dimensions are voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law, and control of corruption.
[6] These dimensions are power distance, individualism, masculinity, and uncertainty avoidance.

Table 2.2 Descriptive statistics and correlations

Variable	Mean	S.D.	1	2	3	4
1. CBA performance	4.18	12.71				
2. Domestic acquisition experience[a]	0.30	0.58	-0.17			
3. CBA size[a]	5.44	1.16	0.00	-0.02		
4. Acquirer's CBA industry relatedness	4.86	3.44	-0.04	0.05	0.10	
5. Subnational diversity in domestic acquisition experience	0.43	0.34	0.12	0.16	0.09	-0.08
6. Industry diversity in domestic acquisition experience	0.37	0.34	0.14	0.19	0.09	-0.12
7. CBA experience[a]	0.09	0.33	-0.05	0.11	0.00	-0.01
8. Experience with small acquisitions[a]	1.84	1.02	0.10	0.03	0.02	-0.11
9. Equity stake obtained	95.81	12.39	-0.06	0.03	0.01	-0.03
10. Acquirer's performance before CBA	6.13	15.42	0.32	-0.10	0.10	0.02
11. Acquirer's international footprint	29.99	18.96	0.04	-0.08	0.11	0.09
12. Acquirer's size[a]	8.45	1.96	0.19	-0.10	0.33	-0.09
13. Acquirer's level of diversification[a]	0.90	0.55	0.15	-0.07	0.09	-0.16
14. Acquirer's leverage	37.67	27.73	0.10	-0.17	0.10	-0.06
15. Acquirer made multiple acquisitions in year of focal CBA	0.19	0.39	-0.02	0.05	0.08	-0.04
16. Formal institutional distance	1.30	1.08	0.04	-0.08	-0.09	0.07
17. Informal institutional distance	1.09	1.24	0.03	-0.09	-0.02	0.01
18. Host-country GDP per capita growth	0.03	0.02	-0.05	0.07	-0.11	0.09

Variable	Mean	S.D.	5	6	7	8
6. Industry diversity in domestic acquisition experience	0.37	0.34	0.73			
7. CBA experience[a]	0.09	0.33	0.00	-0.01		
8. Experience with small acquisitions[a]	1.84	1.02	0.27	0.33	0.03	
9. Equity stake obtained	95.81	12.39	0.00	0.00	0.04	0.05
10. Acquirer's performance before CBA	6.13	15.42	0.05	0.06	0.04	0.10
11. Acquirer's international footprint	29.99	18.96	-0.14	-0.13	0.05	-0.05
12. Acquirer's size[a]	8.45	1.96	0.43	0.39	-0.04	0.29
13. Acquirer's level of diversification[a]	0.90	0.55	0.30	0.35	-0.05	0.20
14. Acquirer's leverage	37.67	27.73	0.04	-0.03	-0.07	0.01
15. Acquirer made multiple acquisitions in year of focal CBA	0.19	0.39	0.12	0.12	0.32	0.16
16. Formal institutional distance	1.30	1.08	0.01	0.00	0.02	-0.01
17. Informal institutional distance	1.09	1.24	0.00	0.02	0.03	0.01
18. Host-country GDP per capita growth	0.03	0.02	0.01	0.03	0.07	0.00

(continued)

Variable	Mean	S.D.	9	10	11	12
10. Acquirer's performance before CBA	6.13	15.42	-0.03			
11. Acquirer's international footprint	29.99	18.96	0.04	0.08		
12. Acquirer's size[a]	8.45	1.96	-0.17	0.17	0.01	
13. Acquirer's level of diversification[a]	0.90	0.55	-0.09	0.07	-0.07	0.30
14. Acquirer's leverage	37.67	27.73	-0.08	0.02	0.02	0.23
15. Acquirer made multiple acquisitions in year of focal CBA	0.19	0.39	-0.02	0.05	0.04	0.29
16. Formal institutional distance	1.30	1.08	-0.26	0.02	0.11	0.14
17. Informal institutional distance	1.09	1.24	-0.20	0.05	0.12	0.15
18. Host-country GDP per capita growth	0.03	0.02	-0.12	0.00	0.05	-0.05
Variable	**Mean**	**S.D.**	**13**	**14**	**15**	**16**
14. Acquirer's leverage	37.67	27.73	0.10			
15. Acquirer made multiple acquisitions in year of focal CBA	0.19	0.39	0.06	0.06		
16. Formal institutional distance	1.30	1.08	0.01	0.06	0.07	
17. Informal institutional distance	1.09	1.24	0.05	0.05	0.08	0.65
18. Host-country GDP per capita growth	0.03	0.02	0.01	-0.02	0.05	0.51
Variable	**Mean**	**S.D.**	**17**			
18. Host-country GDP per capita growth	0.03	0.02	0.33			

Note: N=876, means and standard deviations pertain to non-standardized variables; correlations above |0.07| are significant at p<0.05
[a]Log-transformed

variable concerned. To reduce multicollinearity concerns, we standardized the variables before creating the interaction terms (Cohen, Cohen, West, & Aiken, 2013; Dawson, 2014). We also standardized all other non-dichotomous independent variables, so as to ease the interpretation of their effects. We estimated our models with STATA 15 and clustered the observations by acquirer to generate Huber-White standard errors, which account for (i) heteroscedasticity and (ii) non-independence stemming from the inclusion of CBAs made by the same acquirer.

2.5　　Results

Table 2.2 displays the descriptive statistics of our variables and their correlations. It shows, among others, that the correlation between domestic acquisition experience and CBA

performance is significantly negative ($r = -0.17$), providing tentative support for Hypothesis 1. The highest correlation is that between subnational diversity in domestic acquisition experience and industry diversity in such experience ($r = 0.73$), indicating that the more domestic acquisitions firms make, the more they tend to diversify across both subnational regions and industries. At 0.65, our measures of formal and informal institutional distance also exhibit a substantial correlation, while all other correlations are lower than 0.5. To assess the risk of multicollinearity in our regression models, we inspected the variance inflation factors (VIF) of the independent variables in these models. We found that the highest VIF was only 2.70, which is well below the commonly-accepted threshold of 10, indicating that our results do not contain biases stemming from multicollinearity (Myers, 1990).

Table 2.3 displays the results of the multivariate regression models that we estimated. Model 1 only contains the control variables and shows, among others, that larger CBAs tend to generate smaller performance benefits whereas larger acquirers tend to realize higher performance benefits from CBAs. A firm's pre-acquisition performance and its leverage are also positively associated with CBA performance. The latter result may be caused by the higher interest expenses that more highly leveraged firms usually can deduct from their pre-tax income, causing such firms to have a higher net income and, thus, a higher ROA.

Model 2 tests hypothesis 1, which predicted that domestic acquisition experience would be negatively related to CBA performance. This hypothesis is supported, as the regression coefficient of domestic acquisition experience is significantly negative in Model 2 (p<0.01). Specifically, the coefficient indicates that, on average, a standard deviation increase in domestic acquisition experience translates into a 1.09% decrease in an acquirer's ROA three years after making a CBA.

We also predicted that the negative effect of domestic acquisition experience on CBA performance would be contingent on CBA characteristics. In particular, hypothesis 2a proposed that this effect would be stronger for larger CBAs. This hypothesis is tested in Models 3 and 7 and receives support in both models, as they yield a significantly negative coefficient for the interaction term of domestic acquisition experience and CBA size, although this coefficient is only marginally significant in Model 7 (p<0.1).

Table 2.3 Results of OLS regression analyses of CBA performance

Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Domestic acquisition experience[a] (H1)		-1.09** (0.43)	-1.09** (0.43)	-1.08** (0.43)	-1.08** (0.43)	-1.08** (0.43)	-0.97* (0.43)
Domestic acquisition experience[a] x CBA size[a] (H2a)			-1.04* (0.46)				-0.75+ (0.46)
Domestic acquisition experience[a] x Acquirer's CBA industry relatedness (H2b)				-0.88** (0.35)			-1.09** (0.36)
Domestic acquisition experience[a] x Subnational diversity in domestic acquisition experience (H3a)					0.78* (0.45)		2.38*** (0.70)
Domestic acquisition experience[a] x Industry diversity in domestic acquisition experience (H3b)						-0.16 (0.39)	-1.78** (0.60)
CBA size[a]	-1.31** (0.43)	-1.25** (0.43)	-1.28** (0.43)	-1.26** (0.43)	-1.21** (0.43)	-1.25** (0.43)	-1.24** (0.42)
Acquirer's CBA industry relatedness	-0.59 (0.42)	-0.55 (0.42)	-0.54 (0.42)	-0.52 (0.42)	-0.57 (0.42)	-0.55 (0.42)	-0.62 (0.42)
Subnational diversity in domestic acquisition experience	-0.28 (0.60)	-0.13 (0.60)	-0.10 (0.60)	-0.07 (0.60)	-0.04 (0.60)	-0.15 (0.60)	0.13 (0.59)
Industry diversity in domestic acquisition experience	0.73 (0.61)	0.96 (0.61)	0.90 (0.61)	0.92 (0.61)	0.91 (0.61)	0.97 (0.61)	0.85 (0.61)
CBA experience[a]	-0.22 (0.42)	-0.16 (0.42)	-0.22 (0.41)	-0.14 (0.41)	-0.15 (0.41)	-0.17 (0.42)	-0.23 (0.41)

(*continued*)

Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Experience with small acquisitions[a]	0.50	0.45	0.47	0.45	0.41	0.46	0.39
	(0.45)	(0.45)	(0.45)	(0.45)	(0.45)	(0.45)	(0.44)
Equity stake obtained	-0.35	-0.37	-0.32	-0.34	-0.35	-0.37	-0.26
	(0.41)	(0.41)	(0.41)	(0.41)	(0.41)	(0.41)	(0.41)
Acquirer's performance before CBA	3.61***	3.52***	3.63***	3.55***	3.43***	3.53***	3.43***
	(0.40)	(0.40)	(0.40)	(0.40)	(0.40)	(0.40)	(0.40)
Acquirer's international footprint	0.21	0.19	0.12	0.21	0.17	0.19	0.11
	(0.43)	(0.42)	(0.42)	(0.42)	(0.42)	(0.42)	(0.42)
Acquirer's size[a]	1.85**	1.67**	1.55**	1.68**	1.69**	1.67**	1.62**
	(0.57)	(0.58)	(0.58)	(0.57)	(0.58)	(0.58)	(0.57)
Acquirer's level of diversification[a]	0.71	0.62	0.60	0.55	0.67	0.60	0.54
	(0.47)	(0.47)	(0.47)	(0.47)	(0.47)	(0.47)	(0.47)
Acquirer's leverage	1.02*	0.91*	0.92*	0.93*	0.89*	0.91*	0.94*
	(0.42)	(0.42)	(0.42)	(0.42)	(0.42)	(0.42)	(0.41)
Acquirer made multiple acquisitions in year of focal CBA	-2.04+	-1.95+	-1.80	-1.78	-2.03+	-1.93+	-1.77
	(1.13)	(1.13)	(1.13)	(1.12)	(1.13)	(1.13)	(1.12)
Formal institutional distance	-0.20	-0.19	-0.12	-0.20	-0.18	-0.19	-0.07
	(0.61)	(0.61)	(0.61)	(0.61)	(0.61)	(0.61)	(0.60)
Informal institutional distance	-0.05	-0.14	-0.14	-0.19	-0.17	-0.13	-0.23
	(0.52)	(0.52)	(0.52)	(0.52)	(0.52)	(0.52)	(0.52)
Host-country GDP per capita growth	-0.11	-0.08	-0.11	-0.06	-0.03	-0.09	-0.09
	(0.52)	(0.51)	(0.51)	(0.51)	(0.51)	(0.52)	(0.51)

(*continued*)

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Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Constant	-0.37	0.22	0.58	0.44	0.24	0.22	0.79
	(2.03)	(2.04)	(2.04)	(2.03)	(2.03)	(2.04)	(2.02)
N	876	876	876	876	876	876	876
R-squared	0.234	0.240	0.245	0.246	0.243	0.240	0.261
Adjusted R-squared	0.203	0.209	0.212	0.213	0.211	0.208	0.226
F-value of model	7.57***	7.59***	7.56***	7.60***	7.48***	7.38***	7.55***
F-value of additional variable		6.44*	5.13*	6.21*	3.05+	0.17	5.73***

Robust standard errors in parentheses; + $p < 0.10$ * $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$ (one-tailed if hypothesized, two-tailed if not)

[a]Log-transformed

Based on the latter model, we plotted in Figure 2.1 the relationship between domestic acquisition experience and CBA performance for small and large CBAs; that is, CBAs with a deal value one standard deviation below and above the sample mean, respectively. In line with hypothesis 2a, the figure shows that the impact of domestic acquisition experience on CBA performance is substantially more negative for large CBAs than for small ones.

Likewise, hypothesis 2b proposed that the negative effect of domestic acquisition experience on CBA performance would be stronger for CBA targets whose industry portfolio is more closely related to that of the acquirer. This hypothesis is tested in Models 4 and 7 and also receives support in both models, as they yield a significantly negative coefficient for the interaction term of domestic acquisition experience and CBA-acquirer industry relatedness ($p<0.001$). Figure 2.2, again derived from Model 7, shows that whereas domestic acquisition experience essentially has no impact on CBA performance when the industry portfolios of the CBA target and the acquirer are characterized by low relatedness, such experience substantially harms CBA performance when the industry portfolios of the two firms are highly related.

Hypothesis 3a and 3b predicted that the negative effect of domestic acquisition experience on CBA performance is also contingent on the contextual diversity of the experience. Hypothesis 3a, on the one hand, proposed that subnational diversity in domestic acquisition experience weakens the negative effect of such experience on CBA performance. This hypothesis is tested in Models 5 and 7 and receives support in both models, as indicated by the significantly positive interactions between domestic acquisition experience and its degree of subnational diversity ($p<0.05$ and $p<0.001$, respectively). The interaction plot derived from Model 7 and displayed in Figure 2.3 shows that whereas domestic acquisition experience harms CBA performance when such experience is characterized by low subnational diversity, it improves CBA performance when it is characterized by high of such diversity. Domestic acquisition experience characterized by high subnational diversity thus seems to serve as a form of quasi-international acquisition experience that enables firms to boost the performance of their CBAs.

By contrast, hypothesis 3b proposed that industry diversity in domestic acquisition experience reinforces the negative effect of such experience on CBA performance. Our findings for this hypothesis are not fully consistent, as the interaction between domestic

acquisition experience and its degree of industry diversity is insignificant in Model 6 but significantly negative in Model 7 ($p<0.01$). Since Model 6 does not account for the other contingencies whereas Model 7 does, we cautiously conclude that our results lend tentative support to the hypothesis, suggesting that industry diversity in domestic acquisition experience seems to strengthen the degree to which such experience causes negative transfer effects in CBAs. The interaction plot derived from Model 7 and shown in Figure 2.4 indicates that domestic acquisition experience indeed strongly reduces CBA performance when such experience is characterized by high industry diversity. The figure also indicates that domestic acquisition experience is somewhat positively related to CBA performance when this experience is characterized by low industry diversity. A possible explanation is that firms whose domestic acquisition experience is limited to a single industry may have developed highly specialized domestic acquisition routines and therefore tend to make CBAs in that same industry. Such firms may be able to realize large industry-specific CBA synergies that more than offset the negative transfer effects arising from the fact that their acquisition routines do not account for cross-national institutional differences.

Figure 2.1 Effect of domestic acquisition experience on CBA performance for small and large CBAs
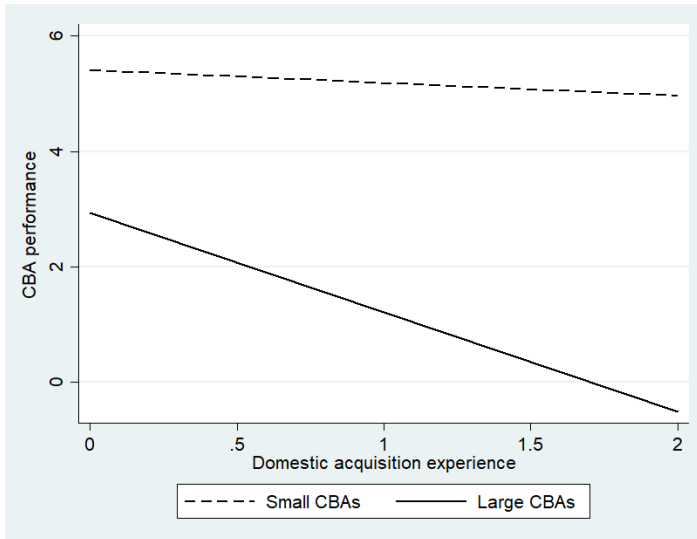
Figure 2.2 Effect of domestic acquisition experience on CBA performance for low and high CBA relatedness
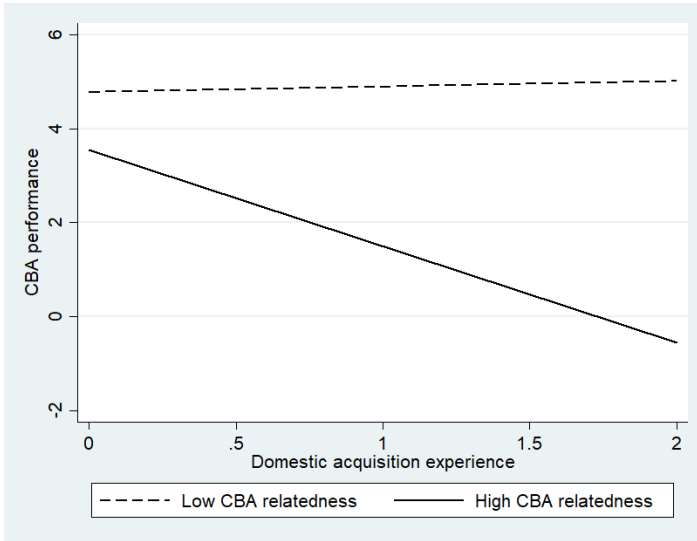
Figure 2.3 Effect of domestic acquisition experience on CBA performance at low and high subnational diversity in domestic acquisition experience
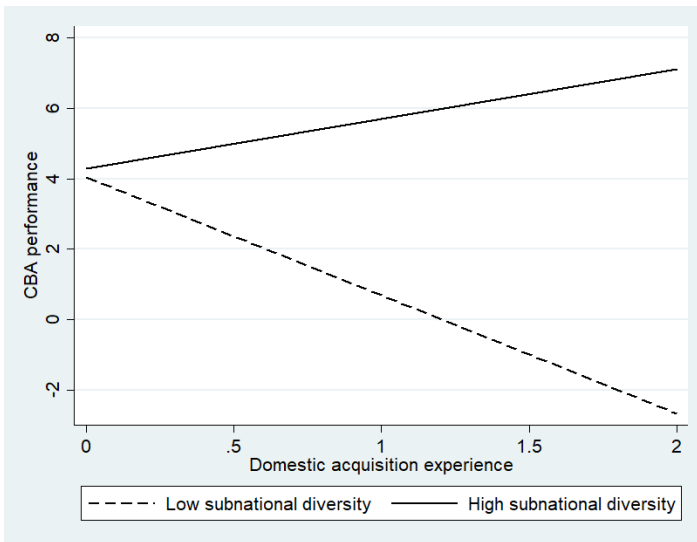
Figure 2.4 Effect of domestic acquisition experience on CBA performance for low and high industry diversity in domestic acquisition experience
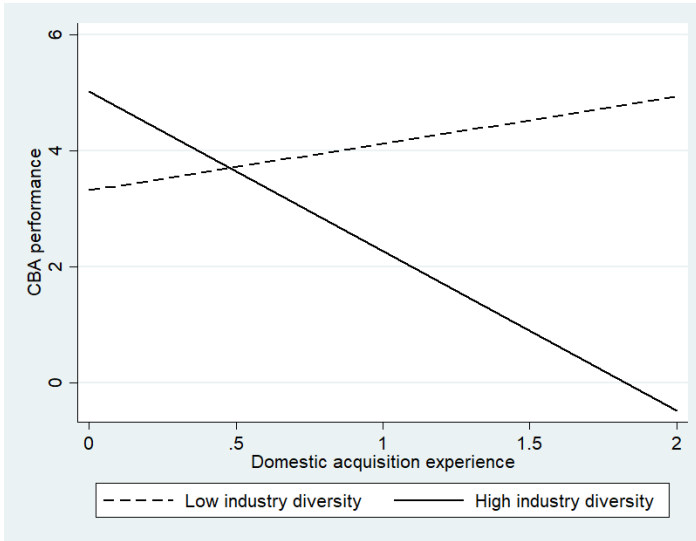
2.5.1 Additional Analyses

Firms without domestic acquisition experience are not subject to the risk that such experience results in negative transfer effects in CBAs, since such firms by definition do not have domestic acquisition routines. Hence their inclusion in our sample should have yielded a conservative estimate of the extent to which domestic acquisition experience generates negative transfer effects in CBAs. To assess this contention and thereby shed further light on the validity of our transfers of learning-based framework, we also estimated our models on a smaller sample of 675 CBAs made by those firms that had at least some domestic acquisition experience. The results are shown in Table 2.4. Despite the reduction in sample size, the regression coefficient of domestic acquisition experience is more negative than that in Table 2.3, the hypothesized interaction effects are generally stronger, and the explanatory power of the models is about 6 to 8 percent higher. These findings provide further evidence that the observed negative relationship between domestic acquisition experience and CBA performance is indeed caused by negative transfer effects.

