



Paths and Patterns toward Acquirer Success in Mergers and Acquisitions

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Par

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Paths and Patterns toward Acquirer Success in Mergers and Acquisitions

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Composition du Jury :

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M. Olivier BERTRAND	Professeur, FGV EBAPE	Rapporteur
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为了生命。向前进!

За Жизнь. Ура! Ура! Ура!

To Life. We march forward!

Pour la Vie. En Marche!

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Oh wow. This is it. It is time to make the bows and close the curtains. Here we go.

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To quote Yuri Gagarin: Поехали!

杨嘉辰 Yang Jiachen

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ABSTRAIT

Les implications financières pour les acheteurs dans les fusions et acquisitions (M&A) ont été un sujet de fascination pour les savants et les praticiens depuis des décennies. Malgré des recherches commerciales approfondies visant à déterminer si et comment les acquéreurs obtiennent des résultats financiers à court et à long terme à la suite des fusions et acquisitions, la clarté de notre compréhension de ces questions demeure insaisissable. Cette thèse de doctorat cherche à apporter plus de clarté à ces questions en examinant les interactions complexes entre plusieurs aspects clés des fusions et acquisitions. Le chapitre 1 examine comment l'expérience des acquéreurs influe sur le rendement à long terme au moyen de décisions clés avant et après la transaction et comment cette influence indirecte diffère dans les contextes nationaux et transfrontaliers. Le chapitre 2 explore les configurations des caractéristiques des transactions et des acquéreurs ainsi que les mécanismes de gouvernance d'entreprise des acquéreurs correspondant aux rendements anormaux cumulés des acquéreurs positifs (CAR). Le chapitre 3 étudie les effets interactifs entre les institutions formelles des pays d'accueil, les caractéristiques des acquéreurs et les mécanismes de gouvernance d'entreprise de l'acquéreur CAR. Enfin, le chapitre 4 examine l'influence des reportages d'affaires sur l'acquéreur CAR.

Mots clés: fusions et acquisitions, gouvernance d'entreprise, institutions, signalisation, méta-analyse, fs/QCA.

INTRODUCTION

Fusions et acquisitions (M&A), la pratique commerciale de l'achat et la vente de divisions et de sociétés entières a été un objet d'intérêt fascinant parmi les universitaires et les praticiens. Cet intérêt continu pour les fusions et acquisitions est justifié par l'ampleur de l'impact économique et social exercé par ces transactions au cours des années passées. En fusionnant et en rassemblant diverses entreprises, à l'aube du XXe siècle aux États-Unis, le monde a assisté à la création de sa première entreprise milliardaire: la United Steel Corporation (Chernow, 2010). Formée en 1901, cette entreprise emblématique a dominé l'un des principaux marchés de produits de base pendant des décennies et continue d'exister comme l'une des plus grandes entreprises publiques américaines à ce jour. Et ce n'était pas seulement l'industrie de l'acier, beaucoup d'autres industries critiques de l'économie moderne ont également été façonnées à grande échelle par M&A, par ex. le pétrole, les chemins de fer, les compagnies aériennes pour n'en nommer que quelques-uns (Chernow, 2007, Kim et Singal, 1993, Stiles, 2009). Compte tenu de l'ampleur des conséquences socio-économiques engendrées par les fusions et acquisitions: des fortunes ont été dépensées et des millions de vies ont été touchées, il n'est donc pas étonnant que ce sujet ait suscité d'intenses recherches dans les décennies passées.

Bien que les premières recherches académiques sur les fusions et acquisitions se concentrent principalement dans la littérature économique (Dewing, 1921, Manne, 1965, Mason, 1957), les études ultérieures ont commencé à proliférer dans le domaine de la comptabilité (Feng & Lev, 2011; Robinson & Shane, 1990), la finance (Aktas, de Bodt & Roll, 2013, Bao & Edmans, 2011, Masulis, Wang & Xie, 2007) et la gestion (Beckman & Haunschild, 2002; Lander & Kooning, 2013; Schijven & Hitt, 2012). Parmi les nombreux aspects des fusions et acquisitions étudiés, le volume de recherche consacré à la performance financière des acheteurs se démarque

vraiment. Contrairement aux cibles, pour lesquels l'implication financière positive de M&A est presque garantie, l'implication financière pour les acheteurs reste très ambiguë, ce qui en fait un sujet de recherche contesté à ce jour (Agrawal & Jaffe, 2003; Agrawal, Jaffe, & Mandelker, 1992, Cartwright & Schoenberg, 2006, King, Dalton, Daily & Covin, 2004). Même si le nombre d'études examinant les facteurs ultimes du succès et de l'échec financier des acquéreurs augmente progressivement et où la portée des facteurs et des aspects des fusions et acquisitions a été élargie, la réponse à la question fondamentale de la réussite ou de l'échec des acquéreurs demeure frustrante. (Haleblian, Devers, McNamara, Carpenter & Davison, 2009). Les chapitres de cette thèse ont été conçus pour résoudre certains de ces problèmes pressants dans la littérature en examinant les mécanismes indirects d'impact, les interactions d'ordre supérieur et les contingences entourant les fusions et acquisitions. En outre, tout en cherchant à clarifier les choses, les chapitres cherchent également à approfondir notre compréhension du rendement des acquéreurs dans le domaine des fusions et acquisitions en explorant des frontières nouvelles et moins explorées.

Bien que chacun des quatre chapitres de la thèse se concentre sur les résultats des fusions et acquisitions pour les acquéreurs, ils considèrent diverses interprétations des résultats des fusions et acquisitions. Le chapitre 1 se concentre sur les résultats à long terme pour les acquéreurs, c'est-à-dire leur performance comptable. Ce chapitre est consacré à l'examen de la véritable nature de l'influence de l'expérience des acquéreurs sur la performance des transactions subséquentes, ainsi qu'à la comparaison systématique de cette influence entre les transactions domestiques et transfrontalières. L'idée de base dans ce chapitre est que l'expérience influencerait les résultats de l'affaire à travers diverses décisions pré et post-M&A clés prises par les acquéreurs. Les décisions pré-M&A concernent les objectifs à acheter, tandis que les décisions post-M&A concernent les objectifs à atteindre. En outre, chacune des associations entre l'expérience des acquéreurs et leur

performance à long terme est ensuite comparée entre les transactions domestiques et transfrontalières, révélant des différences considérables entre ces deux catégories de fusions et acquisitions. Le chapitre 1 utilise la technique de modélisation par équations structurelles méta-analytiques (MASEM) pour effectuer les analyses. L'ensemble de données comprend 681 tailles d'effets (c.-à-d. coefficients de corrélation) recueillies à partir de 122 études évaluées par des pairs uniques couvrant le sujet des fusions et acquisitions de 1980 à 2014.

Après l'examen de l'impact de l'expérience des acquéreurs sur leur performance à long terme, le chapitre 2 se concentre sur le rendement à court terme des acquéreurs, c'est-à-dire leurs rendements anormaux cumulatifs entourant l'annonce des transactions. Ce chapitre est consacré à l'examen des effets interactifs complexes entre les caractéristiques des acquéreurs et des acheteurs ainsi que des mécanismes de gouvernance d'entreprise des acquéreurs sur la performance à court terme des acquéreurs. L'idée de base est que les rendements anormaux cumulatifs, qui sont essentiellement une forme d'expression de la réaction des investisseurs face aux transactions annoncées, sont motivés par la promesse et l'encouragement des différents éléments (c.-à-d. les caractéristiques de l'acquéreur et de la transaction ainsi que de la gouvernance d'acquéreur) les offres apparaissent à l'unisson aux investisseurs. Bien que ces éléments ne seraient pas en mesure de transmettre un message convaincant sur les offres individuellement, ensemble, ils formeraient des configurations puissantes suffisamment persuasives pour que les investisseurs se décident sur les accords annoncés. En outre, cette étude explore également les différences dans les configurations entre les différents environnements économiques, constatant qu'en période de crise économique, la gouvernance d'entreprise et la capacité de négociation des acquéreurs semblent particulièrement cruciales pour que les investisseurs aient confiance dans les accords annoncés. Le chapitre 2 utilise la technique de fuzzy-set qualitative comparative analysis (fs/QCA) pour

effectuer les analyses. L'ensemble de données du chapitre 2 a été recueilli à partir de bases de données comme Thomson Reuters SDC, ISS et COMPUSTAT, et il comprend 1867 acquisitions réalisées par des fabricants nord-américains entre 1996 et 2015.

Ensuite, le chapitre 3 étend l'enquête sur le rendement à court terme des acquéreurs sous la forme de rendements anormaux cumulatifs. Ce chapitre est consacré à l'examen des effets des mécanismes de gouvernance d'entreprise des acquéreurs et des institutions officielles des pays d'accueil sur la perception des investisseurs des acquisitions transfrontalières annoncées. S'appuyant sur les conclusions du chapitre 2, ce chapitre fournit des preuves supplémentaires de l'importance de la gouvernance d'entreprise des acquéreurs pendant les fusions et acquisitions, et dans ce cas, les transactions internationales en particulier. En outre, ce chapitre établit les institutions de gouvernance, financières et de travail des pays d'accueil comme des pirates pour les chances perçues de succès des acquisitions transfrontalières. Le chapitre 3 utilise la technique fs/QCA pour réaliser les analyses d'un ensemble de données composé de 738 acquisitions transfrontalières réalisées par des sociétés nord-américaines sur la période 1996 - 2015, qui ont été collectées auprès de Thomson Reuters SDC, ISS et COMPUSTAT.

Enfin, le chapitre 4 étudie la façon dont les médias d'information commerciaux génèrent des rendements cumulés anormaux à court terme des acquéreurs. Ce chapitre est dédié à la compréhension de la façon dont les différentes parties impliquées dans le processus de M&A et leurs messages véhiculent à travers les médias d'information impact sur la perception des investisseurs sur les offres annoncées. Les conclusions du chapitre 4 suggèrent que lorsqu'il s'agit de persuader les investisseurs des transactions annoncées, les déclarations des conseils d'administration et des hauts dirigeants des acquéreurs importent le plus, alors que l'évaluation des analystes importe le moins. Le chapitre 4 utilise la technique fs/QCA pour réaliser les analyses

d'un ensemble de données constitué de 134 grandes acquisitions (d'une valeur d'au moins un milliard USD) réalisées par des entreprises américaines entre 2009 et 2013. Les données de ce chapitre ont été collectées à partir de 1650 articles publiés dans divers grands médias aux États-Unis.

Dans l'ensemble, ce doctorat thèse contribue à la littérature sur M&A de la manière suivante. Premièrement, il étudie et clarifie le sujet de la véritable influence de l'expérience de l'acquéreur sur le rendement des acquéreurs. Deuxièmement, il examine le rôle de la gouvernance d'entreprise des acquéreurs dans la détermination de la performance de leurs transactions. Troisièmement, il met en évidence le rôle des institutions formelles spécifiques dans les pays hôtes en tant que moteurs clés de la performance à court terme des acquéreurs dans les transactions transfrontalières. Et, enfin, il tisse plus loin le nouveau fil de l'économie de l'information et de la signalisation dans la littérature M&A.