Besides depending on CBA characteristics and the diversity in a firm's domestic acquisition experience, the negative effect of such experience on CBA performance could

Table 2.4 Results of OLS regression analyses when acquirers without domestic acquisition experience are excluded

Variable	Model 8	Model 9	Model 10	Model 11	Model 12	Model 13	Model 14
Domestic acquisition experience[a] (H1)		-1.64***	-1.69***	-1.67***	-1.38***	-1.64***	-1.40***
		(0.41)	(0.41)	(0.41)	(0.42)	(0.42)	(0.41)
Domestic acquisition experience[a] x CBA size[a] (H2a)			-1.27**				-0.85*
			(0.44)				(0.44)
Domestic acquisition experience[a] x Acquirer's CBA industry relatedness (H2b)				-1.11***			-1.38***
				(0.33)			(0.33)
Domestic acquisition experience[a] x Subnational diversity in domestic acquisition experience (H3a)					1.04**		2.77***
					(0.38)		(0.60)
Domestic acquisition experience[a] x Industry diversity in domestic acquisition experience (H3b)						-0.01	-1.95***
						(0.34)	(0.52)
CBA size[a]	-1.11**	-1.00*	-1.07**	-1.03*	-0.92*	-1.00*	-0.95*
	(0.41)	(0.41)	(0.41)	(0.40)	(0.41)	(0.41)	(0.40)
Acquirer's CBA industry relatedness	-0.26	-0.23	-0.21	-0.14	-0.31	-0.23	-0.31
	(0.42)	(0.42)	(0.41)	(0.41)	(0.41)	(0.42)	(0.41)
Subnational diversity in domestic acquisition experience	-0.37	-0.23	-0.21	-0.17	-0.16	-0.23	0.03
	(0.52)	(0.52)	(0.51)	(0.51)	(0.52)	(0.52)	(0.50)
Industry diversity in domestic acquisition experience	0.61	0.78	0.74	0.77	0.72	0.78	0.74
	(0.55)	(0.55)	(0.55)	(0.54)	(0.55)	(0.55)	(0.53)

(*continued*)

Variable	Model 8	Model 9	Model 10	Model 11	Model 12	Model 13	Model 14
CBA experience[a]	-0.28	-0.13	-0.22	-0.08	-0.09	-0.13	-0.22
	(0.40)	(0.40)	(0.40)	(0.40)	(0.40)	(0.40)	(0.39)
Experience with small acquisitions[a]	0.65	0.54	0.56	0.56	0.46	0.54	0.48
	(0.42)	(0.42)	(0.42)	(0.42)	(0.42)	(0.42)	(0.41)
Equity stake obtained	-0.16	-0.19	-0.12	-0.16	-0.14	-0.19	-0.00
	(0.39)	(0.38)	(0.38)	(0.38)	(0.38)	(0.39)	(0.38)
Acquirer's performance before CBA	3.81***	3.66***	3.80***	3.71***	3.48***	3.66***	3.51***
	(0.38)	(0.38)	(0.38)	(0.37)	(0.38)	(0.38)	(0.38)
Acquirer's international footprint	-0.55	-0.59	-0.69+	-0.57	-0.60	-0.59	-0.65+
	(0.41)	(0.40)	(0.40)	(0.40)	(0.40)	(0.40)	(0.39)
Acquirer's size[a]	1.88***	1.53**	1.41**	1.53**	1.49**	1.53**	1.33*
	(0.54)	(0.54)	(0.54)	(0.54)	(0.54)	(0.54)	(0.53)
Acquirer's level of diversification[a]	0.57	0.45	0.41	0.39	0.55	0.45	0.38
	(0.46)	(0.46)	(0.45)	(0.45)	(0.46)	(0.46)	(0.45)
Acquirer's leverage	0.03	-0.19	-0.19	-0.16	-0.23	-0.19	-0.12
	(0.40)	(0.40)	(0.40)	(0.40)	(0.40)	(0.40)	(0.39)
Acquirer made multiple acquisitions in year of focal CBA	-1.56	-1.39	-1.17	-1.22	-1.49	-1.38	-1.15
	(1.06)	(1.05)	(1.05)	(1.04)	(1.04)	(1.05)	(1.02)
Formal institutional distance	-0.08	-0.10	0.00	-0.12	-0.07	-0.10	0.07
	(0.59)	(0.59)	(0.58)	(0.58)	(0.58)	(0.59)	(0.57)
Informal institutional distance	-0.33	-0.45	-0.44	-0.53	-0.50	-0.45	-0.57
	(0.50)	(0.50)	(0.50)	(0.50)	(0.50)	(0.50)	(0.49)
Host-country GDP per capita growth	0.02	0.11	0.08	0.13	0.21	0.11	0.15
	(0.51)	(0.51)	(0.50)	(0.50)	(0.50)	(0.51)	(0.49)

Variable	Model 8	Model 9	Model 10	Model 11	Model 12	Model 13	Model 14
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Constant	-0.71	0.22	0.54	0.50	0.48	0.22	1.12
	(2.00)	(1.99)	(1.98)	(1.97)	(1.98)	(1.99)	(1.94)
N	675	675	675	675	675	675	675
R-squared	0.283	0.300	0.309	0.312	0.308	0.300	0.343
Adjusted R-squared	0.245	0.262	0.270	0.273	0.269	0.261	0.302
F-value of model	7.43***	7.83***	7.93***	8.04***	7.90***	7.60****	8.49***
F-value of additional variable	15.68****		8.31**	11.04****	7.47**	0	10.30****

Robust standard errors in parentheses; + p < 0.10   * p < 0.05   ** p < 0.01   *** p < 0.001 (one-tailed if hypothesized, two-tailed if not)

^{a}Log-transformed

also depend on the institutional distance to the target country. After all, the fact that domestic experience-based routines do not account for national institutional differences could result in larger negative transfer effects when these differences are larger. To explore this possibility, we interacted our measure of domestic acquisition experience with our measures of formal and informal institutional distance respectively, and added the interaction terms to our regression models, both independently and jointly. We found no significant effects of these terms, suggesting that domestic experience-induced negative transfer effects in CBAs are primarily driven by the mere existence of national institutional differences and not so much by the degree of such differences. Alternatively, the variation in institutional distance in our sample may have been insufficient for detecting significant moderating effects of such distance, given that about 35% of the CBAs were made in Anglo-Saxon countries, whose formal and informal institutions are generally similar to those in the US (Soskice & Hall, 2001).

2.6   Discussion and Conclusion

Overall, the results of our analyses indicate that domestic acquisition experience tends to harm the performance of CBAs, and especially so when an acquirer's HQ is closely involved in the CBA or when the domestic experience is characterized by low subnational diversity or high industry diversity. These findings make several noteworthy contributions to the strategy literature. First, they contribute to the body of research that has found that foreign entrants tend to realize superior performance when they have international or target-country experience with the chosen expansion mode (Barkema et al., 1996; Barkema & Drogendijk, 2007; Gao et al., 2008; Hitt et al., 2016). These studies have argued that by gaining experience with the chosen expansion mode abroad, firms develop international routines that enable them to implement the mode more efficiently and effectively in foreign markets. Our findings complement this view by showing that the routines that firms develop from domestic expansions also affect the success of international expansions, albeit negatively. The reason, we have argued, is that domestic experience-based routines do not account for national institutional differences, causing the application of these routines to foreign expansions to generate negative transfer effects.

Second, our findings contribute to the stream of research on the role of HQ ethnocentrism in the internationalization process (Hurt & Hurt, 2005; Kostova & Zaheer, 1999; Perlmutter, 1969). Studies belonging to this stream have identified several negative consequences of ethnocentrism, arguing for instance that it increases the challenges for foreign subsidiaries of dealing with the potential tension between internal and external conformity pressures (Kostova & Zaheer, 1999). Yet these studies have paid limited attention to the causes of HQ ethnocentrism in the internationalization process. Our findings suggest that, in the context of CBAs, such ethnocentrism is driven to an important degree by a firm's domestic acquisition experience, in that such experience contributes to the development of domestic acquisition routines that are deemed to be equally effective in foreign institutional contexts.

Third, our study contributes to research on knowledge transfers between HQs and foreign subsidiaries (e.g., Ghoshal, Korine & Szulanski, 1994; Gupta & Govindarajan, 2000; Yang, Mudambi & Meyer, 2008). Our results indicate that the negative effects of domestic experience are on average stronger in larger and more closely related CBAs. The likely reason is that in such CBAs HQ managers are more involved in creating a channel for the transmission of domestic routines that are usually located at the corporate HQ. While studies of knowledge transfers in multinational firms have focused on uncovering the determinants of transfers of practices and routines between HQ and foreign subsidiaries, rarely have scholars investigated the effects of such transfers. The theory presented in this study thus contributes to this literature by showing that when expanding abroad, the transmission of practices from HQ to subsidiaries can have harmful effects on a firm's performance. And this is likely to happen particularly when HQ managers transfer domestically developed routines to foreign subsidiaries and coerce subsidiaries' managers to use those routines to conduct local operations.

Another noteworthy finding is that the impact of domestic acquisition experience on CBA performance is contingent on the diversity of such experience in terms of the settings in which previous targets were located. We argued that a more diverse acquisition experience determines whether companies develop the ability to dynamically change M&A routines as a function of the context where the acquired firm resides, as opposed to relying on a unique set of acquisition routines. The first form of diversity we considered is that related to the

sub-national region of previous domestic targets. The results illustrate that for companies whose experience is characterized by higher sub-national diversity the relation between domestic acquisition experience and CBA performance is more positive. The reason, we claimed, is that doing deals in different domestic administrative and cultural contexts trains companies at adapting routines based on the administrative and cultural settings of target firms even when acquiring abroad, which is what is required for CBAs to succeed (Barkema et al. 1996; Barkema & Vermeulen, 1998; Basuil & Datta, 2015). As such, diverse subnational experience helps rather than hinders companies to acquire across borders (as shown in Figure 2.3). This finding complements the conclusions of some previous studies showing that domestic experience sometimes does allow firms to develop capabilities which are useful abroad, like it happens when firms collaborate with foreign multinationals at home (Liu, Gao, Lu & Liolou, 2016).

In contrast, industry diversity of prior experiences brought out a more negative relation between domestic acquisition experience and CBA performance. We argued that this happens because when companies develop an ability to dynamically adapt acquisition routines based on the target's industry, they focus their attention on this type of adaptation. In CBAs, however, this gets managers to lose sight of the necessity to adapt behaviors to local administrative and cultural norms resulting in an even stronger reliance on home-grown routines.

These results contribute to research on dynamic capabilities (Teece et al., 1997): while this research links dynamic capabilities to the ability of firms to sustain corporate performance by adapting their routines after observing changes in the environment, our findings add further nuance to this perspective. Dynamic capabilities help to sustain corporate performance when the adaptation they foster is of the same type as changes that are needed in the focal environment. Yet, dynamic capabilities of a distinct nature (i.e. in our case focused on the CBA target's industry) can also increase the misfit between routines and the environment thus causing a significant decrease in a firm's performance.

We have not intended to argue, nor have we shown, that domestic acquisition experience harms the performance of CBAs during their entire life span. Although domestically-experienced acquirers are likely to rely on their domestic acquisition routines when making a CBA, they will likely eventually stop applying those domestic practices that

turn out to do more harm than good to the CBA. This may take some years however (Slangen & Hennart, 2008). Indeed, some evidence suggests that domestic acquisition experience boosts CBAs' long-run performance, provided that this experience exceeds a certain threshold (Nadolska & Barkema, 2007).

Our work presents some limitations that constitute opportunities for future research. First, our study concentrated on US acquirers because US companies are responsible for the large majority of acquisitions every year (UNCTAD, 2017). Future research however could investigate if the negative transfer engendered by domestic experience is also found for international acquirers coming from different countries. A conjecture that we considered while developing this study is that negative transfers might be a function of the size of a firm's home country. This idea came from the fact that while larger countries, such as the US, tend to have distinctive administrative and cultural environments, smaller countries might not because of the disparate influences they receive from their neighboring countries. Additionally, in smaller countries sub-national environments might not differ too much from each other, thus reducing the possibility for a firm to have sub-nationally diverse experience. With regard to this latter aspect, future studies could investigate whether the actual level of cultural and institutional diversity existing at a national level breeds, for companies having a sub-nationally diverse experience, dynamic capabilities that make such firms more capable of expanding abroad.

Moreover, we focused on acquisitions and acquisition experience because over the last decades M&As have been the primary vehicle of foreign expansion. Yet, transfers of home-grown routines likely also exist and play a significant role in other international expansion modes. As such, an interesting avenue of future research would be to investigate the impact of domestic experience on internationalization performance in the context of greenfield investments, JVs and alliances where the relation between a firm and local stakeholders is of a different nature.

Finally, our theory assumes the role HQ plays in transferring practices from prior experience to new events abroad. Yet, we do not directly examine the behavior of HQ executives. This is an important opportunity for future research not only because it provides the necessary evidence for the underlying logic of our organizational transfer theory of learning but also because HQ executives likely differ in the extent to which they make

negative transfers. Future research can explore how certain HQ executives or HQ processes and policies can help avoid negative transfer effects, and foster more positive transfer effects, when going abroad.

In conclusion, a clearer understanding of the success or failure of firms abroad requires not only looking at what firms do abroad but also what they have done at home. Gaining insight in the more nuanced roles of prior domestic experience on foreign activities is so important because it can have disparate effects on performance abroad. We hope that future studies will continue to investigate the effect of domestic experience on internationalization to better distinguish home-grown capabilities from home-grown disabilities affecting foreign endeavors.

Chapter 3. How Pre-Deal Target Performance Affects Post-Deal Performance in International Acquisitions: The Mediating Role of Task Conflict Between Top Management Teams[7]

ABSTRACT

Pre-deal target performance influences many acquisition decisions throughout the acquisition process. Yet, the literature offers inconsistent accounts of how pre-deal target performance affects post-deal performance. In this study, we aim to shed more light on this relationship in the context of international acquisitions by considering the mediating role of *task conflict* between merging top management teams (TMTs). We argue that prior performance is negatively related to task conflict because, in general, acquiring executives have fewer disagreements on tasks (task conflict) with executives of successfully run foreign targets than they have with executives of less successful foreign targets. Task conflict subsequently has a reversed U-shaped relationship with post-deal performance because creative exchanges across TMTs that are necessary for identifying and realizing synergies are most likely at moderate levels of task conflict. For international acquisitions, this means that acquiring moderately successful targets yields better post-deal performance than acquiring very weak or very strong targets. Results provide support for a curvilinear negative relation between pre-deal target performance and post-deal performance, partially mediated by task conflict among merging TMTs. We also show that international acquisition experience further shapes this mediating mechanism as firms with more international acquisition experience tend to promote relatively more task conflict in deals with more successful targets, while preventing too much task conflict in deals with less successful targets.

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[7] A version of this article is in preparation for journal submission and is co-authored with Taco H. Reus.

3.1 Introduction

Past performance is one of the main criteria executives and stakeholders use to both judge an organization and set their behaviors towards it (Lange, Lee, & Dai, 2011). In particular, when on the market for mergers and acquisitions (M&As), a potential target firm's performance influences important aspects of how a buyer relates to the target. A long research stream indicates that pre-deal target[8] performance informs a wide range of acquisition decisions such as why firms make an acquisition (Morck, Shleifer, & Vishny, 1988; Saxton & Dollinger, 2004), how much they pay for the target (Hunt, 1990; Laamanen, 2007; Slusky & Caves, 1991), and how they approach the target's post-deal integration (e.g. Bilgili, Calderon, Allen, & Kedia, 2017; Franks & Mayer, 1996; Kini, Kracaw, & Mian, 2004). Although scholars in strategic management and finance have emphasized that pre-deal target performance affects important aspects of a deal, how it relates to post-deal performance however is still unclear.

In particular, we have little knowledge of how pre-deal target performance impacts relations between top management teams (TMTs) of merging firms that are core to successful collaboration (Graebner, 2004; Graebner, Heimeriks, Huy, & Vaara, 2017; Shanley & Correa, 1992). While there is a large body of work that has investigated the sources and effects of performance feedback (for a review see Greve, 2003), there is a dearth of knowledge on how the prior performance of one member shapes intergroup dynamics in collaborative agreements. In the acquisition context, this can be critical as pre-deal target performance can shape intergroup dynamics between the TMTs of merging firms in important ways. Such exchanges across TMTs are often necessary to identify and implement synergies and reveal hidden strengths and weaknesses of the target (Graebner, 2004) but are often plagued by frictions (e.g., Shanley & Correa, 1992).

Drawing on social psychological research (e.g. Amason, 1996; Jehn, 1995; Loughry & Amason, 2014), we focus on the role of task conflict among the acquiring and acquired TMTs to understand how pre-deal target performance affects post-deal performance. Task conflict emerges within or between groups when group members disagree on important

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[8] In this chapter, for the sake of readability, we use the term "targets" to identify firms when they are targets of an acquisition and also after they have been acquired.

aspects of implementation of tasks (Amason, 1996). It arises whenever team members, or merging teams, approach problems using different perspectives causing disagreements between them. Scholars have explained that because team members contribute social as well as task-related inputs to teams (e.g. Forsyth, 1983), both relational and task issues shape conflict in teams (e.g. Amason, 1996; De Dreu, 2006; Jehn, 1995). In acquisitions, target executives and acquiring executives form newly combined teams in which task conflicts are likely to arise with respect to key post-deal decisions, particularly when such decisions affect the structures or processes of the target firm (cf. Reus, Lamont, & Ellis, 2015). Such conflict can lead to threats to identity but can also foster important information exchanges (Colman & Lunnan, 2011) because task conflict can stimulate divergent cognitive processes, and lead to greater "critical evaluation and assessment of alternatives" (Jehn & Bendersky, 2003, p. 203).

Building on research on task conflict and intergroup dynamics across TMTs in M&As (e.g. De Dreu & Weingart, 2003; Shanley & Correa, 1992; Simons & Peterson, 2000), we argue that reorganizations that usually follow acquisitions of poorly performing targets are likely to induce task conflicts between the TMTs of joining firms, while acquirers are less likely to interfere in structures and routines of high performing foreign targets thereby avoiding the occurrence of such conflicts. We argue that these pre-deal performance effects on task conflict among TMTs subsequently affect post-deal performance in international acquisitions. While moderate levels of task conflict benefit post-deal performance as differences in perspectives and expectations about post-deal decisions increase managers' focus on acquisition activities and enable them to reach better decisions, too little task conflict hurts post-deal performance because executives across former firm boundaries will be less likely to critique each other's perspectives, limiting fruitful exchanges. At the same time, too much task conflict harms post-deal performance as it stifles relations between TMTs, diverting attention away from acquisition goals and shifting the focus on resolving conflicts (Loughry & Amason, 2014).

We test our hypotheses in the setting of international acquisitions where acquiring executives tend to face more uncertainty, prior performance constitutes a particularly relevant signal, and challenges of intergroup dynamics tend to be more pronounced. Results from analyses on 111 international acquisitions support the notion that pre-deal target

performance indirectly influences post-deal performance through the mediating effect of task conflict. Moreover, we find that the effect of prior target performance on post-deal performance is contingent on the international acquisition experience of the buyer. Experienced acquirers manage the effect of prior target performance on intergroup collaboration so that it leads to more task conflict in acquisitions of successful foreign targets, and less task conflict in acquisitions of unsuccessful foreign targets.

The article contributes to the M&A literature by opening the black box between pre-deal target performance and post-deal performance. We focus on a mediating mechanism of task conflict across TMTs that provides novel insight into why some acquisitions of (un)successful targets show strong post-deal performance, while other acquisitions of (un)successful targets show sub-par post-deal performance. As such, the study provides a more nuanced perspective on the relevance of pre-deal target performance as a key determinant of the quality of managerial relations in acquisitions that is consequential for post-deal performance. Our focus on task conflict places collaborative dynamics across TMTs center stage, which are often regarded as the primary cause of good or bad interfirm relations in cooperative arrangements (Graebner et al., 2017; Korsgaard, Soyoung, Mahony, & Pitariu, 2008; Li & Hambrick, 2005). As such, the study also answers the call for a greater focus on the "human side" of global M&As (Sarala, Vaara, & Junni, 2017, p. 1): by shedding more light on the determinants of managerial collaboration in international acquisitions, we contribute to scholarly efforts to better understand how human interactions determine value creation in global M&As.

3.2 Theoretical Background

3.2.1 Pre-Deal Target Performance and the Acquisition Process

Research on the role of pre-deal target performance has focused on three related questions. A first group of studies emphasizes how pre-deal target performance is related to acquisition motives. For example, Morck et al. (1987) proposed the conceptual distinction between *synergistic* and *disciplinary* acquisitions. A synergistic acquisition is the takeover of a high-performing organization with the purpose of combining resources of the buyer with valuable resources of the target to strengthen competitive advantage of the newly combined firm. Conversely, a disciplinary deal is the acquisition of an underperforming target with the goal

of 'disciplining' the organization by substituting its "non-value-maximizing practices" (p. 101) with value-maximizing ones enabling the acquirer to profit from the consequent performance improvement in the target. Following a similar logic, Saxton and Dollinger (2004) divided acquisitions between *resource picking* and *resource deploying*. A resource picking deal is the takeover of a high-performing organization in which the acquirer derives benefits from the internalization of the target's resources. In contrast, a resource deploying deal occurs when the acquirer profits from getting the target firm to re-gain value by transferring valuable resources to it. While these studies shed light on how pre-deal target performance influences the mutual exchange of resources between merging firms, they tend to ignore how judgments of pre-deal performance can shape relations between members of the acquiring and target firm, which in turn can have affect post-deal performance (e.g. Graebner, 2004; Graebner et al., 2017; Sarala et al., 2017).

A second group of studies concentrated on how pre-deal target performance affects the removal and voluntary departure of target managers in the post-deal phase. This body of work indicates that the turnover of CEOs, board members and other top managers is higher following acquisitions of poorly performing targets than following acquisitions of better performing targets (Bilgili et al., 2017; Hambrick & Cannella, 1993; HomRoy, 2015; Kini et al., 2004; Martin & McConnell, 1991). Scholars often follow the disciplinary logic of the market for corporate control to explain this effect of poor targets, and the human capital logic to explain the effect of successful targets. Top managers of poor targets are removed for lacking professional skills or as a punishment for having supported ill-suited practices that brought the firm in a situation of financial distress (Bilgili et al., 2017; Martin & McConnell, 1991; Morck et al., 1987). Moreover, removals are a measure taken by the acquirer to rationalize costs and reduce the losses of the acquired firm (O'Shaughnessy & Flanagan, 1998). At the same time, target top managers tend to depart voluntarily to escape a loss of personal status which often occurs post-acquisition (Hambrick & Cannella, 1993). While a certain loss of relative standing of target executives can be expected to happen in all acquisitions (Walsh, 1988, 1989), the loss tends to be much bigger the lower the pre-deal target performance (Hambrick & Cannella, 1993).

A third group of studies investigated how pre-deal target performance affects the attitude (friendly versus hostile) of the acquirer. While scholars are still divided as to whether

poor pre-deal target performance leads to more hostile deals (Franks & Mayer, 1996; Lang, Stulz, & Walkling, 1989; Martin & McConnell, 1991), there appears to be a connection between pre-deal target performance and the tone of early negotiations. Hunt (1990) found that takeovers of healthy targets are characterized by long courtship periods and friendly interactions in the months leading to deal closing. Such friendly attitudes are coupled with a general "hands-off" approach from the acquirer in early discussions about the integration of the two companies. Conversely, acquisitions of unhealthy firms are characterized by harsh tones and conflictual behaviors from both sides stimulating a desire from the buyer to quickly seize control of the target once the deal is completed. This scattered stream of research provides evidence that pre-deal target performance shapes the relations between merging firms. We aim to extend this work to shed more light on how pre-deal target performance influences interactions between TMTs of acquiring and foreign target firms that subsequently impact post-deal performance by developing a conceptual connection between pre-deal target performance and post-deal performance through the mediating role of task conflict across merging TMTs (as depicted in Figure 3.1).