BREVE DESCRIPTION DES CHAPITRES

Influence de l'expérience des acquéreurs sur le rendement à long terme au moyen de décisions avant et après les fusions et acquisitions

Le premier chapitre cherche à répondre à deux questions de recherche. Premièrement, quel est l'effet de l'expérience de l'acquéreur sur la performance à long terme des acheteurs? Deuxièmement, l'expérience des acquéreurs aurait-elle une incidence différente sur la performance dans les fusions et acquisitions nationales et transfrontalières? Actuellement, la méta-analyse de King et al. (2004) ne trouve pas d'association directe significative entre acquéreur et expérience de leur performance. Néanmoins, le fait d'être expérimenté pourrait aider les acquéreurs à prendre de meilleures décisions avant et après la conclusion de la transaction, ce qui se traduirait par de meilleures performances (Bauer & Matzler, 2014). Des études ont trouvé des associations significatives entre

l'expérience des acquéreurs et leurs décisions concernant la section cible (Haleblian, Kim & Rajagopalan, 2006; Kusewitt, 1985), la similarité d'affaires acquéreur-cible (Kim, Haleblian & Finkelstein, 2011; Yang & Hyland, 2006) et la mise en œuvre après l'acquisition (Puranam, Singh & Zollo, 2006, Zollo & Singh, 2004). Cette étude examine les associations entre l'expérience des acquéreurs et leurs décisions et les associations subséquentes entre ces décisions et la performance à long terme de l'acquéreur.

Ensuite, il est proposé dans cette étude que les acquéreurs transfrontaliers prennent des décisions différentes avant et après leurs homologues nationaux en raison des récompenses plus élevées et des risques plus élevés dans les transactions transfrontalières (Shimizu, Hitt, Vaidyanath, & Pisano, 2004). En termes de récompenses plus élevées, les acheteurs transfrontaliers bénéficient d'opportunités uniques de synergie liées au redéploiement et à l'internalisation inversée des ressources (Anand & Delios, 2002, Seth, Song & Pettit, 2002). De même, puisque la culture organisationnelle peut être une ressource précieuse (Barney, 1986) et que la culture organisationnelle est généralement ancrée dans la culture nationale (Stahl & Voigt, 2008), les transactions étrangères peuvent améliorer les routines et les processus des acquéreurs (Morosini, Shane, & Singh, 1998). En termes de risques plus élevés, les acquéreurs font face aux défis posés par la responsabilité de l'étranger et les différences culturelles nationales (Stahl & Voigt, 2008; Zaheer, 1995). La responsabilité de l'étranger limite la compréhension des acquéreurs étrangers potentiels des environnements économiques et institutionnels des pays hôtes (McNichols & Stubben, 2014), tandis que les différences culturelles nationales compliquent les processus d'intégration et de rétention des employés en raison des différences aggravées au niveau organisationnel et national. (Barkema, Bell & Pennings, 1996).

Pour répondre aux deux questions de recherche, la technique de meta-analytical structural equation modeling (MASEM) a été appliquée à une base de données composée de 681 tailles d'effets recueillies à partir de 122 études uniques, représentant collectivement 239 810 observations. Les résultats indiquent que les acquéreurs expérimentés prennent des décisions tout à fait différentes lorsqu'ils effectuent des transactions domestiques par rapport à des transactions transfrontalières. Lorsqu'ils effectuent des transactions domestiques, les acquéreurs expérimentés sont plus susceptibles de choisir des cibles connexes, relativement petites et performantes. Ils ont aussi tendance à mieux s'intégrer aux objectifs et à retenir davantage les employés ciblés. Lorsqu'ils effectuent des transactions transfrontalières, les acquéreurs expérimentés ont également tendance à choisir des cibles performantes, mais ont tendance à moins s'intégrer. Ils ne montrent aucune préférence pour la taille cible, la parenté ou le niveau de rétention des employés cibles. Deux conclusions clés découlent de ces constatations. Premièrement, bien qu'il n'y ait pas de lien direct entre l'expérience et la performance des acquéreurs, il existe des passerelles spécifiques de l'expérience à la performance impliquant des décisions clés avant et après la clôture des transactions. Deuxièmement, les parcours de l'expérience acquéreur à la performance sont différents pour les transactions domestiques par rapport aux transactions transfrontalières.

Influence des configurations des caractéristiques des contrats et des acquéreurs et de la gouvernance des acquéreurs sur le rendement des actions à court terme des acquéreurs

Le deuxième chapitre cherche à comprendre l'influence interactive entre les caractéristiques des acquéreurs et des transactions ainsi que les mécanismes de gouvernance des acquéreurs sur la réaction du marché aux fusions et acquisitions annoncées et à en explorer l'effet temporel potentiel.

Dans cette étude, il est suggéré qu'une réaction positive du marché, c'est-à-dire des rendements anormaux cumulatifs (CAR) pour les acquéreurs, est provoquée par des configurations

d'acquéreurs et de caractéristiques ainsi que par des mécanismes de gouvernance des acquéreurs. Il est important de considérer ces facteurs en combinaison les uns avec les autres car, lors de la séparation, ils présentent des associations ambiguës avec l'acquéreur CAR. C'est le cas des caractéristiques de l'accord comme la relation acquéreur-cible (Bettis, 1981, Finkelstein & Halebian, 2002, Seth, 1990b), l'internationalité des transactions (Chakrabarti, Gupta-Mukherjee, & Jayaraman, 2009, Stahl & Voigt, 2008). et traitent la valeur (Larsson & Finkelstein, 1999, Maguire & Phillips, 2008). Cette étude postule que de telles conclusions incohérentes sont en partie attribuables à l'agence de gestion. En tant que tel, des rendements anormaux cumulatifs positifs ne se produiront que si le marché boursier peut constater que les acquéreurs disposent de mécanismes de gouvernance d'entreprise appropriés pour résoudre ce problème. Par conséquent, la configuration de ces facteurs et leur interrelation, c'est-à-dire la complémentarité et la substituabilité, jouent un rôle clé dans l'instauration de la confiance dans le marché boursier en ce qui concerne les transactions.

La gouvernance d'entreprise remplit deux fonctions vitales en facilitant de meilleurs résultats organisationnels, la protection de la richesse et la création de richesse (Filatotchev, 2007, Filatotchev & Boyd, 2009, Misangyi & Acharya, 2014). La fonction de protection de la richesse est particulièrement importante dans la mesure où les entreprises ayant une propriété et un contrôle distincts sont confrontées à un conflit d'intérêts potentiel entre les propriétaires et les gestionnaires (Fama & Jensen, 1983). Les mécanismes de gouvernance d'entreprise tels que l'appropriation substantielle par les investisseurs institutionnels ou l'indépendance du conseil ou la non-dualité des PDG peuvent être nécessaires pour que les marchés boursiers réagissent positivement aux accords proposés, car ces mécanismes limiteraient les agences managériales potentielles. Bien que les mécanismes de gouvernance d'entreprise soient principalement utiles pour le suivi des

décisions managériales, des développements plus récents dans la littérature laissent entrevoir une fonction potentiellement sous-explorée par les chercheurs en gestion (Filatotchev, 2007, Zahra, Filatotchev & Wright, 2009). Plus particulièrement, les membres indépendants du conseil d'administration et les investisseurs institutionnels ayant une expérience pertinente peuvent faire du conseil et des conseils stratégiques pendant les fusions et acquisitions (Kim, Mauldin & Patro, 2014, Kroll, Walters & Wright, 2008). Ensuite, la dualité du PDG peut être utile et, à ce titre, bien considérée par le marché dans des transactions particulièrement complexes lorsque la prise de décision de PDG s'affirme comme cruciale pour une exécution efficace de la stratégie (Finkelstein & D'Aveni, 1994). Par conséquent, les conseils indépendants, la propriété institutionnelle et la dualité des PDG peuvent remplir une fonction de protection de la richesse, une fonction de création de richesse, voire les deux (Byrd & Hickman, 1992; Ferreira, Massa & Matos, 2010). L'absence sera considérée comme importante selon différentes caractéristiques de l'opération et de l'acquéreur.

Pour explorer l'interaction complexe entre les caractéristiques des transactions et des acquéreurs ainsi que les mécanismes de gouvernance d'entreprise, la technique de fuzzy-set qualitative comparative analysis (fs/QCA) a été appliquée à une base de données comprenant 1867 acquisitions réalisées par des entreprises manufacturières publiques nord-américaines de 1996 à 2015. Fs/QCA est une approche configurationnelle, où des associations complexes comme la complémentarité et la substituabilité peuvent être reflétées par l'équifinalité (Fiss, 2007, Campbell, Sirmon & Schijven, 2016). Et c'est la complémentarité et la substituabilité entre les différents facteurs qui pourraient conduire à des rendements cumulatifs positifs pour les acquéreurs. Enfin, cette étude explore également si les configurations changent dans différents environnements

macroéconomiques et trouve qu'avant, pendant et après la crise de 2007-2009, il y a des différences marquées dans les compositions des configurations conduisant à l'acquisition positive de la CAR.

Influence de la gouvernance des acquéreurs et des institutions officielles des pays hôtes sur le rendement des actions à court terme des acquéreurs dans les acquisitions transfrontalières

Le troisième chapitre cherche à comprendre l'influence des mécanismes de gouvernance d'entreprise des sociétés acquéreurs ainsi que des institutions formelles des pays d'accueil sur la façon dont les investisseurs perçoivent les acquisitions transfrontalières annoncées.

Actuellement, la littérature sur la gouvernance d'entreprise présente deux points de vue parallèles sur la façon dont la gouvernance d'entreprise acquéreur peut déterminer les résultats des fusions et acquisitions: par la création de richesse (Filatotchev, 2007, Zahra, Filatotchev & Wright, 2009).) et la protection de la richesse (Masulis & al., 2007, Misangyi & Acharya, 2014, Wright, Ferris, Sarin & Awasthi, 1996). Cette étude postule que la gouvernance d'entreprise des acquéreurs entraîne la réaction des investisseurs aux CBA annoncées en remplissant la fonction de création de richesse dans la mesure où les mécanismes de gouvernance d'entreprise pourraient se substituer à la compétence d'acquéreur nécessaire pour gérer les transactions avec succès par propre compétence. En outre, les mécanismes de gouvernement d'entreprise rempliraient aussi la fonction de protection de la richesse en limitant l'agence gestionnaire potentielle (Baysinger & Butler, 1985, Baysinger & Hoskisson, 1990, Daily & Dalton, 1994) et en contrôlant les institutions officielles des pays hôtes. Pour ce qui est de limiter l'agence managériale, cela pourrait se faire soit directement en séparant les postes de PDG et de président du conseil, soit indirectement par un suivi par des conseils indépendants et / ou de puissants investisseurs institutionnels (Baysinger & Hoskisson, 1990; Daily & Dalton, 1994). Cette étude considère en outre la fonction supplémentaire de la protection de la richesse par des conseils indépendants et des investisseurs institutionnels en

ce sens qu'ils seraient en mesure de vérifier la qualité et l'adéquation des institutions financières et des institutions du travail des pays d'accueil. L'importance de contrôler ces deux institutions formelles provient du fait que, en plus d'être présents, ils doivent également répondre aux besoins stratégiques des acquéreurs étrangers afin de favoriser la création de valeur (Barney & Zajac, 2006; Edelman, Brush, & Manolova, 2005).