Figure 3.1 Theoretical framework
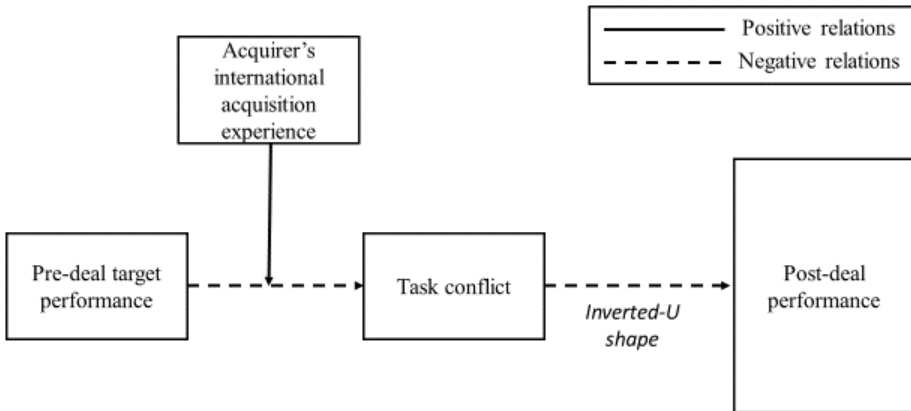
3.3   Hypothesis Development

3.3.1   The Effect of Pre-Deal Target Performance on TMT Task Conflict

Task conflict refers to the extent to which "there are disagreements among group members about the content of the task being performed" (Jehn, 1995, p. 258). In corporate contexts, task conflict often stems from different views regarding "how best to accomplish an organization's objectives" (Amason, 1996, p. 127). In acquisitions, the decision of an acquirer to restructure the target firm due to its poor performance is likely to generate disagreements between the target and acquiring TMTs around integration decisions. While both TMTs may see the need for organizational changes, their distinct backgrounds are likely to bring different perspectives on what is needed and how to implement these changes. Some target TMT members may even want to avoid change, and bring in arguments that oppose any need for change.

In acquisitions, pre-deal target performance gives buying firms a feedback about the quality of the target that informs acquiring executives on how to manage the acquired firm in the post-merger stage. For instance, acquiring high-performing firms is associated with preservation- or symbiosis-like integrations (Haspeslagh & Jemison, 1991) that have the purpose of protecting value-creating mechanisms harbored in acquired firms (Puranam, Singh, & Zollo, 2006). Strong pre-deal target performance then prompts the acquirer to maintain the status quo in the target firm during the integration. As such, when acquiring a high-performing target, there will be a tendency for the acquirer not to carry out organizational changes in the target not to disrupt the sources of its competitive advantage. This will more likely match the preference of acquired executives and increase the likelihood that TMTs avoid disagreements reducing the occurrence of task conflict.

In contrast, weak performance prompts the acquirer to embark in a problemistic search and undertake organizational changes to solve the causes of the underperformance. Indeed, research indicates that weak pre-deal target performance leads to more post-merger restructuring (Franks & Mayer, 1996; Kini et al., 2004; O'Shaughnessy & Flanagan, 1998), and greater changes in management structures of targets (Bilgili et al., 2017; Denis & Kruse, 2000; HomRoy, 2015; Walsh & Kosnik, 1993). Poor pre-deal target performance then signals to acquiring TMT executives a need to impose extensive reorganizations disrupting

structures and power systems in the target (Cyert & March, 1963; Greve, 2003), which are likely to trigger substantial task conflicts across the two TMTs.

In sum, pre-deal target performance affects the extent to which acquiring executives consider the suitability and effectiveness of tasks performed by the target such that poor pre-deal target performance likely evokes more task conflict than strong pre-deal target performance.

Hypothesis 1 (H1): Pre-deal target performance is negatively related to post-deal task conflict between TMTs of merging firms.

3.3.2   The Effect of TMT Task Conflict on Post-Deal Performance

Acquisitions are complex organizational endeavors in which cause-effect relations about appropriate tasks and desired outcomes are often ambiguous (Cording, Christmann, & King, 2008). Such ambiguity is difficult to make sense of by acquiring decision-makers alone because they may often not have a rich understanding of the situation, particularly not in foreign contexts. To make sense of this ambiguity, decision-makers require different interpretations through different perspectives from both the acquiring and target top management (Daft & Lengel, 1986; Krug, Wright, & Kroll, 2013). Research in social psychology emphasizes that some task conflict is important as it stimulates creative thinking thereby helping groups frame innovative solutions in causally ambiguous situations (De Dreu, 2006).

Because top executives of acquiring and target firms tend to have distinct backgrounds and expertise, particularly in international acquisitions (Li & Hambrick, 2005; Nadolska & Barkema, 2014; Olie, 1994), the ability of the combined team of executives to voice contrasting points of view can help the newly created group to recognize problems that would otherwise go unnoticed (e.g. Jehn, 1995; Jehn & Bendersky, 2003). Also, sharing and debating different perspectives on problems can help identify more solutions than would be considered by any single perspective (Amason, 1996; Jehn & Bendersky, 2003). In addition, moderate task conflict is likely to induce a positive tension among TMT members towards the accomplishment of acquisition-related goals. Group-level studies show that some disagreements spur group members to be more participative and increase their efforts

in performing collective tasks (Todorova, Bear, & Weingart, 2014). As such, some task
conflict, by helping groups to identify circumstantial problems and formulate better
solutions to them, and by inducing greater commitment towards acquisition goals, can
positively impact post-deal performance.

Yet, more intense task conflict is substantially different from moderate task conflict
(De Wit, Greer, & Jehn, 2012; Loughry & Amason, 2014). In particular, intense task conflict
tends to strain relations turning the expression of different opinions into more personal
arguments that are more emotional. Intense task conflict is thus indistinguishable from
affective conflict—i.e. interpersonal frictions arising from incompatibilities unrelated to the
task at hand. Such intense task conflict, particularly in international contexts, is likely to
result in clashes between opposing opinions and between the individuals or groups that hold
these opposing opinions.

Moreover, in international acquisitions, intense task conflict likely evokes negative
emotions to spread within subgroups and sharpen "us versus them" perceptions (cf. Vaara,
Sarala, Stahl, & Bjorkman, 2012), reducing organization members' satisfaction and
commitment towards the tasks at hand (de Wit et al., 2012; Jehn, 1995; Loughry & Amason,
2014). Hence, in acquisitions the presence of intense task conflict likely reduces the TMTs'
willingness to interact with each other constructively, shifting their attention toward the
management of intergroup conflict, and away from the management of integration activities
and finding creative opportunities for value creation.

In sum, while moderate task conflict can be expected to benefit post-deal
performance, more intense task conflict likely hurts post-deal performance.

> **Hypothesis 2 (H2):** *Post-deal task conflict has a negative curvilinear (i.e. an inverted-
> U-shaped) relationship with post-merger performance.*

3.3.3   *The Effects of Pre-Deal Target Performance on Post-Deal Performance*

Following the logic linking pre-deal target performance with task conflict, and task conflict
with post-deal performance, we now elaborate on how this mediating mechanism helps
explain the effect of pre-deal target performance on post-deal performance. To make this

clear, it helps to distinguish the cases of targets with weak, moderate, and strong pre-deal target performance.

Weak pre-deal target performance. When pre-deal target performance is very weak, task conflict between the acquiring executives and foreign target executives is likely more intense. To save the target firm from its poor performance, acquiring executives may believe it is necessary to revolutionize the target firm. This may involve spinning off unproductive businesses, performing substantial layoffs and removing top managers responsible for the poor economic situation (Bilgili et al., 2017; Martin & McConnell, 1991; O'Shaughnessy & Flanagan, 1998; Walsh & Kosnik, 1993). In such cases, the acquirer is likely to also feel the need to infuse the target firm with its own practices and link the target to its own structures and resources (Saxton & Dollinger, 2004). As these initiatives are likely to alter longstanding routines of the target and change responsibilities of acquired managers, they are likely to stir intense task conflict among executives. Particularly in an international context, this more often creates a toxic environment among target executives characterized by many disagreements between the TMTs (cf. Sarala, 2010). Although some target managers might see the actions of the acquirer as a 'necessary evil', the uncertainty and ambiguity of a cross-cultural encounter may give rise to inter-group bias, and uncooperative behaviors toward acquiring managers and their proposed plans (Marks & Mirvis, 1985). High levels of task conflict then are likely to hinder implementation of post-deal changes, and have a negative impact on post-deal performance.

Moderate pre-deal target performance. Moderate pre-deal performance likely triggers some level of task conflict across the merging TMTs. The acquirer may bring in some ideas on how to change the target tasks to increase the target's performance, such as by seeking cost reductions or eliminating loss-making assets (Clark & Ofek, 1994; Denis & Kruse, 2000), while foreign target executives are likely to have a sufficiently strong position to bring in their own views on the tasks. In this situation, changes the acquirer implements on the target firm are likely to emphasize opportunities in terms of similarities and complementarities between the firms (Bauer & Matzler, 2014) such as the elimination of duplicated activities, and the creation of connections between units working on complementary tasks (Pablo, 1994).

Such changes to some extent alter structures and processes of the target, and by doing so they affect target managers whose domain of operation is closely related to such activities. This, in turn, is likely to elicit discussions around planned interventions inevitably involving some task conflict at a local level (Allatta & Singh, 2011). Yet, since such changes do not entirely alter the way the company operates, and do not have severe consequences on people at work, they are less likely to give rise to harsh and persistent conflicts. Instead, these conflicts about how to do the tasks are more often an opportunity for mutual learning enabling acquiring and target managers to understand where the source of the partner's competitive advantage resides (Colman & Lunnan, 2011; Graebner, 2004; Graebner et al., 2017). As this additional knowledge can be used to create synergies from the combination of the firms, it will likely reflect in higher post-deal performance.

High pre-deal target performance. Finally, strong pre-deal target performance tends to curb task conflict or may lead to situations where combining teams do not see the need to raise different perspectives. Acquiring executives may actually avoid task conflict altogether for fear that decisions affecting the target firm might disrupt the processes underpinning the competitive advantage of the foreign target (Haspeslagh & Jemison, 1991; Puranam et al., 2006). However, this avoidance approach reduces the occurrence of rich interaction between acquiring and acquired top managers that is necessary to shed the ambiguity that acquiring managers likely perceive when entering a foreign market (cf. Daft & Lengel, 1986). Also, absence of task conflict implies little mutual learning that is important for the creation of value from acquisitions (Colman & Lunnan, 2011; Graebner et al., 2017). As such, strong pre-deal target performance fosters low levels of task conflict in which information exchange is worse than at moderate levels of task conflict (cf. De Dreu, 2006). Thus:

Hypothesis 3 (H3): Task conflict across merging TMTs partially mediates the relationship between pre-deal target performance and post-deal performance, such that, low and high pre-deal target performance evokes task conflict that is less beneficial for post-deal performance than moderate pre-deal target performance.

3.3.4 *The Moderating Effect of an Acquirer's International Acquisition Experience*

In the preceding paragraphs, we have developed a logic that explains how pre-deal target performance affects post-deal performance, partially through the mediating role of task conflict. However, research on task conflict emphasizes that experience can shape whether certain factors affect task conflict. For example, scholars have found that the more collective experience a team has, the less likely turnover leads to increases in task conflict (Kuypers, Guenter, & van Emmerik, 2018). In a similar vein, we expect that a firm's experience in making international acquisitions influences how pre-deal target performance affects post-deal performance.

Firms learn to expand abroad through related experience in focal markets or regions (e.g. Barkema & Schijven, 2008; Nadolska & Barkema, 2007). By learning about the local context, experienced acquirers gain awareness about local circumstances which enables them to empathize with foreign executives. More experienced acquirers are also likely to be more conscious of the negative effects of high levels of task conflict. Having witnessed the negative performance effects of intense task conflict before (cf. Very & Schweiger, 2001), they will be more prone to implement measures aimed at keeping conflict at moderate levels. This difference may become evident in acquisitions of poorly performing targets where less experienced acquirers may be more inclined to enact extensive reorganizations triggering intense conflicts with acquired executives that are likely to harm the performance of the acquisition. More generally, executives from less experienced firms may not have the cultural capabilities that are necessary to succeed in international acquisitions (Reus & Lamont, 2009). Because executives of less experienced acquirers have less of an understanding of unique local circumstances, they may think they have to address weak pre-deal target performance abruptly but are more likely to make errors in judgments that evoke more intense levels of task conflict with target managers.

Furthermore, experienced acquirers are less likely to shy away from task conflict when acquiring high-performing targets. Experienced acquirers that have done more international acquisitions are likely to have built over time a network of foreign subsidiaries connected to some degree with each other (Collins, Holcomb, Certo, Hitt, & Lester, 2009). As a result, they are likely to have more ideas and have developed stronger perspectives about implementing tasks in foreign markets, and feel less dependent on target managers to

navigate the host market (Johanson & Vahlne, 1977; Zaheer, Srilata & Mosakowski, 1997). So when executives of experienced acquirers work with executives from strong targets, they are more likely to bring in their own perspectives that likely evoke moderate levels task conflict with executives of these targets. In contrast, less experienced acquirers may rely much more on target managers from strongly performing targets. When having little international experience, these executives will likely be willing to grant target executives a large degree of autonomy in order to learn from their moves how to behave in the local setting (Johanson & Vahlne, 1977). As a result, when acquiring executives have little experience, strong pre-deal target performance will be less likely to lead to any task conflict, reducing the chance of constructive information exchanges across the TMTs.

In sum, therefore:

Hypothesis 4 (H4): International acquisition experience moderates the relationship between pre-deal target performance and task conflict across merging TMTs, such that for experienced acquirers, pre-deal target performance is more positively related with task conflict, while for inexperienced acquirers, pre-deal target performance is more negatively related with task conflict. As a result, the mediated relationship between pre-deal target performance and post-deal performance is more positive for experienced international acquirers than for inexperienced international acquirers.

3.4 Methods

3.4.1 Sample and Data Collection

Sample. Using Thomson Reuters SDC (henceforth, SDC), we collected cross-border deals completed between 2009 and 2013. To ensure that selected acquisitions were strategically relevant and the acquirer had enough power in the transaction to influence integration decisions, we limited our search to deals larger than $50 million and in which the acquirer purchased at least 50% of the target's shares in the deal. From the pool obtained, we excluded all acquisitions in which either firm was active in a financial business (2-digit SIC=67); we did so to eliminate transactions that had possibly been done for financial rather than strategic reasons thus featuring limited interaction between the TMTs of the firms. Since our main dependent variable is a measure of stock-market return, we further required that acquirers

be publicly listed companies. Because the project team was situated in Europe, we selected acquisitions involving at least one European firm per transaction either as the acquirer or the target. The initial deal collection based on these criteria led to the identification of 997 deals. As a number of companies did multiple deals in the sampled period, and given the difficulty of obtaining reliable answers from the same firm for multiple acquisitions, we concentrated on the largest deal per company only. This further selection resulted in a sample of 767 acquisitions.

Survey design and administration. To collect information on post-merger integration, we developed a survey questionnaire based on the existing literature. Before inviting companies to participate, we pretested the questionnaire with twelve managers and consultants with notable M&A experience. Based on the comments we received from early pre-testers, we improved the questionnaire in several iterations. We concluded the pre-testing when later pre-testers consistently interpreted questions in the way we intended.

Given the international nature of the sample, and to reduce non-response and measurement error caused by language barriers, we had the questionnaire professionally translated into five different languages[9].

Before mailing the questionnaires, we called firms to invite executives to participate. This initial call had a dual purpose: first, it helped us to identify potential respondents having firsthand experience with a certain acquisition—our preference was for M&A managers, CEOs, CFOs, and other upper managers that had been directly involved; second, we used it to establish a direct connection with a potential respondent that may have increased the probability of response. The initial call also permitted a further screening of the sample leading to further eliminations. In particular, we eliminated companies in which organizational policies prohibited employee participation in external surveys (68) and firms

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[9] The languages were Spanish, French, German, Italian, and Dutch. To ensure that the meaning of questions was the same in every language, we had the questionnaire translated from English into each foreign language by a translator and then back translated into English by another translator. When the back-translation was consistent with the original version, we accepted the translation as trustworthy. Conversely, when we found differences in meaning between the original English questionnaire and the back-translated version, we required the translators to work through the differences to ensure that the foreign version reflected the meaning of the original English version.

whose deals did not fit the sample specification for other reasons[10] (93). These last eliminations resulted in a final sample of 606 usable observations.

Survey response and representativeness. After calling the companies, we mailed the questionnaire to each potential respondent together with up to three reminders at a two-week distance from one another. From this effort we received 143 complete usable responses, constituting a 23.59% response rate, which is in line with other survey-based studies on acquisitions (see e.g. Vaara et al., 2012; Zaheer, Castañer, & Souder, 2011). Missing values in the dependent and independent variables left us with a final pool of 111 acquisitions. Table 3.1 shows the composition of this sample in terms of acquirer and target countries, year of completion, deal value, acquirer size and industry. To ensure that responding firms were not different from non-responding ones we compared them in terms of identifiable characteristics (i.e. acquirer size, deal value) using t-tests finding no significant differences between them (Armstrong & Overton, 1977).

3.4.2   *Measures*

We used a variety of sources to calculate the variables in the analyses. Deal-related information was obtained from SDC, whereas balance sheet items and stock market returns were drawn from Datastream. When specific information was missing in Datastream, we manually searched it in companies' annual reports and in BvD's Orbis. To calculate industry averages for industry-adjusted measures, we used Compustat North America and Compustat Global.

Post-deal performance. To gauge post-deal performance, we used a measure of abnormal stock-market return, namely *buy-and-hold abnormal returns* (BHARs) (Barber & Lyon, 1997). Since our interest lies in the identification of performance effects arising from task conflict during post-merger integration, we measured BHARs over a period of twenty-four months after the acquisition announcement. Such a time span is sufficient for task conflict to materialize and for investors to learn about the nature of the relationships between

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[10] We eliminated deals when (a) they turned out to be of non-strategic nature (e.g. the purchase of real estate properties), (b) the acquirer itself had been acquired shortly after the focal deal, (c) the sampled acquisition was an intra-group deal (i.e. the acquired and the target had the same parent company), (d) the acquirer went bankrupt soon after the deal, (e) the target had been immediately divested, (f) the acquirer had been delisted short after the deal.

Table 3.1 Sample characteristics

Acquirer nation	Freq.	Target nation	Freq.	Completion year	Freq.
Australia	1	Albania	1	2009	11
Austria	4	Australia	1	2010	18
Belgium	2	Austria	1	2011	40
Canada	4	Bahamas	1	2012	34
Croatia	1	Brazil	2	2013	8
Czech Republic	1	Canada	3	**Total**	**111**
Denmark	3	Chile	1		
Finland	4	Cyprus	2	**Deal value ($)**	**Freq.**
France	2	Czech Republic	4	50-100 million	32
Germany	2	Denmark	1	101-500 million	48
Gibraltar	1	Finland	2	501-1000 million	18
Iceland	1	France	7	1001-5000 million	10
Ireland	3	Germany	6	>5001 million	3
Italy	3	Hong Kong	1	**Total**	**111**
Japan	4	India	1		
Mexico	1	Ireland	3	**Acquirer size ($)**	**Freq.**
Netherlands	3	Italy	2	0-200 million	11
Norway	1	Lithuania	1	201-500 million	15
Poland	2	Malta	1	501-1000 million	13
Russia	1	Morocco	1	1001-5000 million	44
South Africa	1	Netherlands	6	>5001 million	28
Spain	3	Norway	6	**Total**	**111**
Sweden	12	Poland	2		
Switzerland	10	Russia	1		
Thailand	1	Singapore	1		
Turkey	1	Slovenia	1		
United Kingdom	19	Spain	2		
United States	20	Sweden	4		
Total	**111**	Switzerland	7		
		Turkey	2		
		Ukraine	1		
		United Kingdom	10		
		United States	25		
		United Arab Emirates	1		
		Total	**111**		

(continued)

Acquirer industry	Freq.	Acquirer industry (cont'd)	Freq.
Automotive Dealers & Service Stations	1	Insurance Carriers	2
Business Services	13	Lumber & Wood Products	1
Chemical & Allied Products	19	Metal, Mining	1
Communications	3	Miscellaneous Manufacturing Industries	1
Depository Institutions	2	Nonmetallic Minerals, Except Fuels	2
Educational Services	1	Oil & Gas Extraction	3
Electric, Gas, & Sanitary Services	3	Paper & Allied Products	5
Electronic & Other Electric Equipment	10	Primary Metal Industries	1
Engineering & Management Services	6	Printing & Publishing	1
Fabricated Metal Products	4	Real Estate	1
Food & Kindred Products	4	Security & Commodity Brokers	2
Health Services	1	Transportation Equipment	3
Hotels & Other Lodging Places	1	Water Transportation	1
Industrial Machinery & Equipment	11	Wholesale Trade – Durable Goods	2
Instruments & Related Products	6	**Total**	**111**

merging TMTs and react to it. Other studies on acquisitions have used BHARs and other abnormal-return measures to gauge the effectiveness of integration decisions (e.g. Cording et al., 2008; Rabier, 2017) or the quality of interorganizational relations (e.g. Chakrabarti, Gupta-Mukherjee, & Jayaraman, 2009).

To calculate BHARs, we followed the methodology described in previous studies (i.e. Barber & Lyon, 1997; Chakrabarti et al., 2009): BHARs result from the difference between compounded monthly returns of acquiring firm shares (R_{it}) and compounded monthly returns of an appropriate stock market index (R_{mt}), as in (1)

$$BHAR_{it} = \prod_{t=1}^{T}(1+R_{it}) - \prod_{t=1}^{T}(1+R_{mt}) \tag{1}$$

In (1), t are months starting one month prior to the announcement of an acquisition and ending twenty-four months after it (T) (Cording et al., 2008). Starting the calculation of BHARs one month before a deal announcement is warranted to measure the effect of task conflict that might have arisen already during the negotiation (Hunt, 1990). In (1), market returns were derived using Datastream market indexes of acquirers' home countries. We

preferred BHARs over other measures of abnormal return (such as CAR) because, by compounding excess returns in each period, BHARs "precisely measure the investor experience" (Barber & Lyon, 1997; Mitchell & Stafford, 2000, p. 288). In the Results section below, the results obtained from BHARs are compared to those obtained using a different measure of abnormal returns.

Pre-deal target performance. Since most targets in the sample were private, we used survey items to measure their pre-deal performance. Specifically, we used four items referring to pre-deal target overall performance, market share, sales growth and profitability[11]. Since good and bad performance are subjective measures, we asked managers to rate the target's performance not in absolute terms, but *with respect to the target's competitors*. Anchoring targets' performance to that of competitors is consistent with the behavioral literature suggesting that performance feedback tends to be based on comparisons to similar players—such as other firms in the same market environment (Greve, 2003). Answers to each item were coded on a 5-point Likert scale ranging from "Much worse than its competitors" to "Much better than its competitors". The four items were reduced to one indicator of pre-deal target performance using factor analysis ($\alpha = 0.869$).