Ensuite, la recherche suggère que les pays avec des institutions de gouvernance, financières et de travail bien développées offrent de meilleurs environnements institutionnels pour les résultats des entreprises étrangères, y compris les acquéreurs étrangers (Carney, Gedajlovic, Heugens, Van Essen, Van Oosterhout, 2011, Weitzel & Berns 2006, Zahra, Ireland & Hitt, 2000). En effet, les institutions de gouvernance des pays hôtes telles que la primauté du droit et le contrôle de la corruption constituent les principaux piliers d'un cadre juridique solide où les risques de corruption et d'opportunisme contractuel sont limités, ce qui sécurise les investisseurs étrangers. En outre, les institutions financières et les institutions du travail des pays hôtes offrent aux acquéreurs étrangers la possibilité d'accéder à des ressources en capital et en main-d'œuvre dans ces pays et, par la suite, de créer de la richesse par l'exploitation des ressources. Ici, liée aux mécanismes de gouvernance d'entreprise acquéreurs, cette étude montre qu'ils remplissent la fonction de protection de la richesse en vérifiant la qualité et l'adéquation des institutions financières et professionnelles des pays hôtes avec les besoins stratégiques des acquéreurs.

Pour comprendre les rôles des mécanismes de gouvernance d'entreprise des acquéreurs et des institutions formelles des pays d'accueil, cette étude utilise la technique de fuzzy-set qualitative comparative analysis (fs/QCA) pour analyser 738 acquisitions transfrontalières annoncées et complétées par des entreprises manufacturières basées en Amérique du Nord. La période d'étude couvre les années entre 1997 et 2015. Au total, les résultats de fs/QCA se composent de treize

configurations correspondant à la réaction positive de l'investisseur aux acquisitions transfrontalières annoncées et sept configurations correspondant à la réaction négative. Les configurations suggèrent globalement que la façon dont les investisseurs perçoivent les chances de succès des acquisitions transfrontalières dépend essentiellement de la manière dont les acquéreurs sont gérés et gouvernés ainsi que de la manière dont l'environnement institutionnel dans les pays hôtes est développé.

Influence des rapports sur les fusions et acquisitions sur le rendement des actions à court terme des acquéreurs

Le quatrième chapitre cherche à comprendre comment les informations influencent la réaction du marché aux offres annoncées et quels types d'informations sont les plus importants, ainsi que leur effet interactif sur la réaction du marché aux annonces de transactions. Récemment, les chercheurs ont commencé à adopter la théorie de la signalisation et l'économie de l'information pour mieux comprendre comment les signaux influencent les fusions et acquisitions (Campbell, Sirmon & Schijven, 2016, Reuer, Wu & Ragozzino, 2013, Schijven & Hitt, 2012). Les signaux provenant des cibles potentielles perçus par les acquéreurs influencent les décisions subséquentes de gouvernance, de paiement et de prime (Reuer & Ragozzino, 2011, Reuer, Shenkar & Ragozzino, 2003, Reuer, Tong & Wu, 2012), tandis que les signaux des acquéreurs perçus par les investisseurs influencent leur réaction aux transactions (Schijven & Hitt, 2012). De plus, les investisseurs ont tendance à évaluer les signaux en paquets (c.-à-d. les configurations) plutôt que sur une base individuelle (Campbell et al., 2016). Jusqu'à présent, la plupart des études se sont concentrées sur les signaux que les investisseurs recherchent de manière proactive à la suite des annonces de marché - des aspects liés aux motivations et aux capacités des acquéreurs ainsi qu'au potentiel de synergie.

L'objectif de cette étude est le rôle des reportages médiatiques, et la façon dont ils informent et influencent les réactions des investisseurs aux annonces de transactions. À cette fin, l'étude examine l'influence des signaux liés aux caractéristiques des opérations stratégiques en combinaison avec l'approbation du conseil, la rationalisation de la haute direction et l'évaluation par les analystes de la réaction des investisseurs aux transactions annoncées (c.-à-d. rendements anormaux cumulatif des acquéreurs). Au total, 1650 nouvelles couvrant 134 transactions évaluées à plus d'un milliard USD annoncées entre 2009 et 2013 ont été collectées et codées. Les résultats suggèrent que, bien que la justification de la haute direction de l'acquéreur transmise par les médias et l'approbation des conseils d'administration des deux sociétés contribuent à susciter la réaction des investisseurs, les évaluations des analystes sont moins percutantes. Cette étude s'appuie sur la vision configurationnelle des signaux M&A en tant que moteurs de la réaction des investisseurs grâce à une interaction d'ordre supérieur. Les résultats indiquent que les investisseurs cherchent à surmonter l'ambiguïté des signaux liés aux caractéristiques des transactions en reliant ces signaux aux signaux des informateurs clés, c'est-à-dire les conseils, les top managers et les analystes. Les messages de ces informateurs deviennent encore plus importants lors des opérations de diversification annoncées par vagues ou impliquant des primes importantes. Enfin, cette étude est la première à explorer l'impact des signaux transmis par les médias émanant du conseil d'administration, de la haute direction et de l'analyste sur la réaction des investisseurs aux fusions et acquisitions annoncées. En examinant les effets des messages de ces informateurs clés, cette étude montre que les investisseurs se soucient plus que des caractéristiques de l'action facilement observables lorsqu'ils se font une opinion sur les transactions.