Task conflict. We measured task conflict with an adaptation of the scale used by Amason (1996) and Jehn (1995). The scale we used comprised three items focused on the level of task conflict during *the latest major post-deal decision* among the upper managers of both firms. In line with Dillman (2011), we asked respondents to focus on a specific post-deal decision to prevent them from selecting an event characterized by very high or very low conflict reflective of a more general personal liking (or disliking) of the partner firm. A second reason for asking respondents to concentrate on a recent decision was to prevent them from choosing a distant event they might not have clearly remembered. The three items in our scale asked specifically (a) *How many different opinions were there among upper managers of both firms over this decision?* (b) *How many disagreements over different ideas about this decision were there?* (c) *How many differences about the content of this decision did the group of upper managers have to work through?* Answers to these questions were recorded on a 5-point Likert scale ranging from "None" to "A great deal". The three items

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[11] Overall performance was meant to measure other dimensions of performance not captured by the other items, such as innovative performance and new-product development performance.

were reduced to an overall measure of task conflict using factor analysis ($\alpha = 0.818$), and factor scores were used in subsequent statistical analyses.

Acquirer's international acquisition experience. We built our measures of acquisition experience using insights from the literature in organizational learning. Findings from this literature have shown that while organizations learn from all previous events (Argote, Beckman, & Epple, 1990; Argote & Miron-Spektor, 2011) developing task-relevant routines, they learn more from more important events than from less important ones (Cormier, 1987; Gick & Holyoak, 1987), and they learn more from more recent events than from older ones (Anand, Gray, & Siemsen, 2012; Argote et al., 1990). We therefore measured international acquisition experience by counting all previous cross-border deals made by a firm[12], weighting them based on their relative size, and discounting them on the basis of their distance in time from the focal acquisition:

$$ International\ Acquisition\ Experience = \sum_{n=1}^{m} 1 * \frac{value\ transaction_n}{total\ assets_n} * \frac{1}{y_n} \qquad (2) $$

In the equation, *m* is the number of previous international acquisitions and *y* are the years elapsed between the nth previous cross-border acquisition and the focal acquisition. Since experience is unevenly distributed among acquirers, in the analysis we used the logged version of this measurement to reduce the impact of influential observations[13].

Control variables. Since we included international acquisition experience in the analysis, we included also a measure of *domestic acquisition experience* as a control. We measured experience with domestic acquisitions as in (2), counting in this instance domestic instead of international deals and taking again the log of the calculated measure.

As the starting point of our theorization is that pre-deal target performance influences relations with the acquirer, we controlled also for the *acquirer's pre-deal performance*. We did so because previous studies suggest that an acquirer's perception of the target's performance depends not only on the latter but also on the acquiring firm's own performance (e.g. Junni & Sarala, 2011; Lang et al., 1989). As acquirers are public firms, we measured

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[12] In this case too we applied the \$50 million—50% acquired shares threshold that we used for selecting the sample.

[13] As the logarithm of 0 is not defined, we followed the custom practice of adding 1 before taking the logarithm of the experience measure.

their pre-deal performance as their industry-adjusted ROA in the year before the focal
acquisition[14].

The literature on post-merger integration argues that one of the key determinants of
integration success is the amount of resources an acquirer is able to invest in the integration
(Graebner et al., 2017; Haleblian, Kim, & Rajagopalan, 2006). Since this amount is related
to the slack available to the acquirer, we controlled for organizational slack in the year of
the focal acquisition. In line with previous studies, we used *leverage* as a proxy for slack and
measured it as the ratio of total debt to common equity (Haleblian & Finkelstein, 1999;
Haunschild & Miner, 1997).

Next, since studies on internationalization have posited that the *international
footprint* of a firm, i.e. the level of geographical spread of its business activities, tends to
facilitate further foreign expansions (e.g. De Clercq, Sapienza, & Crijns, 2005; Sapienza,
Autio, George, Zahra, 2006) we included a control to distinguish acquirers with high and
low international footprint (e.g. Hendriks, Slangen, & Heugens, 2018). To do so, we asked
respondents to indicate the geographic spread of their firm's activities by ticking one of the
following three options: 90% in the acquirer's home country (option 1); spread across the
region surrounding the home country (option 2); or scattered across different continents
(option 3). We coded a dummy equal to 1 when a respondent chose option 3 and used it as
an indicator that the acquirer had a high rather than low international footprint. Similarly,
we asked respondents whether their firm had *assets in the target's country* before initiating
a deal and/or had *prior business relations with the target firm* as these two types of resources
may result in better post-integration decisions and ultimately in smoother relations with the
target's TMT (Barkema, Bell, & Pennings, 1996; Barkema & Drogendijk, 2007; Stahl,
Larsson, Kremershof, & Sitkin, 2011). To control for these aspects, we coded two dummies
taking the value of 1 when an acquirer had assets in the target's country, and when it had
had relations with the target firm before the start of the current deal, respectively.

Furthermore, the size of the target firm reflects the complexity of post-merger
integration (Shaver & Mezias, 2009). In particular, the greater the *relative size* of the target,

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[14] Since respondents were prevalently acquiring managers, an important reason for using an archival
measure of pre-deal acquirer performance was to reduce the likelihood of self-serving bias in their
responses.

the greater the hurdles the acquirer needs to work through to physically integrate the target. We therefore entered as a control variable the ratio of deal value (used as a proxy for target size[15]) to the acquirer's total assets. Also, as similarities in the industrial backgrounds of the acquirer and the target can affect both inter-organizational relations and post-deal performance (Finkelstein & Haleblian, 2002; Haleblian & Finkelstein, 1999), we included a measure of *acquirer-to-target relatedness.* Specifically, we used Haleblian and Finkelstein's (1999) measure based on the overlap between primary and secondary SIC codes of the firms. Relatedness was calculated by coding 6, 4, 2 for four-, three-, and two-digit primary SIC overlaps; and 3, 2, 1 for four-, three-, and two-digit secondary SIC overlaps and then summing the two scores resulting in a measure ranging from 0 to 9.

In addition, the complexity of making international acquisitions is often ascribed to institutional and cultural differences that exist between the countries of the acquirer and the target. Institutional differences make it harder for the acquirer to settle in the host country and relate to local stakeholders (e.g. Kostova, Roth, & Dacin, 2008; Xu & Shenkar, 2002). At the same time, cultural differences create tensions between merging firms that often lead to poorer post-deal performance (e.g. Olie, 1994; Vaara et al., 2012; Weber, Shenkar, & Raveh, 1996). To control for the effect of institutional differences, we included a measure of *governance quality distance* which was calculated as the Euclidean distance between a pair of acquirer-target countries in the year of the focal acquisition over the six governance quality dimensions assessed yearly by the World Bank (Kaufmann, Kraay, & Mastruzzi, 2009)[16]. On the other hand, to control for *cultural distance*, we applied Kogut and Singh's (1988) formula, $CD_{jk} = \sum_{i=1}^{4} \frac{(I_{ij} - I_{ik})/V_i}{4}$ based on Hofstede (1980) cultural dimensions[17]. In the formula, j and k are a pair of countries, I_{ij} is the index of country j on the ith dimension, I_{ik} is the index of country k on the ith dimension, and V_i is the variance of the ith dimension when considering all countries together[18].

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[15] Since most target firms in the sample were private, the value of their total assets often was not available.

[16] These dimensions are voice and accountability; political stability and absence of violence/terrorism; government effectiveness; regulatory quality; rule of law; and control of corruption.

[17] These dimensions are power distance; individualism; masculinity; and uncertainty avoidance.

[18] Since some acquirer or target countries included in our sample were not covered in Hofstede's survey, we used for them the dimensions pertaining to other near and culturally similar countries.

We also controlled for other relational processes besides task conflict that may characterize TMT interactions affecting post-deal performance. In particular, scholars have considered the role of *behavioral integration*—i.e. the ability of groups to communicate and work in a team-like fashion—as a determinant of the quality of TMT interactions in collaborative situations (Hambrick, 1994; Li & Hambrick, 2005). To measure behavioral integration, we used an adaptation of the scale developed by Li and Hambrick (2005). Again, we invited respondents to concentrate on the most recent major post-deal decision and asked them to indicate their agreement with the following statements: (a) *Communication between upper managers of both firms was open and fluid,* (b) *Upper managers of both firms collectively exchanged their points of view,* (c) *Upper managers of both firms frequently shared their experience and expertise with each other.* Responses were recorded on a 5-point Likert scale ranging from "Strongly disagree" to "Strongly agree". We used factor analysis to reduce the three items to an overall measure of behavioral integration ($\alpha = 0.879$).

Finally, we controlled for the *level of integration,* the level of *employee retention,* and the degree of target *autonomy provision* as they represent concerns of acquired managers and employees that affect their willingness to cooperate and support the acquirer (e.g. Colman & Lunnan, 2011; Marks & Mirvis, 1985). To gauge level of integration, we asked respondents to what extent different departments or functions—i.e. production and engineering; research and development; HR/personnel management; marketing, sales and distribution; budget control systems; IT systems—had been integrated between the two companies. We coded responses on a 5-point Likert scale ranging from "Not at all integrated" to "Completely integrated". Similarly, to assess employee retention in the target, we asked what percentage was retained of different employee groups—top management; middle management; research and development; manufacturing and operations; marketing, sales and distribution; finance, legal and other staff—after the deal. We coded responses on a 5-point Likert scale ranging from "0%" to "100%". In both cases, we derived overall measures of integration and employee retention by taking the mean response across the scale items. To measure autonomy provision, we used a modified version of the scale developed

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Specifically, for Gibraltar we used the scores of Spain, for the Bahamas we used the scores of the United States, and for Iceland, we used the scores of Norway.

by Zaheer et al. (2013). The three items comprising the scale ask respondents to evaluate the extent to which the target retained its decision-making authority during post-merger integration with respect to (a) *strategic direction*; (b) *competitive strategies*; (c) *performance goals*. We recorded responses on a 5-point Likert scale ranging from "Acquiring firm decides" to "Acquired firm decides". We used factor analysis to obtain an overall measure of autonomy provision ($\alpha = 0.802$), and included factor scores in subsequent analyses.

3.4.3 *Analytical Technique*

To test direct and moderated relations we used ordinary least squares (OLS) regression analysis, whereas to test mediated relations we used bootstrap tests of indirect paths (Preacher & Hayes, 2004, 2008; Zhao, Lynch Jr, & Chen, 2010). In both cases we relied on a bootstrap approach to obtain the standard errors and p-values associated to the estimated relations (Efron & Tibshirani, 1994). We used bootstrap tests in the former case because a test of the residuals of normal-based OLS regressions rejected the normality assumption (Brownstone & Valletta, 2001; Miron-Spektor, Erez, & Naveh, 2011). With regard to the test of indirect relations, while earlier studies followed the 'three-step' approach (Baron & Kenny, 1986) to determine the existence of mediation and assessed the statistical significance of mediated paths using Sobel's *z* test, recent contributions have questioned the validity of such approach (MacKinnon, Lockwood, & Williams, 2004; Preacher & Hayes, 2004; Zhao et al., 2010). As a result, scholars have started using a single test of significance of indirect relations (e.g., *a* x *b*) based on random resampling and derivation of confidence intervals through the bootstrap method. Following the common practice, we obtained bootstrap tests by drawing 5000 random samples with replacement from the original sample. The only constraint we imposed was that each acquirer industry and year included in the original sample be selected at least once in each random sample to ensure representativeness (Zhao et al., 2010).

Furthermore, as the OLS regressions in the next section contain interaction terms, non-dichotomous predictors included in the interactions were standardized to ensure that the direct effects of such variables have a meaningful interpretation (e.g. Cohen, Cohen, West, & Aiken, 2013; Dawson, 2014).

Table 3.2 Descriptive statistics and correlations

Variable	Mean	S.D.	1	2	3	4
1. Post-deal performance	0.03	0.48				
2. Pre-deal target performance	0.04	0.92	-0.03[§]			
3. Task conflict	0.03	0.86	0.03[§]	-0.14		
4. Acquirer's international acquisition experience[a]	0.10	0.37	0.00[§]	0.05	-0.06	
5. Acquirer's domestic acquisition experience[a]	0.04	0.10	-0.03[§]	-0.08	-0.11	0.00
6. Acquirer's pre-deal performance	4.08	13.48	0.00[§]	0.08	-0.02	-0.04
7. Acquirer's leverage	68.55	118.92	-0.13[§]	0.10	-0.11	0.00
8. Acquirer's international footprint	0.52	0.50	0.04[§]	-0.03	0.20	-0.12
9. Acquirer has assets in the target's country	0.65	0.48	-0.06[§]	-0.07	-0.11	-0.07
10. Acquirer had previous business relations with the target	0.30	0.46	0.10[§]	-0.07	0.06	0.12
11. Relative size	0.53	1.48	-0.07[§]	-0.09	0.11	-0.05
12. Acquirer-to-target relatedness	5.83	3.21	0.10[§]	-0.07	0.08	-0.12
13. Governance quality distance	1.37	1.09	-0.01[§]	0.03	0.14	0.12
14. Cultural distance	1.40	1.33	0.06[§]	0.05	0.06	0.04
15. Behavioral integration	0.03	0.89	0.11[§]	0.26	-0.01	-0.14
16. Level of integration	4.05	1.18	-0.06[§]	-0.14	0.05	0.05
17. Employee retention	3.54	0.99	0.25[§]	0.48	-0.11	-0.01
18. Autonomy provision	0.06	0.89	-0.04[§]	0.23	-0.10	0.11
Variable	**Mean**	**S.D.**	**5**	**6**	**7**	**8**
6. Acquirer's pre-deal performance	4.08	13.48	0.06			
7. Acquirer's leverage	68.55	118.92	0.06	0.03		
8. Acquirer's international footprint	0.52	0.50	0.06	0.17	0.04	
9. Acquirer has assets in the target's country	0.65	0.48	0.13	0.08	0.06	-0.02
10. Acquirer had previous business relations with the target	0.30	0.46	0.07	0.07	-0.09	0.07

(continued)

Variable	Mean	S.D.	5	6	7	8
11. Relative size	0.53	1.48	-0.08	-0.47	-0.08	-0.13
12. Acquirer-to-target relatedness	5.83	3.21	0.15	-0.01	0.02	0.16
13. Governance quality distance	1.37	1.09	-0.12	0.00	0.06	-0.05
14. Cultural distance	1.40	1.33	-0.06	-0.06	0.06	0.04
15. Behavioral integration	0.03	0.89	-0.09	-0.03	-0.03	-0.04
16. Level of integration	4.05	1.18	0.15	0.06	-0.03	0.05
17. Employee retention	3.54	0.99	-0.08	0.03	-0.14	-0.11
18. Autonomy provision	0.06	0.89	-0.10	-0.06	-0.03	-0.06

Variable	Mean	S.D.	9	10	11	12
10. Acquirer had previous business relations with the target	0.30	0.46	0.11			
11. Relative size	0.53	1.48	-0.26	0.02		
12. Acquirer-to-target relatedness	5.83	3.21	-0.16	-0.11	0.03	
13. Governance quality distance	1.37	1.09	-0.01	-0.19	-0.02	0.00
14. Cultural distance	1.40	1.33	-0.20	-0.02	0.07	0.02
15. Behavioral integration	0.03	0.89	-0.05	-0.09	0.02	0.02
16. Level of integration	4.05	1.18	0.19	0.13	0.01	0.07
17. Employee retention	3.54	0.99	-0.18	-0.04	-0.06	0.01
18. Autonomy provision	0.06	0.89	-0.12	-0.18	-0.02	-0.13

Variable	Mean	S.D.	13	14	15	16
14. Cultural distance	1.40	1.33	0.34			
15. Behavioral integration	0.03	0.89	-0.16	-0.17		
16. Level of integration	4.05	1.18	0.03	-0.03	0.05	
17. Employee retention	3.54	0.99	-0.02	0.10	0.32	-0.18
18. Autonomy provision	0.06	0.89	-0.06	-0.11	0.27	-0.33

Variable	Mean	S.D.	17
18. Autonomy provision	0.06	0.89	0.39

Note: N=111 ([§]N=110); means and standard deviations are calculated on non-standardized variables

[a]Log-transformed

3.5   Results

3.5.1   *Descriptive Statistics*

Table 3.2 reports descriptive statistics and bivariate correlations for the variables in the analyses. The table shows that pre-deal target performance has a negative correlation with task conflict (-0.14), providing initial support for Hypotheses 1, and task conflict has a weak positive correlation with post-deal performance (0.03). The highest correlation among the variables is that between pre-deal target performance and employee retention (0.48) which shows that acquisitions of high-performing targets are associated to higher retention of acquired employees, as previous studies also found (Kini et al., 2004; Martin and McConnell, 1991). Given the presence of correlations nearing 0.5, we measured the variance inflation factor (VIF) in Models 2 and 4 to ensure that multicollinearity had no material effect on our estimates. The highest VIF was 5.08 (below the critical level of 10) indicating that multicollinearity is not a source of bias in the analysis (Myers, 1990).

3.5.2   *Test of Direct Relations*

Models 1 and 2 of Table 3.3 test the relation between pre-deal target performance and task conflict. The models provide partial support for Hypothesis 1, which posits that a higher pre-deal target performance is associated with lower task conflict during integration. The coefficient testing this relation is negative and statistically significant in Model 1 ($p < 0.001$) although it becomes non-significant as soon as the interaction term is added to the equation in Model 2. This implies, as we shall see later, that while the average firm is influenced by pre-deal target performance, acquirers with large and small international acquisition experience respond in different ways, causing different patterns of task conflict to emerge in correspondence to particular levels of pre-deal target performance.

The estimates in Models 3 and 4 of Table 3.4 consider the relationship between TMT task conflict and the post-deal performance of international acquisitions. In Model 3, the linear effect of task conflict on post-deal performance is statistically nonsignificant. Model 4 includes the square term of task conflict, which is negative and statistically significant ($p < 0.001$), providing support for Hypothesis 2 that the relationship between task conflict and post-deal performance has an inverted-U shape (Haans, Pieters, & He, 2016).

Table 3.3 Effect of pre-deal target performance on task conflict

Variable	Model 1	Model 2
Pre-deal target performance[a] (H1)	-0.10***	-0.02
	(0.02)	(0.03)
Pre-deal target performance[a] x Acquirer's international acquisition experience[a,b] (H4)		0.46***
		(0.11)
Acquirer's international acquisition experience[a,b]	-0.04**	-0.24***
	(0.02)	(0.05)
Acquirer's domestic acquisition experience[a,b]	-0.10***	-0.12***
	(0.01)	(0.02)
Acquirer's pre-deal performance	0.00	0.00
	(0.01)	(0.01)
Acquirer's leverage	0.00	0.00
	(0.00)	(0.00)
Acquirer's international footprint	0.39***	0.39***
	(0.05)	(0.05)
Acquirer has assets in the target's country	-0.19***	-0.22***
	(0.05)	(0.05)
Acquirer had previous business relations with the target	0.19***	0.17***
	(0.05)	(0.05)
Relative size	0.05	0.04
	(0.05)	(0.05)
Acquirer-to-target relatedness	0.01	0.01
	(0.01)	(0.01)
Governance quality distance	0.16***	0.14***
	(0.03)	(0.04)
Cultural distance	-0.01	-0.02
	(0.01)	(0.01)
Behavioral integration	0.07	0.06
	(0.06)	(0.05)
Level of integration	0.01	0.02
	(0.03)	(0.03)
Employee retention	-0.06*	-0.10***
	(0.03)	(0.03)
Autonomy provision	-0.05	-0.04
	(0.06)	(0.06)
Constant	-0.21	-0.05
	(0.21)	(0.21)
N	111	111
R-squared	0.14	0.15
ΔR-squared		0.01
Chi-squared	13.84***	25.14***

Note: [a]Standardized; [b]Log-transformed; Chi-squared $* 10^3$
Bootstrap standard errors in parentheses: + p<0.1 * p<0.05 ** p<0.01 *** p<0.001

Table 3.4 Effect of task conflict on post-deal performance

Variable	Model 3	Model 4
Pre-deal target performance[a]	-0.09***	-0.08***
	(0.02)	(0.01)
Task conflict[a]	0.00	0.00
	(0.01)	(0.01)
Task conflict (squared)[a]		-0.10***
		(0.01)
Acquirer's international acquisition experience[a,b]	0.02**	0.01
	(0.01)	(0.01)
Acquirer's domestic acquisition experience[a,b]	-0.01+	-0.02*
	(0.01)	(0.01)
Acquirer's pre-deal performance	0.00	0.00
	(0.00)	(0.00)
Acquirer's leverage	0.00	0.00
	(0.00)	(0.00)
Acquirer's international footprint	0.06	0.11*
	(0.05)	(0.05)
Acquirer has assets in the target's country	-0.01	0.00
	(0.05)	(0.04)
Acquirer had previous business relations with the target	0.11***	0.11***
	(0.03)	(0.03)
Relative size	-0.03***	-0.03***
	(0.01)	(0.01)
Acquirer-to-target relatedness	0.01	0.01
	(0.01)	(0.01)
Governance quality distance	0.01	0.02
	(0.03)	(0.03)
Cultural distance	0.01	0.01
	(0.01)	(0.01)
Behavioral integration	0.07***	0.04*
	(0.02)	(0.02)
Level of integration	-0.04**	-0.05***
	(0.01)	(0.01)
Employee retention	0.16***	0.14***
	(0.02)	(0.02)
Autonomy provision	-0.09**	-0.10***
	(0.03)	(0.03)
Constant	-0.47***	-0.41***
	(0.05)	(0.05)
N	110	110
R-squared	0.15	0.18
ΔR-squared		0.03
Chi-squared	52.05***	71.61***

Note: [a]Standardized; [b]Log-transformed; Chi-squared * 10^3
Bootstrap standard errors in parentheses: + p<0.1 * p<0.05 ** p<0.01 *** p<0.001

This implies that intermediate levels of task conflict are associated with high post-deal performance, while higher or lower levels of task conflict are associated with lower performance. The graph in Figure 3.2 shows that the most positive post-deal performance is observed for deals in which TMT task conflict is slightly above the sample average[19] ($\approx$0.1 S.D.)—the point denoted as *max* on the graph. As we move away from this point in both directions, post-deal performance declines until it becomes negative. The points denoted as *lower bound* (task conflict $\approx$-1.25 S.D.) and *upper bound* (task conflict $\approx$1.1 S.D.) represent the levels of task conflict at which post-deal performance shifts from positive to negative As a level of task conflict higher than the upper bound is associated to more negative post-deal performance than task conflict lower than the lower bound, the graph shows that an excess of task conflict is more detrimental than a near absence of task conflict.

Figure 3.2 Effect of task conflict on post-deal performance
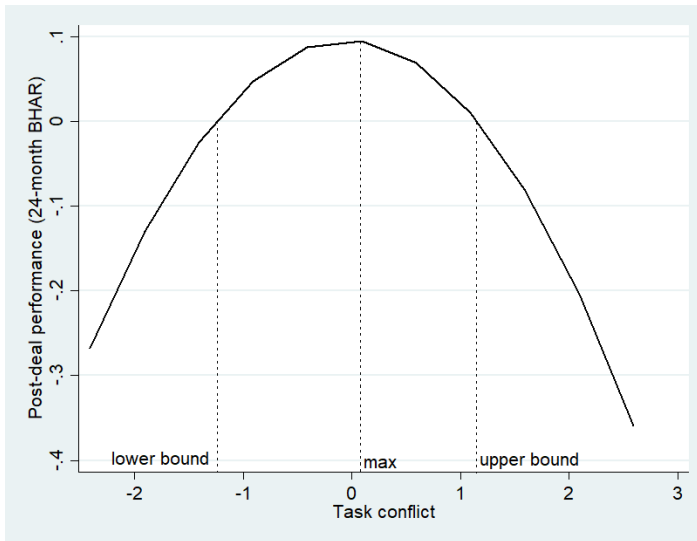
3.5.3   *Test of Mediated Relation*

Table 3.5 presents the analysis of mediated relations. To help the interpretation of the estimated coefficients, Figure 3.3 contains a graphical outline of the paths in the analysis. To conduct the analysis, we combined the coefficients representing the relations between

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[19] As task conflict is standardized, the sample average is 0.

Table 3.5 Path analysis of mediated relations

Relation	Path	Coefficient	95% bootstrap confidence intervals	
{1} Mediated effect (total)	$a\,c + a\,d + a\,b\,c + a\,b\,d$	-0.046**	-0.080	-0.012
{2} Mediated effect (linear)	$a\,c + a\,b\,c$	-0.001	-0.010	0.008
{3} Mediated effect (quadratic) (H3)	$a\,d + a\,b\,d$	-0.045**	-0.072	-0.018
{4} Direct effect	e	-0.082***	-0.110	-0.054
{5} Total effect	$a\,c + a\,d + a\,b\,c + a\,b\,d + e$	-0.128***	-0.169	-0.087

N=110; + p<0.1 * p<0.05 ** p<0.01 *** p<0.001

Figure 3.3 Outline of relevant paths in the model
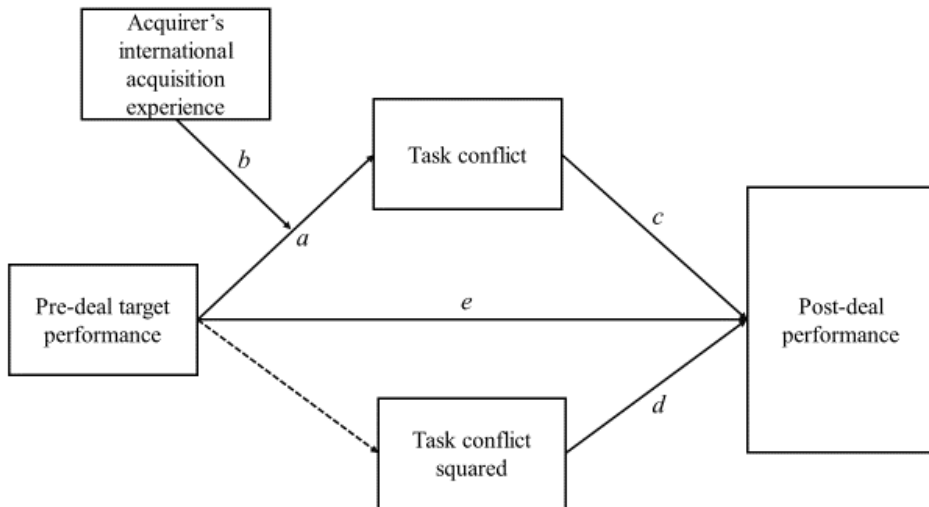
pre-deal target performance and task conflict (*a*), between task conflict and post-deal
performance (*c*, *d*), and between the interaction of pre-deal target performance and acquirer
international acquisition experience, and task conflict (*d*) (see next section for a more
extensive discussion of this effect). The model also includes the direct effect of pre-deal
target performance on post-deal performance unmediated by task conflict (*e*). Following
Hayes and Preacher (2010), in Figure 3.3 we represented task conflict squared as separate

from task conflict. This representation is a visual aid to help understand what paths were used to assess the presence of a particular mediated effect. The estimates of task conflict and its squared transformation however were both obtained from the same model of post-deal performance. Specifically, the models that were estimated to derive paths *a* and *b*, and *c, d* and *e* were equivalent to Model 2 and 4 respectively. The only difference is that while Model 2 and 4 were estimated as unrelated equations, the equations from which we obtained the coefficients used in this analysis were estimated simultaneously (Zhao et al., 2010). Coefficient {1} in Table 3.5 provides consistent support that pre-deal target performance influences post-deal performance *through* the mediated effect of task conflict ($p < 0.01$). The decomposition of such relation into linear {2} and quadratic {3} components sheds more light on the shape of the indirect relation. In particular, the lack of statistical significance for {2} shows that pre-deal target performance is unlikely to influence post-deal performance in a linear fashion. On the other hand, the strong statistical significance associated to {3} ($p < 0.01$) supports the notion that pre-deal target performance and task conflict are tied by a quadratic indirect relation, similar to that linking task conflict and post-deal performance. This provides strong support for Hypothesis 3. Another interesting result, consistent with the estimates in Table 3.4, is that pre-deal target performance influences post-deal performance also in a direct way {4} without any intermediate role of task conflict. The statistical significance for this estimate ($p < 0.001$) and its negative sign show that, all else equal, acquisitions of poorer targets are associated to better post-deal performance.

3.5.4 *Test of Moderated Relation*

Hypothesis 4 argues that acquirers with large and small international acquisition experience respond differently to pre-deal target performance. Differences are expected both in acquisitions of poor and high performing targets. In the former case, as more experienced acquirers are aware of the negative implications of strong conflicts, they are likely to keep task conflict low, while less experienced acquirers are more likely to let task conflict escalate perhaps due to an urge to restructure the target firm. At the same time, less experienced acquirers are likely to avoid conflict with executives of high performing targets on whom they depend to navigate the host market. Conversely, more experienced acquirers are likely

to stir more task conflict with executives of high performing targets as they bring in ideas on how to manage the post-merger process derived from their previous acquisitions.

To test whether the effect of pre-deal target performance on task conflict (and subsequently on post-deal performance) depends on prior international acquisition experience, in Model 2 we interacted pre-deal target performance with international acquisition experience. The estimated coefficient shows a positive sign and strong statistical significance ($p < 0.001$), providing initial support for Hypothesis 4. Figure 3.4 displays the interaction plot and offers further insights on this effect. First, the negative slope for less experienced acquirers and the positive slope for more experienced acquirers provide evidence that the effect of prior experience is in line with our theorization, as expressed in Hypothesis 4. Second, Figure 3.4 contains a projection of the lower bound, max and upper bound points that were identified in Figure 3.2. Looking at these threshold points it is possible to derive how international acquisition experience influences the relation between pre-deal target performance and post-deal performance via task conflict. It is important to remember that the line corresponding to the point max represents the level of task conflict associated with the highest post-deal performance. Thus, all points above this line are associated to excessive task conflict, while all points below the line are associated to 'suboptimal' task conflict. At the same time, all points in the region in-between lower bound and upper bound are associated to positive post-deal performance. What emerges from Figure 3.2 therefore is that both more and less experienced acquirers have lesser problems with acquisitions of high performing targets, as in such deals post-deal performance tends to be positive. Instead, where acquirers struggle is with acquisitions of (extremely) poor performing targets. In these situations, deals of both groups of acquirers are characterized by negative post-deal performance. Yet, while for more experienced firms this negative performance is associated to very low levels of task conflict, for less experienced firms it is associated with very high task conflict. Since excessively high task conflict is related to lower post-deal performance than scant task conflict, then more experienced acquirers perform better in these situations than firms with less acquisition experience. In addition, since more experienced acquirers rarely exceed the optimal level of task conflict as opposed to inexperienced acquirers that often do, the average post-deal performance for the former can be expected to be higher than that of the latter—providing support to Hypothesis 4.

3.5.5 Additional Analyses

To test the robustness of the results, we conducted some additional tests. First, we replaced factor scores of survey-based variables with the respective mean responses. We did this for pre-deal target performance, task conflict, behavioral integration, and autonomy provision. The use of mean values in place of factor scores led to results that were consistent with those presented above. Second, to assess the robustness of BHARs as an indicator of post-deal performance, we replaced it with Jensen's alpha (Jensen, 1968), which is another abnormal return measure to gauge acquisition performance.

Figure 3.4 Effect of pre-deal target performance on task conflict at high and low levels of international acquisition experience
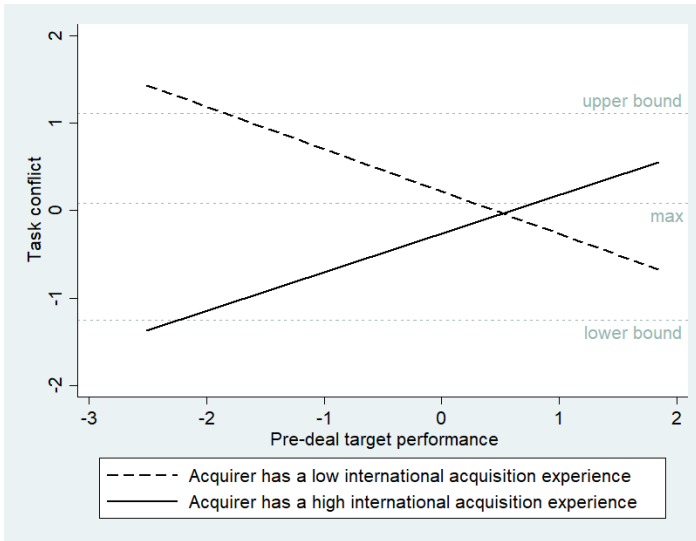
To calculate Jensen's alpha, we followed the procedure described in Cording et al. (2008) by regressing the monthly return of an acquirer's shares on the monthly return of the country-level market index (the market indices here were the same we used for BHARs), for the twenty-five months starting one month prior to the acquisition announcement and ending twenty-four months after it. The constant term that resulted from this regression is Jensen's alpha. The equation we estimated is illustrated in (3):

$$R_{jt} = \alpha_j + \beta_j R_{mt} + \epsilon_{jt} \tag{3}$$

R_{ij} is the return of j-th acquirer's common stock in month t, R_{mt} is the return of the market index in month t, α_j is Jensen's alpha, β_j is firm j's stock price variance relative to the variance of the stock market index, and ϵ_{jt} is the error term. Replacing BHARs with Jensen's alpha yielded estimates consistent with those presented above.

3.6   Discussion and Conclusions

The purpose of this study was to gain insight into the role of pre-deal target performance in the post-deal performance of international acquirers. Previously, scholars linked pre-deal target performance to several integration decisions such as the retention of the target CEO and top managers (e.g. Bilgili et al., 2017; HomRoy, 2015; Walsh & Kosnik, 1993), the exchange of knowledge and resources between acquirer and target (Saxton & Dollinger, 2004), and the extent of target firm's restructuring (Clark & Ofek, 1994; Denis & Kruse, 2000). Yet, in these studies the relation between pre-deal target performance and post-deal performance remained unclear. With our study, we identified TMT task conflict as an important mediating mechanism explaining the effect of pre-deal target performance on post-deal performance. Our theory postulates that the lower the pre-deal target performance, the more likely task conflict emerges between the TMTs. A likely reason for this is that acquiring managers embark in more problemistic searches and implement changes in the acquired firm to improve the target's performance. These changes modify target's operating routines and power structures, sparking task conflicts between the firms' TMTs regarding how to best organize the target. Task conflicts that develop between TMTs in turn have a significant effect on post-deal performance. Some task conflict reflects a fruitful exchange, and critical view, of perspectives, which enables TMT members from both sides to scrutinize a variety of alternatives increasing the quality of post-merger decisions. Some task conflict also strengthens the focus on integration tasks which results in managers striving harder to reach deal-related goals.

In contrast, too little or too much task conflict hurts post-deal performance. Too little task conflict reflects at least in part a lack of deep-level managerial interaction that limits the extent to which mutual learning can occur (cf. De Dreu 2006). Conversely, too much task conflict is likely to turn the expression of different perspectives into interpersonal clashes that undermine the collaborative climate diverting attention away from acquisition goals (cf.

Loughry & Amason, 2014). As such, there is an 'optimal' level of task conflict that is associated with the highest post-deal performance. Task conflict higher and lower than that results in a decrease in post-deal performance. In particular, an increase in task conflict equal to one standard deviation starting from the optimum leads to a decrease in post-deal performance of about 10%. For a firm with a market capitalization of one billion dollars this implies a potential loss of $100 million in post-deal abnormal returns. Similarly, a decrease in task conflict of one standard deviation from the optimum leads to a decrease in post-deal performance of about 7%, corresponding, for the same firm, to a loss of about $70 million in post-deal abnormal returns.

Thus, the findings of this study indicate that acquisitions of targets whose pre-deal performance is neither too low nor too high generate better post-deal performance. Given the managerial interplay that arises when the pre-deal target performance is either very high or very low, the integration of these companies can be expected to be harder and associated to lower value creation. These findings provide some support for, and clarify, common anecdotal evidence: the business press often mentions cases of acquisitions of high performing firms that fail to generate value due to insufficient interaction between the buyer and seller (e.g., eBay-Skype and Microsoft-LinkedIn[20]). Likewise, examples of acquisitions of firms with very low pre-deal performance that floundered due to managerial conflicts are also quite common – e.g., some stories about venture capital-led acquisitions are indicative of these situations.

The other salient finding of our study is that the way in which acquirers respond to pre-deal target performance is contingent on their experience with previous international acquisitions. It appears that international acquirers behave in different ways depending on whether they made more or less prior international acquisitions. The situation in which differences in behavior are most evident and consequential is when firms acquire extremely poor performing targets. In these cases, more experienced acquirers, perhaps knowing the perils of excessive task conflicts, take measures to avoid too much task conflict. By contrast, less experienced acquirers, perhaps because of the urge to merge through restructuring, tend to stir more task conflict with acquired executives. Despite the differences, however, both

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[20] Pre-deal performance is not to be intended only in a financial sense; in these cases, for instance it has to do with to the unique ability of the target firm to attract users.

behaviors are not ideal for post-deal performance. Experienced acquires tend to have too little task conflict when acquiring poorer targets perhaps because the executives of the poor performing foreign targets rely too much on the new parent for strategic direction, which limits the extent to which the acquirer appreciates the perspectives of the target. Inexperienced acquirers in contrast tend to show poorer value creation from acquiring poor foreign targets because they trigger too much task conflict, which deteriorates relationships between the TMTs of the firms. However, since too much task conflict has worse consequences than too little task conflict, experienced acquirers tend to perform better on average than inexperienced ones also when acquiring poorer targets.

This finding contributes to the literature on acquisition experience by enriching it with an interesting nuance. Whereas previous studies argued that greater acquisition experience provides firms with better abilities to acquire (Barkema & Schijven, 2008), often it remained unclear what these abilities consist of. The results of our study suggest that one important ability may be the different way in which more and less experienced firms manage conflicts and disagreements with acquired top managers.

This study also contributes to the M&A literature by directing the focus towards the importance of TMT relations. Although some scholars have pointed to the centrality of such relations to establish a lasting collaboration that "facilitates the realization of expected and serendipitous post-merger synergies" (Graebner et al., 2017, p. 13), empirical evidence regarding the dynamics surrounding such relations has remained scant. In this regard, our study helps to shed light on this aspect by drawing attention towards the intergroup process of task conflict and by identifying pre-deal target performance as an important determinant of it. As such, our study responds to calls for more research on the "human side" of M&A to shed light on what determines the behaviors and emotions of actors involved in acquisitions leading to the creation (or destruction) of corporate value (Sarala et al., 2017).

The study has some theoretical and empirical limitations that offer fruitful opportunities for future research. First, throughout the paper, we have discussed the negative consequences of too much or too little task conflict. From the data available to us, however, it is not clear what decisions or behaviors lead to excessively high or low levels of conflict. For instance, we have seen that when experienced acquirers buy targets whose pre-deal performance is extremely poor, the associated level of task conflict is very low. There may

be different reasons *why* this occurs. Experienced acquirers could develop methods (e.g. incentives for acquiring or acquired managers) that reduce task conflict under these situations, or targets may be willingly or unwillingly more supportive of the perspectives of experienced acquiring executives and feel they have a weaker position to bring in alternative perspectives. Alternatively, experienced buyers may be quick to opt for the total absorption of the foreign target thus eliminating task conflict altogether. Additional research can produce relevant insights on this aspect. In particular, knowing what actions fuel unmanageable task conflict or lead to the willing or unwilling avoidance of task conflict would be important to understand better.

The results clearly show that a moderate level of task conflict has positive effects on post-deal performance. A subsequent question that our analyses have not answered however is what post-merger decisions benefit more (or less) from the presence of task conflict. This question is not trivial as, in some situations, debates are likely to be less helpful to the success of an acquisition and may even be detrimental for the merger process (de Wit et al., 2012; Jehn, 1995). Yet, in other circumstances, perhaps those characterized by high ambiguity (Cording et al., 2008), debates and exchanges of different points of view may be essential to improve the quality of strategic decisions (Jehn & Bendersky, 2003).

Finally, one of the main outcomes of our study is that acquisitions of firms whose pre-deal performance is neither too high nor too low are the ones likely associated with the highest post-deal performance. Yet, the exact sweet spot in terms of pre-deal target performance is difficult to deduce from our analysis. Future research based on large archival datasets could therefore explore the relation between pre-deal target performance and post-deal performance in a multitude of contexts, perhaps as a function of the type of deal being conducted (e.g. related vs unrelated), or of the dynamics observed in the acquirer and target markets (e.g. growth, maturity, decline), so as to identify which absolute or relative level of pre-deal target performance is associated with the highest post-deal performance. This likely would provide acquiring managers with a useful tool to help select acquisition targets.

Chapter 4. Analyzing the Influence of External Information on Acquisition Completion Decisions: The Role of Market Reactions and Financial Analyst Assessments[21]

ABSTRACT

Information asymmetries between acquirers and targets are argued to create significant challenges for acquiring firms. We refine our knowledge regarding the role of external information intermediaries during the pre-acquisition phase with a focus on the reduction of the information asymmetries oppressing the acquiring firm. Specifically, we argue that the acquirer continues to receive new information following the acquisition announcement. Based on this new information, acquiring managers are able to update their evaluation of the target firm and the synergy potential of the proposed deal which will subsequently be reflected in the decision to complete or abandon the deal. We test our theory using a sample of 1,123 domestic US acquisitions from the years 2010 to 2013, and find empirical support for our theoretical framework.

4.1   Introduction

Acquisitions remain the main vehicle for external growth (Haleblian, Devers, McNamara, Carpenter, & Davison, 2009); an observation that is underlined by more than 40,000 acquisitions with a combined volume of more than 3.5 trillion US$ that have been announced in 2014 (Chakrabarti & Mitchell, 2016). However, despite the frequency with which acquisitions are undertaken, they continue to be plagued by high failure rates, loss of shareholder value, and other forms of poor post-acquisition performance (King, Dalton, Daily, & Covin, 2004; Moeller, Schlingemann, & Stulz, 2005). While many explanations for these high failures rates exist (Haleblian et al., 2009), prior work has identified the

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[21] A version of this article was presented at the Academy of Management Conference. The article is co-authored with Mirko Benischke and Ruben Verdoorn.

problem of adverse selection as a key reason for underperforming acquisitions (e.g. Akerlof, 1970; Capron & Shen, 2007).

Adverse selection refers to challenges that arise from the information asymmetry between buyer and seller during the pre-acquisition process (Akerlof, 1970). Sellers tend to possess superior information about the true value of the resources residing in their firms. This is problematic because sellers have an incentive to exploit their advantageous position by misrepresenting information that the acquirer would need to adequately evaluate and price the acquisition opportunity in order to achieve the best possible price for their assets (Capron & Shen, 2007). In an attempt to advance our understanding regarding the effect of the aforementioned information asymmetry on the buyer's acquisition strategy, we examine two interrelated research questions: (1) Do stock market reactions, changes in analysts' investment opinions, and credit watch placements following an acquisition announcement influence the information asymmetry between acquirer and target thereby influencing the acquirer's decision to complete or abandon the deal?; and (2) Does the listing status (private versus public) of the target influence the value of the information conveyed by these external information sources?

In addition to studying the performance implications of adverse selection (Capron & Shen, 2007; Moeller, Schlingemann, & Stulz, 2004), previous research has also examined the effect of information asymmetries on the negotiation between buyer and seller and target selection processes (e.g. Eckbo, Giammarino, & Heinkel, 1990; Shen & Reuer, 2005). These studies show that information asymmetries are highly problematic because buyers have to invest more resources to gather additional information about the target, are confronted with more intensive and prolonged negotiations with the seller, and may eventually shy away from advantageous deals due to the fear of misrepresentations by the target firm (e.g. Coff, 1999; Eckbo et al., 1990). This body of work underscores the challenges information asymmetries pose to acquirers during the pre-acquisition process; i.e., the phase starting with the private initiation of the acquisition to the resolution of the intended deal (Boone & Mulherin, 2007). Specifically, existing work focuses on the *private pre-acquisition phase* – i.e., the period that commences once the buyer initiates the process of identifying one or more potential targets and ends once a preferred target has been identified, the initial

negotiations between buyer and seller have been completed, and the acquisition attempt has been made public (Boone & Mulherin, 2007).

The studies noted above, however, tend to neglect the fact that the buyer continues to receive new information about the real value of the assets residing in the target firm following the public announcement of the proposed deal (Chakrabarti & Mitchell, 2016). In fact, the acquisition announcement only initiates the *public pre-acquisition phase* that on average lasts 62 days (Muehlfeld, Rao Sahib, & van Witteloostuijn, 2012) during which buyers receive new information regarding the announced acquisition from a variety of external sources such as stock markets (in the form of stock market reactions to the acquisition announcement), investment analysts, and credit rating agencies. The public pre-acquisition ends with the completion or abandonment of the announced deal (Muehlfeld et al., 2012). In this study, we argue that the additional information buyers receive during the public pre-acquisition phase will reduce the information asymmetry between buyer and seller that continues to exist after the due diligence process. Based on this new information, the buyer may subsequently re-evaluate the acquisition opportunity and either go ahead or withdraw the proposed deal.

We further argue that the value of the additional information conveyed by stock markets, investment analysis, and credit rating agencies will vary depending on the listing status of the target firm. Capron and Shen (2007), among others, find evidence for their argument that the problem of adverse selection is more prominent in the case of privately held compared to listed target firms. This is because the acquirer will have access to more relevant information about publicly listed firms due to the disclosure requirements these firms have to fulfill. However, this logic also applies to external parties including shareholders, investment analysts, and credit rating agencies. That is, these information intermediaries will also find it more difficult to access information about private compared to public target firms. Therefore, the accuracy and reliability of information that can be inferred from movements in the share price, re-evaluation of analyst recommendations, and credit watch placements is most likely higher for public target firms given the abundance of information.