ABSTRACT

Financial implications for buyers in mergers and acquisitions (M&A) have been a topic of fascination with academics and practitioners for decades. Despite extensive business research dedicated toward investigating whether and how acquirers perform financially in the short and long terms following M&A, so far, the clarity of our understanding about these issues remains elusive. This doctoral thesis seeks to bring more clarity to these questions by examining complex interactions among several key aspects of M&A. Chapter 1 investigates how acquirer experience influences long-term performance through key pre- and post-transaction decisions and how such indirect influence differs in domestic and cross-border contexts. Chapter 2 explores the configurations of deal and acquirer characteristics as well as acquirer corporate governance mechanisms corresponding to positive acquirer cumulative abnormal returns (CAR). Chapter 3 investigates the interactive effects among host countries' formal institutions, acquirer characteristics and corporate governance mechanisms on acquirer CAR. Finally, Chapter 4 examines the influence of business news reports on acquirer CAR.

Key words: mergers and acquisitions, corporate governance, institutions, signaling, meta-analysis, fs/QCA.

INTRODUCTION

Mergers and acquisitions (M&A), the business practice of buying and selling divisions and entire companies has been a fascinating object of interest among academic and practitioners alike. Such continuous interest in mergers and acquisitions is justified by the sheer scale of economic and social impact exerted by these transactions during the years past. Through merging and assembling various business concerns, at the dawn of the 20th century in the United States, the world came to witness the creation of its first billion-dollar company: The United Steel Corporation (Chernow, 2010). Formed in 1901, this iconic company dominated one of the key commodity markets for decades and continues its existence as one of the largest public US company to this day. And it was not just the steel industry, many other critical industries of the modern economy were also shaped to great extents by M&A, e.g. oil, railroads, airlines to name a few (Chernow, 2007; Kim & Singal, 1993; Stiles, 2009). Given the sheer scale of the socio-economic consequences created by M&A: fortunes were spent, and millions of lives were touched, it is no wonder this topic has received ample research interests in the decades past.

Although, the earliest academic research on M&A mostly concentrated in the economic literature (Dewing, 1921; Manne, 1965; Mason, 1957), later studies started to proliferate in the areas of accounting (Feng & Lev, 2011; Marquardt & Zur, 2014; Robinson & Shane, 1990), finance (Aktas, de Bodt, & Roll, 2013; Bao & Edmans, 2011; Masulis, Wang, & Xie, 2007), and management (Beckman & Haunschild, 2002; Lander & Kooning, 2013; Schijven & Hitt, 2012). Among the many aspects of M&A studied, the amount of research focus dedicated to the financial performance of buyers really stands out. Unlike for targets, for whom the financial implication of M&A is almost guaranteed to be positive, the financial implication for buyers remains a highly ambiguous, making it a contested topic of research to this day (Agrawal & Jaffe, 2003; Agrawal,

Jaffe, & Mandelker, 1992; Cartwright & Schoenberg, 2006; King, Dalton, Daily, & Covin, 2004). Even as the number of studies investigating the ultimate factors behind acquirers' financial success and failure has been gradually increasing, and where the scope of factors and aspects of M&A examined broadening, the answer to the core question of how acquirers succeed or fail remain frustratingly elusive (Haleblian, Devers, McNamara, Carpenter, & Davison, 2009). The chapters in this thesis were designed to solve some of these pressing issues in the literature through examination of indirect mechanisms of impact, higher-order interactions, and contingencies surrounding M&A. Furthermore, along with seeking to provide clarity, the chapters also seek to further our understanding about acquirer performance in M&A by exploring newer and less investigated frontiers.

Though each of the four chapters of the thesis focus on the outcomes of M&A for acquirers, they consider various interpretations of M&A outcomes. Chapter 1 focuses on the long-term outcome for acquirers, i.e. their accounting performance. This chapter is dedicated toward examining the true nature of the influence of acquirer M&A experience on the performance of subsequent deals as well as toward systematically comparing such influence between domestic and cross-border deals. The core idea in this chapter is that experience would influence deal outcomes through various key pre- and post-M&A decisions that acquirers make. The pre-M&A decisions pertain to which targets to buy, while the post-M&A decisions pertain to what to do with the targets bought. Furthermore, each of the associations between acquirer experience and their long-term performance are then compared between domestic and cross-border deals, revealing considerable differences between these two categories of M&A. Chapter 1 uses the meta-analytical structural equation modeling (MASEM) technique to conduct the analyses. The data set consists

of 681 effect sizes (i.e. correlation coefficients) collected from 122 unique peer-reviewed studies covering the topic of M&A from 1980 to 2014.

Following the examination of the impact of acquirer experience on their long-term performance, chapter 2 focuses on acquirers' short-term performance, i.e. their cumulative abnormal returns surrounding the announcement of deals. This chapter is dedicated toward examining the complex interactive effects among acquirer and deal characteristics as well as acquirer corporate governance mechanisms on the short-term performance of acquirers. The core idea is that the cumulative abnormal returns, which is essentially a form of expression of investors' reaction toward announced deals, are driven by how promising and encouraging the various elements (i.e. acquirer and deal characteristics as well as acquirer corporate governance) involved in the deals appear in unison to the investors. Though, these elements would not be able to convey a convincing message about the deals individually, together they would form powerful configurations persuasive enough for investors to make up their minds about the announced deals. Furthermore, this study also explores the differences in the configurations across different economic environments, finding that in times of economic crisis, corporate governance and the deal-making capability of acquirers appear to be particularly crucial for investors to have good faith in announced deals. Chapter 2 uses the fuzzy-set qualitative comparative analysis (fs/QCA) technique to conduct the analyses. The data set for chapter 2 was collected from databases the likes of Thomson Reuters SDC, ISS, and COMPUSTAT, and it consists of 1867 acquisitions completed by North American manufacturers between 1996 and 2015.

Next, chapter 3 extends the investigation on acquirer short-term performance in the form of cumulative abnormal returns. This chapter is dedicated toward examination of the effects of acquirer corporate governance mechanisms and host countries' formal institutions on investors'

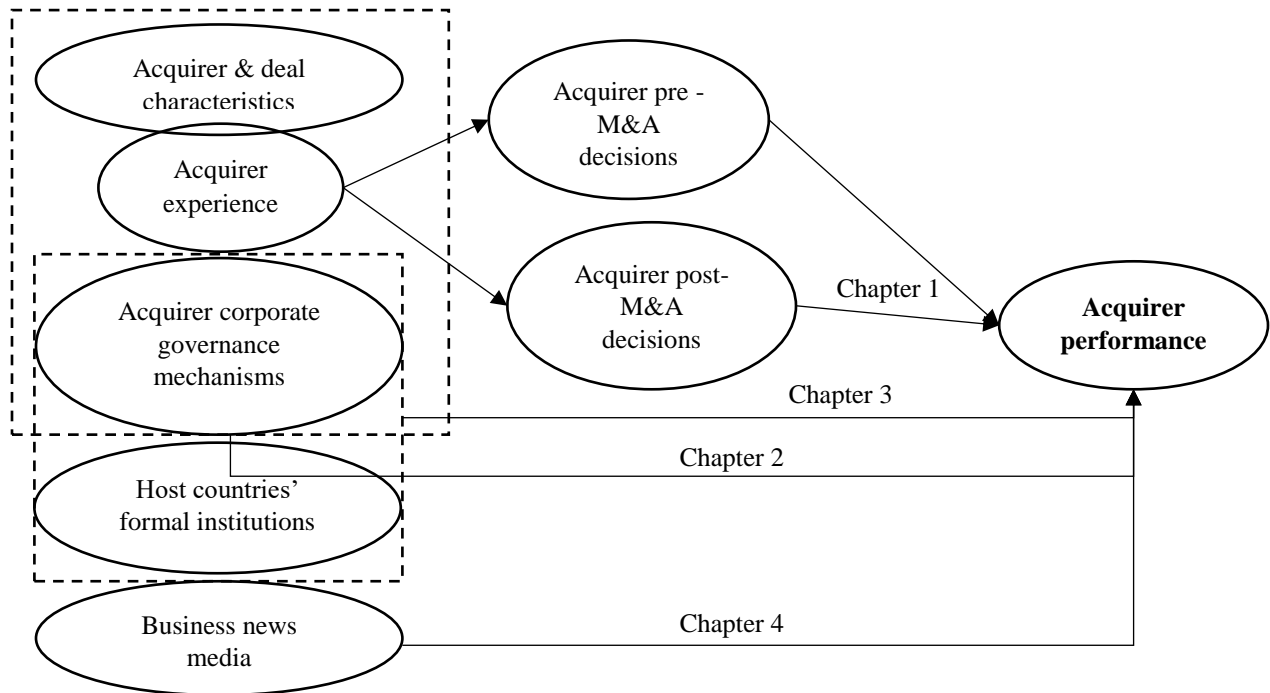
perception of announced cross-border acquisitions. Building upon the findings of chapter 2, this chapter provides additional evidence toward the importance of acquirers' corporate governance during M&A, and in this case, international transactions specifically. Furthermore, this chapter establishes host countries' governance, financial, and labor institutions as deal-breakers for the perceived odds of success of cross-border acquisitions. Chapter 3 uses the fs/QCA technique to conduct the analyses of a data set consisting of 738 cross-border acquisitions completed by North American companies in the period of 1996 – 2015, which was collected from Thomson Reuters SDC, ISS, and COMPUSTAT.

Finally, chapter 4 studies how business news media drives short-term cumulative abnormal returns of acquirers. This chapter is dedicated toward understanding how different parties involved in the process of M&A and their messages convey through the business news outlets impact investors' perception about the announced deals. The findings of chapter 4 suggest that when it comes to persuading investors about the announced deals, the statements from boards and top managers of acquirers matter the most, while the assessment of analysts matter the least. Chapter 4 uses the fs/QCA technique to conduct the analyses of a data set consisting of 134 large acquisitions (worth at least one billion USD) performed by US companies between 2009 and 2013. The data for this chapter was collected from 1650 individual news articles published in various major business news outlets in the US.

Overall, this Ph.D. thesis contributes to the literature on M&A in the following ways. First, it investigates and clarifies the topic of the true influence of acquirer experience on acquirer performance. Second, it examines the role of acquirer corporate governance in determining their deal performance. Third, it uncovers the roles of specific formal institutions in host countries as

key drivers of acquirer short-term performance in cross-border deals. And, finally, it weaves further the new thread of information economics and signaling into the M&A literature.

Figure 1. Schematic representation of the Ph.D. thesis



BRIEF DESCRIPTION OF CHAPTERS

Influence of Acquirer Experience on Long-Term Performance via Pre- and Post-M&A Decisions

The first chapter seeks to answer two research questions. First, what is the effect of acquirer experience on buyers' long-term performance? Second, would acquirer experience influence performance differently in domestic and cross-border M&A?