In this study, we seek to make the following contributions to the literature. First, our study complements existing work by adopting a more dynamic perspective on the effect of

information asymmetries on acquisition strategies. Previous work assumes that the information asymmetry between buyer and seller remains static once the target has been selected and the acquisition attempt has been made public (e.g., Capron & Shen, 2007; Coff, 1999; Eckbo et al., 1990). Yet, not only does the due diligence process continues once a target has been selected and the acquisition announced (Arend, 2004; Chakrabarti & Mitchell, 2013), but external information intermediaries will also react to the announcement thereby revealing new information to the buyer. Thus, we advance this literature by developing a theory describing how external information intermediaries will reduce the information asymmetry between buyer and seller and how this reduced information asymmetry will subsequently be reflected in the acquisition deal completion decision.

Second, we also contribute to the literature that addresses differences in acquisition strategies depending on the listing status of the target firm (e.g., Capron & Shen, 2007). These studies have frequently referred to the challenges associated with the acquisition of private firms due to the limited information that is available in the public domain about those firms. We add a new dimension to this literature by showing that the value of external information intermediaries is particularly high in the case of public targets.

Third, we advance the emerging body of literature that explains decisions by managers to complete or abandon initiated deals (e.g., Chakrabarti & Mitchell, 2016; Dikova, Rao Sahib, & Witteloostuijn, 2010; Muehlfeld et al., 2012). While extant work has also partially attributed the likelihood to abandon or close a proposed deal to the availability of new information (Chakrabarti & Mitchell, 2016; Dodd & Ruback, 1977), these studies largely neglect the importance of one of the most ubiquitous source of new information; i.e., external information intermediaries such as stock markets, investment analysts, and credit rating agencies. This omission is surprising given that extant research suggests that external information intermediaries may in fact be a critical source of new information and firm leaders frequently take this information into account when making strategic choices (e.g. Deephouse & Heugens, 2009; Wiersema & Zhang, 2011).

4.2 Theoretical Background and Hypotheses Development

4.2.1 Acquisitions and Information Asymmetries

Acquirers face substantial challenges in determining the true value of potential target firms. Akerlof (1970) describes this problem as the difficulty of distinguishing between good buys (peaches) from bad buys (lemons). His main rationale was that information asymmetries exist between the buyer and the seller of a product. Information asymmetries can be defined as situations in which one contracting party's knowledge is superior to that of the other party (Akerlof, 1970; Spence, 1976). These information asymmetries arise because sellers are motivated to maximize the price of their products and are thus often reluctant to reveal negative information to the buyer. As a result, the buyer has not only to bear all costs related to efforts aimed at minimizing all relevant information about the seller's product but also still faces the risk that the product turns out to be a "lemon". Extending this logic to the acquisition domain, information asymmetries between buyer and seller are problematic because they inhibit the acquirer's ability to accurately estimate the value of the target firm and synergy potential of the proposed deal. Moreover, in addition to facing higher costs due to more intensive and prolonged negotiations with potential target firms, acquiring firms may also walk away from potentially value creating deals due to incomplete information (Coff, 1999; Eckbo et al., 1990).

Prior research has demonstrated that the information asymmetry between buyer and seller is indeed an important driver of acquisition strategies. In this regard, extant work has focused on the influence of information asymmetries on the target selection process. In essence, these studies suggest that acquiring firms are more likely to select targets for which more information is publicly available. For instance, acquirers are more likely to select targets located in close geographic proximity (Chakrabarti & Mitchell, 2013), with which they share alliance ties (Schildt & Laamanen, 2006; Shen & Reuer, 2005). A second stream demonstrates that information asymmetries between acquirer and target firms are also reflected in premiums and payment method. For example, the valuation of private firms is particularly difficult given the dearth of objective data that can serve as benchmark to accurately evaluate the market value of these firms (Koeplin, Sarin, & Shapiro, 2000). Therefore, acquirers often discount the offer price for private targets reflecting the relatively greater information asymmetry and the associated risk that the target may turn out to be a

"lemon" (Capron & Shen, 2007). Similarly, the difficulty to value the target firm due to information asymmetries may also be reflected in the acquisition payment method. For instance, it has been found that acquirers prefer the use of stock as payment method because it allows the acquirer to share the risk of overvaluation with the target firm's shareholders (Campbell, Ghosh, & Sirmans, 2001).

As such, research on the effect of information asymmetries on acquisition strategies has primarily focused on the private pre-acquisition phase. The takeover process – or the pre-acquisition phase – can be divided in two different stages: the private and public pre-acquisition phase (Boone & Mulherin, 2007). The private pre-acquisition phase starts once the acquirer initiates the process and has identified one, or more, potential targets. The acquirer and target generally sign confidentiality agreements through which they obtain private information relating to the potential target's financial situation and strategic orientation (Dikova, Rao Sahib, & Van Witteloostuijn, 2010). This first phase reflects the period in which the acquirer and target hold private negotiations and perform the due diligence about the strategic, operational, and cultural fit of the two parties (Ahammad & Glaister, 2013; Muehlfeld et al., 2012). It is during this period that information asymmetries have been shown to influence acquiring firms' behavior. For instance, both target selection and initial premium and payment method decisions are made during this phase (Boone & Mulherin, 2007). Yet, by doing so, existing research adopts a somewhat static view that largely neglects that acquiring firms continue to receive new information about the target firm once the target has been selected, the due diligence phase completed, and the initial premium decision made. Specifically, we argue that acquirers will receive new information during the public pre-acquisition phase.

The public pre-acquisition phase commences once the two parties officially announce the deal and ends when the acquisition is either abandoned or completed. In the public pre-acquisition phase, both parties engage in strategic and administrative activities related to regulatory compliance, final price negotiations, and integration planning (Meyer & Altenborg, 2008; Muehlfeld et al., 2012). This phase differs from the private phase as the two firms are now under public scrutiny of shareholders, investment analysts, and credit rating agencies. Therefore, besides the search and negotiation costs incurred by the acquirer, the two parties also face potential reputational costs as the process is closely watched by the

public (Luo, 2005). Thus, the public takeover phase is particularly interesting from an information asymmetry perspective because external information intermediaries including stock markets, investment analysts, and credit rating agencies will react to the acquisition announcement thereby releasing new information to the acquirer. For instance, a significantly drop in share prices following the acquisition announcement signals to the acquirer that the value of the assets and resources residing in the target may have been overvalued. In turn, this additional information would provides acquiring firms' managers with additional information regarding the true market value of the target firm. However, existing research offers little insights into how the information conveyed by external information intermediaries shapes acquiring firms' acquisition strategy; specifically, the decision to complete or abandon a previously announced deal.

4.2.2   *External Information Asymmetries and Acquisition Completion*

The premise of this study is that managers of the acquiring firm may continue to learn about the desirability of the transaction as new information arrives during the public pre-acquisition phase. In this regard, the public pre-acquisition phase is particularly relevant as it on average lasts 62 days (Muehlfeld et al., 2012) allowing the acquirer to continuously reassess the acquisition opportunity based on new information revealed by external information intermediaries. In order to examine the role of external information intermediaries on the decision to complete or abandon a previously announced deal, we focus on three distinct sources of information: stock market reactions, investment analysts, and credit rating agencies.

   Stock market reactions, information asymmetries, and acquisition completion. Evaluating the target firm's market value and predicting the value creation potential of acquisitions is notoriously difficult for acquirers. As noted previously, a key problem for acquiring firms' managers relates to the difficulty to accurately estimate the value of the target firm given the information asymmetry between buyer and seller. Said differently, the possibility that some target firms will turn out to be "lemons" remains a risk (Akerlof, 1970). Anecdotal evidence such as the failed mergers between Daimler and Chrysler or Vodafone and Mannesmann illustrates this risk. Previous research has focused on internal mechanisms that are designed to reduce the information asymmetry between acquirer and target with a

focus on the due diligence process, target selection, premium decisions, and payment method strategies. Yet, there is also the possibility that external sources of information can influence the information asymmetry between acquirer and buyer. In fact, previous research suggests that external information intermediaries such as equity markets may be better informed about the potential of an acquisition than the acquiring firm's managers (Kau, Linck, & Rubin, 2008; Luo, 2005). This is because "market participants specialize in valuation, and their livelihoods depend on their ability to estimate the valuation implications of firms' past and anticipated decisions" (Dye & Sridhar, 2003, p. 389). Specifically, investors may be better positioned than the acquirer's managers to analyze the global, macroeconomic, and industry issues that are relevant to the deal, because capital markets aggregate all available information in market prices whereas the acquirer's management is constrained by the availability of information through direct and indirect ties with the target (Dye & Sridar, 2000; Luo, 2005).

Equity markets reveal new information to the acquirer immediately following the acquisition announcement in the form of movements in the acquirer's share price. These market reactions influence information asymmetries for various reasons. First, movements in the share price reveal information about the predicted value of the combined entity following the acquisition (Martin & Shalev, 2016). Prior to the announcement of the deal, this information could only be estimated by the acquirer based on their incomplete knowledge about the true value of the assets and resources residing in the target firm (Rhodes-Kropf & Viswanathan, 2004). However, since the information about the acquirer's bid becomes known after the acquisition announcement, shareholders can express their opinions regarding the proposed deal by selling or buying the stock of the acquirer. By doing so, shareholders implicitly share their perception of both the target's stand-alone value and the potential synergies associated with the acquisition thereby reducing the information asymmetry between acquirer and target. Second, shareholders may detect errors and omissions made by the acquiring firm's managers and therefore provide valuable information about the true value of the target firm. For instance, prior research has shown that self-interested managers are often unable to objectively evaluate acquisition opportunities due to managerial hubris (Hayward & Hambrick, 1997). Movements in the stock price thus serve as feedback mechanism providing more objective information about

the acquisition attempt. From this perspective, any movement in the share price would reduce information asymmetries between acquirer and target firms.

The effect of stock market reactions and associated reduction in information asymmetry between acquirer and target on acquisition completion, however, depends on the direction of the market response. That is, a positive stock market reaction suggests that the target has been accurately valued whereas a negative stock market reaction indicates that the target has been overvalued or the synergy potential overestimated. Based on this new information, the acquirer is able to update its valuation of the target and decide whether to go ahead with the proposed deal or not. We therefore hypothesize the following:

Hypothesis 1 (H1): A positive (negative) stock market reaction to an acquisition announcement positively (negatively) influences the probability of deal completion.

Analyst recommendations, information asymmetries, and acquisition completion. Investment analysts are another source of external information. This view is supported by Jensen and Meckling (1976) suggesting that investment analysts who may alter their recommendations following the announcement of an acquisition are considered influential information intermediaries in the financial markets. Specifically, market analysts publish recommendations in combination with an expected future share price, defined as target prices, after an acquisition announcement. Recommendations and target prices reflect the analysts' opinion regarding the expected returns that can be made on a stock. While analyst recommendations provide only a coarse measure of analysts' view of the stock because they have only a few discrete categories (e.g., buy/hold/sell) to choose from when issuing a stock recommendation, target prices allow the analyst more flexibility in expressing their updated view about the investment potential of the stock following the acquisition announcement (Asquith, Mikhail, & Au, 2005; Huang, Mian, & Sankaraguruswamy, 2009). These updated recommendations and target prices can subsequently be used by managers to update their own expectations of the acquisition opportunity (Sudarsanam, S., Salami, & Alexandrou, 2002).

Investment analysts' recommendations and target prices may reduce information asymmetries between acquirer and target for two reasons. First, target prices offer

information relating to the firm's mispricing relative to current market prices (Brav & Lehavy, 2003). That is, a change in target prices would convey information as to what degree the acquirer has mispriced the target's assets. For instance, a downward adjustment of the acquirer's target price following an acquisition announcement would suggest that the target has been overvalued. Second, recommendations and target prices can be used as objective benchmarks for the expected future price of the stock because the target price reflects the price level the stock is likely to achieve in the following six to twelve-month period (Huang et al, 2009), and hence, give an estimation of the synergies that the acquisition is expected to generate. That is, if analysts believe that the acquisition will generate more synergies for the acquirer than the current price reflects, they will upgrade the acquirer's recommendations and target prices (Becher, Cohn, & Juergens, 2015). Analogous to our logic presented above, we argue that changes in recommendations and target prices will reduce the information asymmetry between buyer and seller by providing objective feedback on the accuracy of the acquirer's valuation of the target firm. We therefore expect that changes in recommendations and target prices influence acquisition completion:

Hypothesis 2a (H2a): A positive (negative) change in investment analysts' recommendations following an acquisition announcement positively (negatively) influences the probability of deal completion.

Hypothesis 2b (H2b): A positive (negative) change in investment analysts' target prices following an acquisition announcement positively (negatively) influences the probability of deal completion.

Credit ratings, information asymmetries, and acquisition completion. The third source of external information for acquiring managers is credit watches published by credit rating agencies (CRAs). In general, CRAs provide information relating to a firm's future creditworthiness (Securities and Exchange Commission, 2003). CRAs are important information intermediaries because they tend to have privileged access to firm-specific information. For instance, prior research suggests that CRAs frequently receive insider information about a firm's capital spending, financing plans, and projections of future

revenue stream and cash flow that are normally strictly confidential (Ederington, Yawitz, & Roberts, 1987). CRAs reveal this privileged information to the market and the firm's managers by providing credit ratings or publishing so called "credit watches". While changes to credit ratings happen only infrequently, CRAs often quickly respond to major events such as acquisitions by placing firms on "credit watches" which are defined as "ratings that indicate the potential direction of a rating change that might follow the resolution, usually within 90 days, of specific events" (Chung, Frost, & Kim, 2012 p. 121). That is, when firms announce their acquisition, CRAs may respond to this event by publishing a credit watch depending on whether they perceive the acquisition to cause a significant change in the combined entity's future cash flows or financial leverage (Yook, 2003).

In the context of acquisitions, we also believe that CRAs can reduce information asymmetries between acquirer and target. This is because credit watches are primarily prompted by changes in financial risk or expected operating performance associated with the acquisition (Yook, 2003). Therefore, CRAs may be able to reduce information asymmetries between the acquirer and the target in the sense that a potential downgrade can be interpreted by managers as a bad signal about the creditworthiness of the target. Alternatively, rating downgrades following an acquisition announcement may also indicate that the payment structure of the deal does not accurately reflect the financial risks associated with the target. In contrast, a potential upgrade may be perceived as a positive signal about the creditworthiness and the accuracy of the acquirer's estimation of the financial risks of the target. Based on this new information, the acquirer can update its estimate of the value of the target firm – with a focus on the financial risks. Since upward adjustments suggest that the financial risks have been correctly estimated, positive credit watch placement should thus result in a greater likelihood of deal completion. In contrast, downward adjustments indicate that the target may have misrepresented important financial information reducing the probability that the deal will be completed:

> **Hypothesis 3 (H3):** *A positive (negative) credit watch placement following the acquisition announcement will positively (negatively) influence the probability of deal completion.*

So far, we have focused on the independent main effects of each external information intermediary on acquisition deal completion. However, this approach neglects the possibility that these distinct information sources may provide either complementary or conflicting information. Therefore, we will analyze below how these different information intermediaries collectively influence acquisition completion decisions.

Information complementarity and acquisition completion. Although external information sources have been analyzed in relation to various forms of strategic decision making (e.g. Kau et al., 2008; Wiersema & Zhang, 2011), our understanding of the combined effect of these sources on firm behavior remains underdeveloped. This omission is surprising because the degree to which external information intermediaries may indeed reduce the aforementioned information asymmetry is most likely dependent on the complementarity of the information provided by these external sources. That is, while consistent signals across information intermediaries will indeed reduce information asymmetries, the opposite may be true for cases where the acquirer is confronted with heterogeneous information. To illustrate, acquirers that are confronted with both a negative stock market reaction and a negative credit watch placement receive consistent information that the target has been overvalued and the financial risks have been underestimated meaning that potential synergies associated with the acquisition do not outweigh the negative effect that the deal has on the acquirer's leverage (Rhodes-Kropf & Viswanathan, 2004; Yook, 2003). As such, complementary information will indeed reduce the aforementioned information asymmetry between the acquirer and target. Therefore, the effect of a positive (negative) stock market reaction on deal completion should be stronger if the market reaction is supported by a positive (negative) change in investment analysts' recommendations or target prices or positive credit watch placement:

Hypothesis 4a (H4a): A change in investment analysts' recommendations following an acquisition announcement will strengthen the relationship between stock market reactions and deal completion.

Hypothesis 4b (H4b): A change in investment analysts' target prices following an acquisition announcement will strengthen the relationship between stock market reactions and deal completion.

Hypothesis 4c (H4c): A change in credit watch placements following an acquisition announcement will strengthen the relationship between stock market reactions and deal completion.

Target firm listing status and acquisition completion. We further argue that the informativeness and credibility of external information intermediaries is also dependent on the listing status of the target firms. That is, external information intermediaries will most likely face similar challenges as acquiring firms when the target is privately held. In this situation, information about the target firm is difficult to obtain and the private firm's management has very limited incentive to grant privileged access to information intermediaries such as investment analysts or credit agencies (Capron & Shen, 2007). This is because the private firm's management has a vested interest in keeping up information asymmetries in order to achieve the best possible sale price. In contrast, listed firms have to disclose vast amounts of information to the public (Capron & Shen, 2007; Shen & Reuer, 2005). Moreover, these firms also interact more frequently with information intermediaries such as investment analysts and credit rating agencies allowing these intermediaries to more accurately price such firms should they become acquisition targets. While the acquirer has also access to this information, we have noted previously that external information intermediaries are often seen as more efficient at processing this information. Moreover, the cognitive limitations of managers of the acquiring firm will also result in an imperfect information processing (Hambrick & Mason, 1984).

In sum, we have argued that external information intermediaries will face challenges in obtaining unique information about private target firms. We have also argued that external information intermediaries are more efficient at processing the abundance of information that is available about public target firms and most likely have privileged access to the target firm's management. We therefore propose that the degree to which the information associated with movements in the stock price, changes in analysts' recommendations and

target prices, and credit watch placements is perceived as credible and informative by the acquiring firm's management will be greater if the target firm is publicly listed. Therefore, the effect of movements in the stock price, changes in analyst's recommendations and target prices, and credit watch placements on acquisition completion will be stronger for listed target firms.

> ***Hypothesis 5 (H5)****: The relationships described under H1, H2, H3, H4a, H4b, and H4c will be stronger for acquisitions of public targets than for acquisitions of private targets.*

4.3   Methodology

4.3.1   Sample Selection

We collected data on acquisitions from Thomson Reuters SDC database. We included in the sample domestic US deals announced between 2010 and 2013. Given the research question of our study, we focused on listed acquirers as for such companies data on abnormal returns, analyst recommendations, target prices, and credit watches tends to be more generally available. To ensure that deals we considered were strategically relevant for the acquirers, we focused on acquisitions in which the deal value was at least \$10 million and excluded deals with non-strategy purposes. To do so, we eliminated transactions in which the acquirer and/or the target were active in the financial service sector (SIC code between 6000 and 6799). This led to the identification of 1,443 acquisitions. After excluding observations with missing data, our final sample consists of 1,123 acquisitions.

4.3.2   Dependent Variable

The dependent variable is the abandonment or completion of an acquisition. The variable is a dummy that takes the value of 1 if an acquisition was completed and 0 otherwise. Based on the deal status observed in Thomson Reuters SDC, we coded 1 whenever both announcement date and completion date could be observed (status "completed"). And, we coded 0 for all other statuses, namely "intended", "pending", and "withdrawn" (Dikova et al., 2010; Muehlfeld et al., 2012). Intended and pending acquisitions were also considered

as non-completed acquisitions as the average completion time in our sample is of 51 days. As Thomson Reuters updates acquisition information every month, and since the data on acquisitions were obtained at the end of 2015, we assumed that acquisitions which had been pending for two years or more had to be considered as withdrawn. This approach is supported by the observation that 99 percent of completed deals in our sample were completed within one year.

4.3.3   Independent Variables

This study focuses on four main independent variables. The first is the ***cumulative abnormal return (CAR)*** recorded in the days surrounding an acquisition announcement. CAR measures the fluctuation of a firm's share price which deviates from the share price trend predicted with a model of normal returns. The difference on a certain day between the stock price that is predicted with a model of normal returns and the observed stock price is defined as an abnormal return. Cumulative abnormal returns represent the sum of abnormal returns over a certain time window.

$$AR_{it} = R_{it} - (\alpha_i + \beta_i R_{mt}) \tag{1}$$

$$CAR_i = \sum_{t=-k}^{k} AR_{it} \tag{2}$$

In the formula in (1), R_{it} is the stock return for firm i at day t; R_{mt} is the return of a market portfolio of stocks at day t; β_i is the financial elasticity of firm i with respect to the market portfolio; α_i is the constant of the market model of normal returns. We followed common practice and derived α_i and β_i by estimating models of normal returns over a period of 240 days ranging from 300 days to 61 days before an acquisition announcement (e.g. Finkelstein & Haleblian, 2002; Haleblian & Finkelstein, 1999). We then calculated CAR by aggregating abnormal returns over the three-day window [-1; +1] days surrounding an acquisition announcement.

To measure the change in ***analyst recommendations*** that follows a deal announcement we used data from Thomson Reuters I/B/E/S. Analyst recommendations are investment bulletins issued by financial analysts concerning shares of public companies (Gerritsen, 2014; Sudarsanam, S. et al., 2002). Through such bulletins, based on a company's expected performance, analysts provide opinions on whether the company's shares should

be bought, kept, or sold. I/B/E/S translates recommendations from analysts of different
investment banks into uniform categories which can then be compared. Recommendation
categories issued by I/B/E/S are *strong buy*, *buy*, *hold*, *underperform*, and *sell*; such
categories are coded with numbers from 1 to 5. In this study, we focus on the change in the
average of outstanding recommendations following an acquisition announcement. The
average of outstanding recommendations changes every time new recommendations are
issued whose value differs from that of the current average. To illustrate, if new more
positive recommendations are released, the average value will decrease[22]. Conversely, if
more negative recommendations are issued, the average value will increase. The
independent variable we used to assess the influence of recommendations is the difference
in the average recommendations observed at the margins of a window of [-3; 3] days
surrounding an acquisition announcement. The formula in (3) shows the calculation,

$$ARC_i = AR_{+t} - AR_{-t} \tag{3}$$

where ARC_i is the average recommendation change for firm *i*, and AR is the average
recommendation at a certain day *t* of distance from the announcement. Since
recommendations are not released every day, we used a slightly larger event window than
that used for CAR to ensure that our variable captures analysts' reactions to the acquisition
announcement.

From an algebraic point of view, the measure of the third independent variable, **target
prices**, is similar to that of analyst recommendations. Target prices are also released by
investment analysts and published by Thomson Reuters I/B/E/S. A target price is a forecast
concerning the price of a share at a certain time horizon. For instance, a target price of $25
with a 12 month horizon reflects the expectation that the company's share reaches $25 within
12 months from the target price release. Analogous to analyst recommendations, a number
of analysts also simultaneously release different target prices for the same firms. Hence, the
average target price at a certain date reflects the average of outstanding target prices released
by different analysts. To avoid scaling problems due to different release dates of these target
prices, we calculated our measure of change in average target price as a change in expected

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[22] Recommendations are reverse coded. 1 corresponds to the most positive recommendation, and 5 to
the most negative. Therefore, an improvement in recommendations corresponds to a decrease in the
average recommendation.

stock returns (Gerritsen, 2014). To do so, we divided the difference in average target prices by the share price of the firm. While an increase in target prices after an announcement is interpreted as a signal of favorability towards an acquisition, a decrease is interpreted as a sign of disproval. To calculate the difference in target prices, we used the formula in (4):

$$\Delta TP_i = \frac{ATP_{+t} - ATP_{-t}}{P_A} \tag{4}$$

where ΔTP_i is the difference in target prices for acquirer i, and ATP is the average target price at t days before (-t) and after (+t) the acquisition announcement. Such a difference was then divided by the acquirer's share price on the day of the announcement (P_A) (Bannier & Hirsch, 2010; Chung et al., 2012). We took the day of the announcement as a reference point as the share price itself tends to change when the announcement is made. To measure the change in target prices following an announcement, we took ΔTPs at the margins of a window of [-3; 3] days surrounding the announcement.

Target prices issued by financial analysts can have different horizons. Although the most common time horizon is 12 months, alternative horizons (e.g. 3 months, 6 months) are also observed. As there is no straightforward way to compute the average of target prices having different horizons, we decided to keep only target prices with a 12-month horizon.

The fourth independent variable, ***credit watches***, was also obtained from Thomson Reuters I/B/E/S. A credit watch is a form of rating of a company's debt. Credit watches are released by rating agencies (such as Fitch and Moody's) and tend to anticipate official ratings that are issued more rarely. That is, credit watches are seen as an indication of an imminent change in the firm's credit rating. When credit watches contain a more negative evaluation than that received with the latest rating, they provide an indication that the rating agency considers some of the company's recent actions as problematic. Various scholars have argued that negative credit watches are warning messages from rating agencies to inform companies that measures need to be taken in order to avoid a rating downgrade (Bannier & Hirsch, 2010; Chung et al., 2012). Public companies tend to pay close attention to credit watches because rating downgrades result in immediate increase in the cost of capital (Chung et al., 2012). Often, credit watches are issued following important firm events. Among such events, acquisitions are some of the most frequently cited reasons for the issuance of credit watches. In this study, we measured the difference in outstanding credit watches after an acquisition announcement to gauge the opinion of rating agencies on the

impact of a deal on an acquirer's debt (Yook, 2003). We considered as positive credit watches those credit watches that conveyed a more positive rating than the rating previously granted. For example, if a firm received a first credit watch of BBB and then a second credit watch of BBB+, we considered the second credit watch as a positive credit watch. Conversely, if the firm received a second credit watch of BBB-, we considered that as a negative credit watch. Positive credit watches were coded with the value of 1, while negative credit watches were coded with the value of -1. To assess the overall reaction of rating agencies to a certain deal we used the simple sum of positive and negative credit watches over a window of [-t; t] days surrounding an acquisition announcement. The formula in (5) illustrates the calculation:

$$CWC_i = \sum_{k=-t}^{t} CW_{ik} \tag{5}$$

where CWC_i is the overall credit watch change and CW_{ik} are positive and negative credit watches released in the event window. In the models of this study, we used a window of [-5; 5] days. Since credit watches are issued with a greater time lag than recommendations and target prices, we widened the window to ensure that we capture all relevant reactions, if any, of credit rating agencies following an acquisition announcement.

4.3.4   *Control Variables*

We also control for a number of factors at the firm and transaction level that have been shown to influence acquisition completion. At the firm level, we control for *acquisition experience*. Experienced acquirers are deemed to have better skills in selecting partners, assessing the target's value and managing the integration, among the others (Barkema & Schijven, 2008). In contrast, companies that have less experience make more frequent mistakes during the acquisition process which may subsequently result in a lower likelihood of deal completion (Muehlfeld et al., 2012). We therefore included a control variable that measures the number of acquisitions performed in the six years prior to an announcement (Hayward, 2002; Zaheer, Castaner, & Souder, 2011). We expect acquisition experience will increase the probability of deal completion. Similarly, prior research also suggests that some firms perform several acquisitions in a short time span. Serial acquisitions bring a series of

benefits to firms, such as the achievement of rapid expansion (Laamanen & Keil, 2008). However, they also drain available resources and can cause organizational overload (Laamanen & Keil, 2008). Since firms that are engaged in *multiple acquisitions* can be forced to abandon ongoing negotiations due to sudden lack of resources or because of organizational "indigestion" (Kusewitt, 1985), we included a variable that counts the number of acquisitions completed by a firm in the year of the focal acquisition announcement. We also control for *slack resources*. Prior studies suggest that firms that have more resources at their disposal will be more likely to acquire better targets and to integrate them more effectively. We measure slack resources as the debt-to-equity ratio of the organization (Haleblian & Finkelstein, 1999; Haunschild & Miner, 1997).

We also include various control variables at the transaction level. Existing studies have argued that the method of payment is an important predictor of acquisition completion. Acquisitions that are financed with stock tend to entail more complex negotiations due to ambiguities concerning the actual value of the shares (Dikova et al., 2010) and hence are more likely to fail. We therefore included a *cash-financed deal* dummy which was coded 1 when more than 50 percent of the transaction was paid in cash, and 0 otherwise. In a similar vein, we also take into account that a *tender offer* has a greater likelihood to succeed. Indeed, tender offers reduce the need for complex negotiations with the target's top management and facilitate deal completion (Walkling, 1985). Thus, we included a dummy coded as 1 if the acquirer made a tender offer, and 0 otherwise. As far as negotiation complexity is concerned, another factor that has been discussed in the previous literature is the industry relatedness of a transaction. As unrelated acquisitions are characterized by higher information asymmetries and require more learning, these deals are likely subject to higher abandonment rates (Haleblian & Finkelstein, 1999). To take account for this, we controlled for relatedness of the transaction by including a *related deal* dummy that takes value of 1 when the primary 4-digit SIC codes of acquirers and targets are identical, and 0 if otherwise. Another factor that influences deal complexity relates to the *relative size* between the acquirer and the target (Ellis, Reus, Lamont, & Ranft, 2011). We measured relative size as the ratio of the value of the deal to the acquirer's total assets.

We also control for *deal attitude* considering that hostile acquisition bids have a higher probability of failure. We code deal attitude as a dummy variable that is coded as 1

if the deal is categorized as friendly, and 0 otherwise. The presence of *competing bidders* is also expected to hinder deal completion (Schwert, 2000; Walkling, 1985). Hence, a dummy was added which was coded 1 when a competing bidder was present, and 0 otherwise. Similarly, the presence of an acquisition *defensive mechanism* increases the likelihood of non-completion. The most common defensive mechanisms are "white knights", "poison pills", "share buy-backs", and "golden parachutes" (Sudarsanam, 1991). We therefore also included a dummy variable coded as 1 if the target has such a defensive mechanism in place, and 0 otherwise. Lastly, the presence of *termination fees* instead should facilitate deal completion (Officer, 2003). We added two dummy variables, i.e. termination fees (acquiror) and termination fees (target) taking the value of 1 if termination fees were present, and 0 otherwise.

4.3.5   *Estimation Strategy*

The premise of this study is that external information intermediaries facilitate acquisition deal completion. The dependent variable in our study is thus binary taking value of 1 for completed acquisitions and 0 for non-completed acquisitions. We therefore regressed the independent variables against the probability of completion using a binary logistic function (Wooldridge, 2002). Since most acquirers are observed only once – that is, they perform only one acquisition – we used cross-sectional estimators to estimate the models. However, as some acquirers performed more than one deal, we computed robust standard errors at the firm level to avoid potential biases due to autocorrelation of the residuals for multiple acquirers (Wooldridge, 2002). Such biases are likely to be present since the probability of completion of sequential deals tends to be correlated (Collins, Holcomb, Certo, Hitt, & Lester, 2009). As models contain interaction terms, we standardized all continuous variables as suggested in the literature to ease the interpretation of moderation effects (Dawson, 2014).

4.4   Results

Table 4.1 presents Pearson correlations together with means and standard deviations of the variables included in the regressions. Bivariate correlations do not show any pattern suggesting that multicollinearity may be an issue. The highest bivariate correlation is that between the acquisition experience of an acquirer and its efforts in performing multiple

acquisitions at the time of the focal deal (0.53), that has appeared also in prior research (Laamanen and Keil, 2008). Furthermore, additional analyses of the presence of multicollinearity showed that the highest VIF among the predictors in the full model (Model 9) for the full sample was equal to 1.60, which is far below the critical threshold of 10 (Myers, 1990).

Table 4.1 Descriptive statistics and correlations

Variable	Mean	S.D.	1	2	3	4
1. Deal completion	0.93	0.26				
2. CAR	0.01	0.07	0.02			
3. Analyst recommendations	-0.01	0.10	0.00	-0.22		
4. Target prices	0.01	0.06	0.01	0.38	-0.35	
5. Credit watches	-0.03	0.22	0.08	-0.03	0.01	0.00
6. Acquisition experience	3.81	4.36	0.04	-0.03	0.00	-0.02
7. Multiple acquisitions	1.76	1.10	-0.01	-0.01	0.01	0.02
8. Slack resources	93.54	533.73	0.00	0.03	-0.01	0.00
9. Cash-financed deal	0.84	0.37	0.02	-0.02	0.05	-0.04
10. Tender offer	0.05	0.22	0.00	-0.01	-0.02	0.00
11. Related deal	0.36	0.48	-0.11	0.03	-0.01	0.06
12. Relative size	0.21	0.42	-0.04	0.09	-0.02	0.01
13. Deal attitude	0.97	0.17	0.35	-0.01	-0.04	0.00
14. Competing bidder	0.01	0.10	-0.24	0.01	-0.02	0.00
15. Defensive	0.02	0.13	-0.22	0.08	0.02	-0.01
16. Termination fees (acquirer)	0.09	0.28	0.05	0.10	-0.10	0.07
17. Termination fees (target)	0.21	0.41	0.07	0.04	-0.10	0.05
Variable	Mean	S.D.	5	6	7	8
6. Acquisition experience	3.81	4.36	0.03			
7. Multiple acquisitions	1.76	1.10	0.07	0.53		
8. Slack resources	93.54	533.73	-0.03	0.02	0.03	
9. Cash-financed deal	0.84	0.37	0.03	0.14	0.09	-0.02
10. Tender offer	0.05	0.22	-0.04	0.08	0.01	0.00
11. Related deal	0.36	0.48	0.02	-0.08	-0.06	0.01
12. Relative size	0.21	0.42	-0.11	-0.21	-0.17	0.02
13. Deal attitude	0.97	0.17	0.12	0.03	-0.02	-0.03
14. Competing bidder	0.01	0.10	-0.06	0.02	0.09	0.02
15. Defensive	0.02	0.13	-0.13	-0.05	0.01	0.03
16. Termination fees (acquirer)	0.09	0.28	-0.17	-0.04	-0.05	0.06
17. Termination fees (target)	0.21	0.41	-0.20	0.03	-0.02	0.08

(continued)

Variable	Mean	S.D.	9	10	11	12
10. Tender offer	0.05	0.22	0.08			
11. Related deal	0.36	0.48	-0.07	0.05		
12. Relative size	0.21	0.42	-0.27	0.07	0.10	
13. Deal attitude	0.97	0.17	-0.05	-0.08	-0.01	-0.05
14. Competing bidder	0.01	0.10	0.00	0.09	0.01	0.04
15. Defensive	0.02	0.13	-0.03	0.15	0.01	0.10
16. Termination fees (acquirer)	0.09	0.28	-0.26	0.07	0.06	0.29
17. Termination fees (target)	0.21	0.41	-0.18	0.37	0.04	0.25
Variable	**Mean**	**S.D.**	**13**	**14**	**15**	**16**
14. Competing bidder	0.01	0.10	-0.09			
15. Defensive	0.02	0.13	-0.42	0.05		
16. Termination fees (acquirer)	0.09	0.28	0.05	0.06	0.08	
17. Termination fees (target)	0.21	0.41	0.05	0.12	0.08	0.47

N=1123; means and standard deviations were measured on non-standardized variables; correlations higher than |0.06| are significant at p<0.05

4.4.1   Full Sample

The results for the hypotheses testing are presented in Table 4.2. Hypothesis 1 predicts a positive relationship between CAR and deal completion. As can be seen from Table 4.2, the relationship between CAR and the probability of deal completion is positive and marginally significant in most models, and in particular in the full specification (Model 9: $\beta = 0.43$, $p < 0.1$), thus providing partial support for Hypothesis 1. Hypothesis 2 suggests that changes in analysts' (a) recommendations and (b) target prices will influence the likelihood that a previously announced deal is completed. The results for analyst recommendations show a positive and marginally significant association with the finalization of announced acquisitions (Model 9: $\beta = 0.11$, $p < 0.1$). However, the direction of the estimates is opposed to the one stated in Hypothesis 2a. Since 1-tailed standard errors were used for hypothesized effects, Hypothesis 2a needs to be rejected for showing the wrong directionality. Also, Hypothesis 2b needs to be rejected for failing to attain statistical significance. Hypothesis 3 argues that credit watch upgrades will have a positive effect on deal completion likelihood. Estimates for credit watches provide overall marginal support for Hypothesis 3 (Model 8: $\beta = 0.14, p < 0.1$). Results indicate that the publication of

positive credit watches in the event window surrounding an acquisition announcement is correlated with the completion of the deal. They also suggest that the publication of negative credit watches is correlated with a deal's withdrawal.

Finally, Hypothesis 4 predicts that the relationship between stock market reactions and deal completion will be stronger in combination with a change in (a) investment analysts' recommendations, (b) investment analysts' target prices, and (c) credit watch placements. As far as these interaction effects are concerned, we do not find statistical support for the expected effect of investment analysts' recommendations on the relationship between stock market reactions and deal completion. In contrast, the interaction between CAR and target prices is positive and marginally significant (Model 7: $\beta = 0.39, p < 0.1$), providing partial support for Hypothesis 4b. Similarly, we also find that credit watches have a positive and significant effect on the relation between CAR and the probability of completion (Model 9: $\beta = 0.30, p < 0.05$). Therefore, Hypothesis 4c is fully supported.

4.4.2 Hypothesis 5

In order to test Hypothesis 5, we split up our sample into two sub-samples of private and public target firms. The sub-sample of private target firms includes 835 observations and the sub-sample of public target firms includes 284 observations[23]. Below, we will discuss the results of the hypothesized effects and then compare the effects between the two samples.

Public-target sample. Table 4.4 illustrates results of the models for the sub-sample of public-target acquisitions. The results show a positive and statistically significant relation between CAR and the probability of deal completion (Model 27: $\beta = 3.64, p < 0.01$). In contrast, the estimates for the change in analyst recommendations, although showing the expected sign, are not significant at the conventional levels to support the existence of an influence of recommendations on deal completion. On the other hand, the relationship between target prices and the probability of completion is positive and strongly significant (Model 22: $\beta = 1.00, p < 0.01$). Moreover, the release of positive credit watches in the

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[23] The sum of the two sub samples totals 1119 acquisitions instead of the 1123 contained in the full sample. This is because in four acquisitions the listing status of the target changed from public to private (or vice-versa) a few months prior to the deal announcement. Given the difficulty of classifying these deals as either public *or* private, we excluded them from the analysis of the two sub samples. Their inclusion in either sub-sample however does not change the results.

proximity of an announcement positively correlates with the finalization of the transaction; the estimates related to this effect receive full support in the Models 23 and 26 but marginal support in the full specification (Model 27: $\beta = 0.23, p < 0.1$).

As far as the analysis of moderators is concerned, we find no evidence of a moderation of the emission of analyst recommendations on the relation between CAR and the likelihood of deal completion. At the same time, the effect of CAR on deal completion is positively moderated by the increase in target prices from financial analysts (Model 27: $\beta = 2.68, p < 0.01$). An increase in target prices thus strengthens the positive relation between CAR and deal completion. Similarly, the release of positive credit watches in the window of an acquisition announcement strengthens the relation between CAR and the probability of completion (Model 27: $\beta = 0.68, p < 0.01$). Interaction plots in Figure 4.1 and Figure 4.2 provide further evidence illustrating that with a more positive change in target prices and with the emission of more positive (than negative) credit watches, an increase in CAR has a more positive effect on the likelihood of completion.

Overall, the models for the sub-sample of public-target acquisitions show that reactions from investors and financial analysts affect the probability of completion to a large extent (pseudo-R2 equal to 0.66 in the full model) indicating that acquirers carefully consider external information when deciding upon the completion of a public-target acquisition under negotiation.

Comparison public-target vs public-target samples. Hypothesis 5 predicts that the effects of (a) CAR, (b) analyst recommendations, (c) target prices, and (d) credit watches on the probability of finalization of an acquisition are larger when the target is a public firm than when it is a private firm. The results presented so far seem to fully support this claim. Not only is the variance explained higher (pseudo-R2 of 0.66 for public targets vs 0.06 for private targets), but the effect sizes are consistently larger for the public-target sample than for the private-target sample.

Table 4.5 presents a summary of the results of the hypothesis testing.

Table 4.2 Results of moderated logistic regressions (full sample of private and public targets)

Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9
CAR[a] (H1)		0.32				0.38+	0.30	0.38+	0.43+
		(0.26)				(0.27)	(0.29)	(0.28)	(0.33)
Analyst recommendations[a] (H2a)			0.07			0.10+			0.11+
			(0.08)			(0.08)			(0.09)
Target prices[a] (H2b)				0.04			0.07		0.11
				(0.10)			(0.15)		(0.15)
Credit watches[a] (H3)					0.20*			0.14+	0.15*
					(0.08)			(0.09)	(0.09)
CAR[a] x Analyst recommendations[a] (H4a)						-0.02			0.14
						(0.10)			(0.16)
CAR[a] x Target prices[a] (H4b)							0.39+		0.49*
							(0.24)		(0.30)
CAR[a] x Credit watches[a] (H4c)								0.34*	0.30*
								(0.15)	(0.16)
Acquisition experience[a]	0.07	0.07	0.07	0.07	0.08	0.07	0.08	0.07	0.08
	(0.17)	(0.17)	(0.17)	(0.17)	(0.17)	(0.17)	(0.17)	(0.17)	(0.17)
Multiple acquisitions[a]	-0.03	-0.04	-0.03	-0.03	-0.04	-0.04	-0.03	-0.05	-0.04
	(0.13)	(0.13)	(0.13)	(0.13)	(0.13)	(0.13)	(0.13)	(0.13)	(0.13)
Slack resources[a]	0.07	0.07	0.07	0.07	0.07	0.07	0.08	0.07	0.08
	(0.25)	(0.26)	(0.25)	(0.25)	(0.25)	(0.26)	(0.25)	(0.26)	(0.26)

(continued)

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Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9
Cash-financed deal	0.38	0.38	0.36	0.39	0.40	0.36	0.41	0.36	0.38
	(0.36)	(0.35)	(0.36)	(0.36)	(0.36)	(0.36)	(0.36)	(0.36)	(0.37)
Tender offer	1.57	1.61	1.53	1.56	1.51	1.58	1.57	1.37	1.30
	(1.04)	(1.05)	(1.04)	(1.04)	(1.08)	(1.04)	(1.04)	(1.07)	(1.07)
Related deal	-0.99***	-0.99***	-0.99***	-0.99***	-1.01***	-0.99***	-0.98***	-1.01***	-1.00***
	(0.28)	(0.28)	(0.28)	(0.27)	(0.28)	(0.28)	(0.28)	(0.28)	(0.28)
Relative size[a]	-1021.7	-1013.9	-1046.5	-1006.6	-1001.7	-1048.8	-1055.9	-1059.2	-1112.1
	(1926.6)	(1839.6)	(1924.2)	(1922.5)	(2090.9)	(1813.9)	(1805.1)	(1976.1)	(1935.4)
Deal attitude	2.89***	2.88***	2.89***	2.89***	2.85***	2.89***	2.87***	2.82***	2.82***
	(0.46)	(0.47)	(0.47)	(0.46)	(0.47)	(0.47)	(0.46)	(0.47)	(0.47)
Competing bidder	-5.07***	-5.08***	-5.05***	-5.06***	-5.11***	-5.06***	-5.03***	-4.99***	-4.90***
	(0.77)	(0.79)	(0.76)	(0.78)	(0.78)	(0.77)	(0.78)	(0.79)	(0.80)
Defensive	-2.13**	-2.20**	-2.15**	-2.13**	-1.77**	-2.23**	-2.15**	-1.92**	-1.86**
	(0.68)	(0.68)	(0.68)	(0.68)	(0.68)	(0.69)	(0.69)	(0.70)	(0.70)
Termination fees (acquirer)	0.94	0.87	0.97	0.93	1.13+	0.90	0.88	1.09	1.11
	(0.77)	(0.76)	(0.75)	(0.76)	(0.66)	(0.74)	(0.77)	(0.68)	(0.71)
Termination fees (target)	1.25*	1.24*	1.25*	1.25*	1.36*	1.25*	1.24*	1.43*	1.43*
	(0.55)	(0.56)	(0.55)	(0.56)	(0.58)	(0.56)	(0.58)	(0.63)	(0.65)
Constant	-51.05	-50.63	-52.28	-50.30	-50.05	-52.36	-52.77	-52.83	-55.50
	(96.03)	(91.69)	(95.91)	(95.83)	(104.23)	(90.41)	(89.96)	(98.49)	(96.46)
N	1123	1123	1123	1123	1123	1123	1123	1123	1123
Pseudo R-squared	0.214	0.215	0.215	0.214	0.218	0.216	0.217	0.221	0.224
Log-likelihood	-228.68	-228.34	-228.51	-228.65	-227.63	-228.05	-227.77	-226.67	-225.81

Robust standard errors in parentheses; + p<0.1, * p<0.05, ** p<0.01, *** p<0.001 (one-tailed if hypothesized, two-tailed if not)

[a]Standardized

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Table 4.3 Results of moderated logistic regressions (private-target sample)

Variable	Model 10	Model 11	Model 12	Model 13	Model 14	Model 15	Model 16	Model 17	Model 18
CAR[a]		0.01				0.07	-0.02	-0.03	-0.04
		(0.27)				(0.28)	(0.34)	(0.27)	(0.35)
Analyst recommendations[a]			0.19*			0.19*			0.24*
			(0.09)			(0.09)			(0.11)
Target prices[a]				-0.12			-0.15		-0.01
				(0.10)			(0.15)		(0.15)
Credit watches[a]					0.19			-0.02	0.00
					(0.15)			(0.11)	(0.11)
CAR[a] x Analyst recommendations[a]						-0.05			0.17
						(0.07)			(0.17)
CAR[a] x Target prices[a]							0.54*		0.87*
							(0.28)		(0.41)
CAR[a] x Credit watches[a]								0.72*	0.68*
								(0.42)	(0.40)
Acquisition experience[a]	0.04	0.04	0.05	0.04	0.05	0.05	0.04	0.04	0.05
	(0.16)	(0.16)	(0.16)	(0.16)	(0.17)	(0.17)	(0.16)	(0.17)	(0.17)
Multiple acquisitions[a]	-0.13	-0.13	-0.14	-0.13	-0.14	-0.14	-0.12	-0.14	-0.14
	(0.15)	(0.15)	(0.15)	(0.15)	(0.15)	(0.15)	(0.15)	(0.15)	(0.15)
Slack resources[a]	0.19	0.19	0.19	0.19	0.19	0.19	0.19	0.19	0.19
	(0.21)	(0.21)	(0.21)	(0.21)	(0.21)	(0.21)	(0.21)	(0.21)	(0.22)

(continued)

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Variable	Model 10	Model 11	Model 12	Model 13	Model 14	Model 15	Model 16	Model 17	Model 18
Cash-financed deal	-0.26	-0.26	-0.31	-0.28	-0.24	-0.29	-0.23	-0.27	-0.26
	(0.50)	(0.50)	(0.52)	(0.50)	(0.50)	(0.52)	(0.50)	(0.50)	(0.51)
Tender offer	-	-	-	-	-	-	-	-	-
Related deal	-1.14***	-1.14***	-1.15***	-1.14***	-1.15***	-1.15***	-1.12***	-1.16***	-1.15***
	(0.32)	(0.32)	(0.32)	(0.32)	(0.32)	(0.32)	(0.32)	(0.32)	(0.33)
Relative size[a]	-1489.9	-1490.1	-1604.4	-1513.2	-1513.2	-1589.5	-1631.6	-1788.9	-2093.9
	(1588.5)	(1587.8)	(1585.7)	(1608.4)	(1641.9)	(1567.3)	(1611.8)	(1667.5)	(1679.5)
Deal attitude	1.16	1.16	1.16	1.16	1.17	1.16	1.14	1.17	1.15
	(1.14)	(1.14)	(1.14)	(1.14)	(1.14)	(1.14)	(1.14)	(1.14)	(1.14)
Competing bidder	-	-	-	-	-	-	-	-	-
Defensive	-	-	-	-	-	-	-	-	-
Termination fees (acquirer)	0.05	0.05	0.13	0.11	0.37	0.07	0.05	0.02	0.07
	(1.11)	(1.11)	(1.07)	(1.07)	(0.84)	(1.07)	(1.09)	(0.90)	(0.86)
Termination fees (target)	0.21	0.21	0.31	0.16	0.28	0.29	0.17	0.70	0.84
	(0.58)	(0.58)	(0.64)	(0.56)	(0.60)	(0.61)	(0.57)	(0.88)	(0.93)
Constant	-71.88	-71.89	-77.55	-73.02	-73.09	-76.82	-78.99	-86.78	-102.04
	(79.27)	(79.23)	(79.13)	(80.27)	(81.93)	(78.21)	(80.44)	(83.20)	(83.80)
N	835	835	835	835	835	835	835	835	835
Pseudo R-squared	0.045	0.045	0.049	0.046	0.047	0.050	0.049	0.049	0.058
Log-likelihood	-167.26	-167.26	-166.57	-167.09	-166.96	-166.52	-166.56	-166.59	-165.10

Robust standard errors in parentheses; + p<0.1, * p<0.05, ** p<0.01, *** p<0.001 (one-tailed if hypothesized, two-tailed if not)

[a]Standardized

Table 4.4 Results of moderated logistic regressions (public-target sample)

Variable	Model 19	Model 20	Model 21	Model 22	Model 23	Model 24	Model 25	Model 26	Model 27
CAR[a]		2.21**				2.17*	1.96*	3.98**	3.64**
		(0.86)				(0.97)	(0.94)	(1.37)	(1.50)
Analyst recommendations[a]			-0.30+			-0.02			-0.11
			(0.20)			(0.21)			(0.21)
Target prices[a]				1.00**			1.91**		1.87***
				(0.43)			(0.68)		(0.59)
Credit watches[a]					0.16*			0.22*	0.23+
					(0.09)			(0.13)	(0.14)
CAR[a] x Analyst recommendations[a]						0.03			0.21
						(0.41)			(0.36)
CAR[a] x Target prices[a]							2.71**		2.68**
							(1.00)		(0.89)
CAR[a] x Credit watches[a]								0.84**	0.68**
								(0.29)	(0.29)
Acquisition experience[a]	0.31	0.27	0.32	0.26	0.29	0.26	0.34	0.30	0.38
	(0.39)	(0.39)	(0.36)	(0.37)	(0.38)	(0.39)	(0.41)	(0.40)	(0.41)
Multiple acquisitions[a]	0.30	0.31	0.26	0.30	0.28	0.31	0.31	0.28	0.26
	(0.30)	(0.32)	(0.28)	(0.28)	(0.29)	(0.33)	(0.30)	(0.33)	(0.30)
Slack resources[a]	0.20	0.12	0.15	0.00	0.20	0.11	0.06	0.08	-0.07
	(0.92)	(0.97)	(0.82)	(0.86)	(0.91)	(0.97)	(0.96)	(0.98)	(0.89)

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Variable	Model 19	Model 20	Model 21	Model 22	Model 23	Model 24	Model 25	Model 26	Model 27
Cash-financed deal	1.35+	1.66*	1.44*	1.35+	1.39*	1.64*	1.76*	1.64*	1.78*
	(0.69)	(0.71)	(0.70)	(0.72)	(0.69)	(0.72)	(0.78)	(0.75)	(0.86)
Tender offer	1.52	2.20	1.61	1.66	1.54	2.19	2.21	2.04	1.80
	(1.32)	(1.67)	(1.36)	(1.51)	(1.39)	(1.67)	(1.84)	(1.52)	(1.48)
Related deal	-0.22	-0.20	-0.25	-0.51	-0.29	-0.20	-0.32	-0.20	-0.40
	(0.58)	(0.57)	(0.58)	(0.60)	(0.59)	(0.58)	(0.57)	(0.61)	(0.61)
Relative size[a]	2833.6+	3215.3*	2899.4+	2519.1	2693.6+	3201.5*	3504.4*	4028.9**	4727.9**
	(1449.6)	(1418.0)	(1487.0)	(1581.27)	(1402.2)	(1458.3)	(1703.7)	(1512.1)	(1734.7)
Deal attitude	2.73**	2.86**	2.64**	2.76**	2.60**	2.85**	3.12**	2.84**	2.93*
	(0.95)	(0.99)	(0.90)	(0.95)	(0.93)	(1.03)	(1.11)	(1.04)	(1.16)
Competing bidder	-6.13***	-6.90***	-6.27***	-6.31***	-6.16***	-6.88***	-6.92***	-7.06***	-6.94***
	(1.02)	(1.33)	(1.08)	(1.16)	(1.05)	(1.30)	(1.37)	(1.40)	(1.31)
Defensive	-2.29*	-3.09*	-2.21*	-2.46*	-2.22+	-3.09*	-2.77*	-2.94*	-2.35+
	(1.04)	(1.29)	(0.97)	(1.14)	(0.99)	(1.28)	(1.39)	(1.26)	(1.23)
Termination fees (acquirer)	1.95**	1.94**	1.77*	1.89**	2.09**	1.93**	2.24***	2.48**	2.42***
	(0.70)	(0.73)	(0.71)	(0.66)	(0.70)	(0.74)	(0.67)	(0.77)	(0.66)
Termination fees (target)	2.79***	2.99***	2.92***	3.09***	2.90***	3.00***	2.94***	3.46***	3.52**
	(0.66)	(0.72)	(0.71)	(0.81)	(0.71)	(0.75)	(0.81)	(0.90)	(1.07)
Constant	138.97+	157.82*	142.22+	123.37	132.07+	157.15*	171.99*	198.55**	233.36**
	(71.95)	(70.41)	(73.85)	(78.57)	(69.60)	(72.36)	(84.59)	(75.13)	(86.27)
N	284	284	284	284	284	284	284	284	284
Pseudo R-squared	0.591	0.616	0.597	0.614	0.596	0.616	0.640	0.642	0.662
Log-likelihood	-44.11	-41.41	-43.46	-41.68	-43.60	-41.41	-38.92	-38.63	-36.50

Robust standard errors in parentheses; + p<0.1, * p<0.05, ** p<0.01, *** p<0.001 (one-tailed if hypothesized, two-tailed if not)

[a]Standardized

Figure 4.1 Effect of CAR on the likelihood of completion for positive and negative changes in average target prices
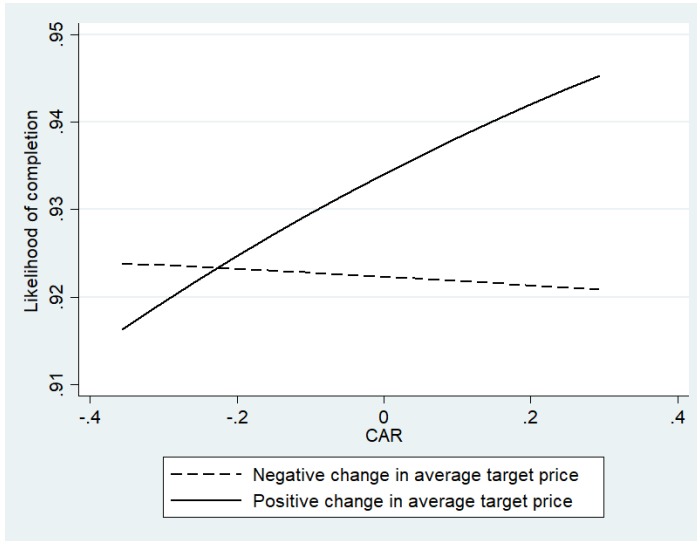

**Figure 4.2 Effect of CAR on the likelihood of completion for positive and negative credit watch changes**
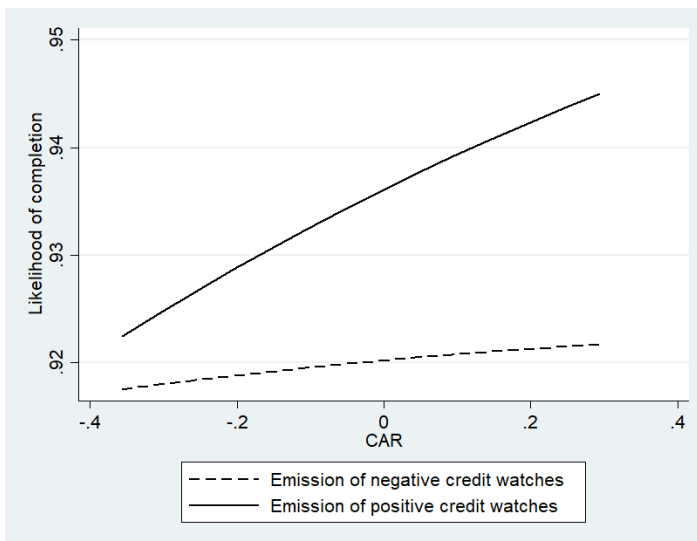
Table 4.5 Summary of the results of hypothesis testing

	Full sample	Private targets	Public targets
H1: CAR > deal completion (+)	Marginally supported	Not supported	Supported
H2a: analyst recommendations > deal completion (+)	Not supported	Not supported	Not supported
H2b: target prices > deal completion (+)	Not supported	Not supported	Supported
H3: credit watches > deal completion (+)	Marginally supported	Not supported	Marginally supported
H4a: CAR x analyst recommendations > deal completion (+)	Not supported	Not supported	Not supported
H4b: CAR x target prices > deal completion (+)	Marginally supported	Supported	Supported
H4c: CAR x credit watches > deal completion (+)	Supported	Supported	Supported

4.5   Discussion and Conclusion

The objective of this study has been to examine how external information intermediaries influence the acquisition completion decision. We have done so by developing theory describing how stock market reactions, analysts' recommendations, and credit watch placements can reduce the information asymmetry between acquirer and target. In support of our arguments, we find strong evidence that the aforementioned external information intermediaries have indeed a significant effect on acquisition completion decisions; particularly if the target firm is publicly listed. We believe our findings have important theoretical and practical implications.

First, our study advances a more dynamic perspective on the effect of information asymmetries on acquisition strategies. Complementing prior studies showing that information asymmetries play a critical role during the private pre-acquisition phase (Arend, 2004; Capron & Shen, 2007; Chakrabarti & Mitchell, 2013; Coff, 1999; Eckbo et al., 1990), we demonstrate that the acquirer continues to receive new information following the acquisition announcement. This new information will reduce the information asymmetries between acquirer and target allowing the acquirer to update its evaluation of the acquisition opportunity resulting in either a greater likelihood that the announced deal will be completed or vice versa. To date, researchers have focused on internal processes that may alleviate the

adverse effects of information asymmetries during the acquisition process. In contrast, our study emphasizes the role of external actors as an important source of information that acquirers can use to update their own assessment of the market value of the target and synergy potential of the proposed deal.

Second, one particularly interesting finding of our study relates to the effect of target listing status on the informativeness of the actions by external information intermediaries in response to the acquisition announcement. Our results show that the effect of the target listing status is so important that acquiring managers appear to pay great attention to the reactions of information intermediaries when the target is public, but to *de facto* ignore such reactions when the target firm is private. As such, our study adds texture to the literature suggesting that the listing status of the target firm influences acquisition strategies (e.g., Capron & Shen, 2007) by showing that both internal and external mechanisms may be insufficient to significantly reduce the information asymmetry between acquirer and privately held target. Specifically, our findings suggest that the information asymmetry between acquirer and target persists to a large extent after the acquisition announcement in cases where the target firm is unlisted. This finding may thus also explain why a "private firm discount" exists even during the public acquisition period.

Third, we also add to the literature examining acquisition completion decisions (e.g., Chakrabarti & Mitchell, 2016; Dikova et al., 2010; Muehlfeld et al., 2012). There is consensus in the literature that information asymmetries influence acquisition completion decisions (Chakrabarti & Mitchell, 2016; Dikova et al., 2010; Dodd & Ruback, 1977), yet little is known as to how new information that arrives following the public announcement of the acquisition influences the completion decision. We show that external information intermediaries are indeed an important source of new information which may in turn motivate or discourage firms from completing a previously announced deal. Our study thus adds a new dimension to the still nascent literature on acquisition completion decisions.

Limitations and Future Research. The analyses in this study present some limitations. First, market reactions and analyst recommendations are just examples of the external information managers receive in the public phase of an acquisition. Such information is likely complemented by other signals that acquiring executives receive from the external environment following the acquisition announcement thereby affecting the

likelihood of deal completion. What these other signals are and how they complement information from analysts and investors is an interesting subject for a future follow-up of this study. Second, the influence of market and analyst reactions can be expected to be more or less important depending on transaction-specific characteristics. For instance, it can be imagined that the quality of the communication among acquiring and acquired top managers plays a role for whether acquiring managers will look for external information to ensure that the deal's conditions are fair. These types of transaction-specific characteristics however were not considered in the current work and require further investigation. Third, we have shown that the target's characteristics (e.g. its listing status) can represent contingent factors determining whether an acquirer listens to the reactions of external information intermediaries or not. Yet, it can be imagined that even characteristics of the acquiring firm – such as its knowledge of the target's industry or of the target firm itself (e.g. through prior relations or director interlocks) – may have a similar effect on the inclination to pay attention to external reactions to an acquisition announcement. Although these aspects were not analyzed in the present study, they offer interesting avenues for future research.

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Summary

When making mergers and acquisitions (M&As), managers of acquiring firms often do not know how to execute the different but interrelated phases of the M&A process. In order to become competent at performing M&As, therefore, they need to learn. The M&A literature identifies three modes of learning that are relevant to M&As: experiential, contextual and vicarious. Experiential learning occurs when companies develop M&A-related capabilities during acquisitions, codify these capabilities as organizational routines and deploy these capabilities to improve the performance of subsequent acquisitions. Contextual learning happens when acquiring managers purposively evaluate the characteristics of the target firm and the evolving relation with the target as they make decisions that affect the post-deal performance. Vicarious learning takes place when firms receive information from third party market participants and interpret this information to provide novel insights to make strategic deal-related decisions.

Given the importance of learning in the success of acquisitions, the goal of this dissertation is to expand existing scholarly knowledge on the relation between learning and post-merger performance. The first study in this dissertation investigates the impact of domestic acquisition experience on the performance of cross-border M&A deals. In this study, I show that experience gained while making domestic acquisitions is often harmful if it is applied to cross-border acquisitions. In the second study, I investigate the relation between pre-deal target performance and M&A post-deal performance. I begin with the observation that when the pre-deal target performance is unsatisfactory, the acquirer is more likely to execute organizational changes in the target to increase its performance. Yet, since reorganizations disrupt the target's structures and power systems, they tend to stimulate task conflict between the top management teams (TMTs) of the firms that in turn affects post-deal performance. I find that while moderate task conflict promotes mutual learning and has a positive impact on post-deal performance, excessively high or excessively low task conflict triggered by extremes (very high or very low) in pre-deal target performance have negative post-deal performance effects. In this study, I argue that actions that appear desirable based on information available during the early stages of an acquisition may cause undesired effects at later stages. In the third study, I examine the role of information from third parties

in reducing information asymmetry between the acquirer and the target. In particular, I find that upon announcing an acquisition, firms learn from the reaction of investors and financial analysts whether the target firm is mispriced and use this information to decide whether to continue or abandon the deal.

Samenvatting

Bij fusies en overnames weten managers van overnemende bedrijven vaak niet hoe ze de verschillende maar onderling samenhangende fasen van het fusie- en overnameproces moeten uitvoeren. Een leerprocess is daarom nodig voor managers om competent te worden in het uitvoeren van overnames. Volgens de literatuur zijn er drie leerwijzen die relevant zijn voor overnames en fusies:

ervaringsgericht, contextueel, en plaatsvervangend. Ervaringsgericht leren vind plaats wanneer bedrijven overname-gerelateerde capaciteiten ontwikkelen tijdens overnames, deze capaciteiten codificeren als organisatorische routines, en deze routines vervolgens inzetten om de prestaties van latere overnames te vergroten. Contextueel leren gebeurt als overnemende managers doelbewust de eigenschappen van zowel het overgenomen bedrijf als de ontwikkelende relatie met het overgenomen bedrijf evalueren, gedurende het nemen van beslissingen die een effect hebben op de prestaties van het bedrijf na de overname. Plaatsvervangend leren vind plaats wanneer bedrijven informatie ontvangen van andere partijen in de markt, en deze informatie interpreteren om nieuwe inzichten te genereren voor het maken van strategische beslissingen gerelateerd aan overnames.

Gezien hoe belangrijk leren is voor het success van overnames heeft dit proefschrift als doelstelling de academische kennis op het gebied van de relatie tussen leerprocesses en overname prestaties te verruimen. De eerste studie in dit proefschrift doet onderzoek naar de impact van ervaring met binnenlandse overnames op het success van grensoverschrijdende overnames. In deze studie demonstreer ik dat het gebruik van ervaring met binnenlande overnames voor grensoverschrijdende overnames schadelijk is voor de prestaties van het bedrijf na de overname. In de tweede studie onderzoek ik de relatie tussen de prestaties van het overgenomen bedrijf pre-overname en het success van de overname. Ik begin met de observatie dat wanneer het overgenomen bedrijf niet presteert als gewenst, de overnemende partij eerder organisatorische veranderingen doorvoert om betere prestaties te bereiken. Maar omdat reorganisaties de machtsstructuur van het overgenomen bedrijf verstoren, hebben ze de neiging om taakconflicten tussen het top management van beide bedrijven te veroorzaken, wat op zijn beurt weer gevolgen heeft voor het succes van de overname. In het bijzonder vind ik dat een gematigd niveau van conflict een stimuleerd effect heeft op

wederzijds leren, wat de prestaties na de overname verbeterd, terwijl extreem lage of hoge conflictniveaus (vanwege extreem lage of hoge prestaties van het overgenomen bedrijf voor de overname) een negatief effect hebben op bedrijfsprestaties na de overname. In deze studie beargumenteer ik dat akties die initieel wenselijk lijken gebaseerd op de informatie die beschikbaar is tijdens de eerste stages van de overname potentieel een ongewenst effect hebben in de latere stages van de overname. In de derde studie kijk ik naar de rol van informatie van derden in het verminderen van assymetrie in kennis tussen overnemende partij en overgenomen partij. In het bijzonder vind ik dat na de aankondiging van een overname, bedrijven leren van de reacties van investeerders en financieel analysten. Ze gebruiken deze reacties om te achterhalen of het betaalde bedrag voor het overgenomen bedrijf mogelijk te veel of te weinig is, en besluiten op basis hiervan of ze de overname door willen zetten of af willen breken.

About the author

Riccardo Valboni (Florence, 1983) received a MSc in Economics and Management of International Markets and New Technologies and a BA in Business Administration from Bocconi University, Milan. He joined the Rotterdam School of Management (RSM) in September 2011 where his research has been funded by the Erasmus Research Institute of Management (ERIM). Since 2014 he has been working under the supervision of Prof. Dr. Taco Reus to advance our understanding of the relation between learning and the performance of large mergers and acquisitions (M&A). Riccardo's research has been published in the *Journal of Management Studies* and has been presented at various international conferences including the Academy of Management Conference and the Strategic Management Society Conference.

Prior to his doctoral education, Riccardo held a position as a patent licensing officer at a multinational pharmaceutical corporation in Luxembourg. Since September 2016, Riccardo has been working as a lecturer and research fellow at the Utrecht School of Economics (U.S.E.).

Portfolio

PUBLISHED PAPERS

Slangen, A. H., Baaij, M., & Valboni, R. (2017). Disaggregating the corporate headquarters: Investor reactions to inversion announcements by US firms. *Journal of Management Studies*, 54(8), 1241-1270.

WORKING PAPERS

Home-grown learning disabilities: The role of domestic acquisition experience on cross-border acquisition performance. With Taco Reus (RSM) and Arjen Slangen (KU Leuven). Stage: *Final drafting*. Target: *Strategic Management Journal*

Analyzing the influence of external information on acquisition completion decisions: The role of market reactions and financial analyst assessments. With Mirko Benischke (RSM). Stage: *Data analysis*. Target: *Strategic Management Journal*

The behavioral impact of past performance: How target's pre-deal performance affects relations between top management teams of merging firms. With Taco Reus (RSM). Stage: *Final drafting*. Target: *Journal of International Business Studies*

The effect of corporate downsizing on firm performance. An empirical comparison of theories and methods from 40 years of research. With Silvia Bagdadli (Bocconi University). Stage: *Data collection* Target: *The International Journal of Human Resource Management*.

CONFERENCE AND PDW PRESENTATIONS

2017	Journal of Management Studies PDW, Wirtschaftsuniversität, Vienna (AT)
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Lecturer	Multinational Firms Utrecht School of Economics Evaluations: 4.0/5 (2017-2018), 4.0/5 (2016-2017)
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2007-2008 *Research Grant,* Bocconi University, KEINS Project (EU Funded) (€ 5k))

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