Currently, the meta-analysis by King et al. (2004) finds no significant direct association between acquirer experience their performance. Nevertheless, being experienced could help acquirers make better decisions both before and after deal completion, resulting in better performance (Bauer & Matzler, 2014). Studies find significant associations between acquirer

experience and their decisions with regard to target selection (Haleblian, Kim, & Rajagopalan, 2006; Kusewitt, 1985), acquirer-to-target relatedness (Kim, Haleblian, & Finkelstein, 2011; Yang & Hyland, 2006), and post-acquisition implementation (Puranam, Singh, & Zollo, 2006; Zollo & Singh, 2004). This study examines the associations between acquirer experience and their decisions and the subsequent associations between those decisions and acquirer long-term performance.

Next, it is posited in this study that cross-border acquirers make different pre-and post-decisions compared to their domestic counterparts because of higher rewards and higher risks in cross-border deals (Shimizu, Hitt, Vaidyanath, & Pisano, 2004). In terms of higher rewards, cross-border buyers enjoy unique synergy opportunities stemming to redeployment and reverse internalization of resources (Anand & Delios, 2002; Seth, Song, & Pettit, 2002). Relatedly, since organizational culture could be a valuable resource (Barney, 1986) and that organizational culture is generally verged in the national culture (Stahl & Voigt, 2008), foreign deals can enhance acquirers' routines and processes (Morosini, Shane, & Singh, 1998). In terms of higher risks, acquirers face the challenges posed by liability of foreignness and national cultural differences (Stahl & Voigt, 2008; Zaheer, 1995). Liability of foreignness limits potential foreign acquirers' understanding of host countries' economic and institutional environments (McNichols & Stubben, 2014), while national cultural differences add complexity to the processes of integration and employee retention due to the compounded differences at both organizational and national levels (Barkema, Bell, & Pennings, 1996).

To answer the two research questions, meta-analytical structural equation modeling (MASEM) technique was applied onto a database consisting of 681 effect sizes collected from 122 unique studies, collectively representing 239,810 observations. The results indicate that

experienced acquirers make quite different decisions when pursuing domestic as compared to cross-border deals. When pursuing domestic deals, experienced acquirers are more likely to choose related, relatively small, and well-performing targets. They also tend to integrate more with targets and retain target employees to a greater extent. When pursuing cross-border deals, experienced acquirers tend to also choose well-performing targets, but they tend to integrate less. They do not exhibit any preference for target size, relatedness, or the level of target employee retention. Two key conclusions follow from these findings. First, though there may not be a direct association between acquirer experience and performance, there do exist specific pathways from experience to performance involving key decisions before and after deal closure. Second, the pathways from acquirer experience to performance are different for domestic as compared to cross-border deals.

Influence of Configurations of Acquirer, Deal Characteristics and Acquirer Corporate Governance on Acquirer Short-Term Stock Performance

The second chapter seeks to understand the interactive influence among acquirer and deal characteristics as well as acquirer corporate governance mechanisms on market reaction to announced M&A as well as to explore the potential temporal effect to it.

In this study, it is suggested that positive market reaction, i.e. cumulative abnormal returns (CAR) for acquirers, are elicited by configurations of acquirer and characteristics as well as acquirer governance mechanisms. It is important to consider these factors in combination with each other because in separation they exhibit ambiguous associations with acquirer CAR. This is the case for deal characteristics like acquirer-to-target relatedness (Bettis, 1981; Finkelstein & Halebian, 2002; Seth, 1990b), deal internationality (Chakrabarti, Gupta-Mukherjee, & Jayaraman, 2009; Stahl & Voigt, 2008), and deal value (Larsson & Finkelstein, 1999; Maguire & Phillips, 2008). This study posits that such inconsistent findings are partly attributable to managerial agency.

And as such, positive cumulative abnormal returns will only occur if stock market can observe that acquirers have appropriate corporate governance mechanisms in place to address this issue. Hence, configurations of these factors and their interrelation, i.e. complementarity and substitutability, play key roles in instilling faith with stock market regarding the deals.

Corporate governance performs two vital functions in facilitating better organizational outcomes, wealth-protection and wealth-creation (Filatotchev, 2007; Filatotchev & Boyd, 2009; Misangyi & Acharya, 2014). The wealth-protection function is especially important since companies with separate ownership and control face potential conflict of interest between the owners and managers (Fama & Jensen, 1983). Here, corporate governance mechanisms such as substantial ownership by institutional investors or board independence or CEO non-duality may be necessary for stock market to respond positively to proposed deals since these mechanisms would limit potential managerial agency, reducing the chances of bad deals going through. Although corporate governance mechanisms are primarily useful for monitoring managerial decisions, more recent developments in the literature point to a potentially a function previously underexplored by management scholars – wealth-creation (Filatotchev, 2007; Zahra, Filatotchev, & Wright, 2009). Specifically, independent board members and institutional investors with relevant experience can do strategic advisory and counselling during M&A (Kim, Mauldin, & Patro, 2014; Kroll, Walters, & Wright, 2008). Next, CEO duality may be helpful and, as such, well-regarded by market in especially complex deals when assertive CEO decision-making have been proven to be crucial to efficient strategy execution (Finkelstein & D'Aveni, 1994). Therefore, independent boards, institutional ownership, and CEO duality can fulfill either a wealth-protection function, a wealth-creation function, or even both (Byrd & Hickman, 1992; Ferreira, Massa, &

Matos, 2010), and their presence or absence will be regarded as important under different deal and acquirer characteristics.

To explore the complex interplay between deal and acquirer characteristics as well as corporate governance mechanisms, fuzzy-set qualitative comparative analysis (fs/QCA) technique was applied onto a database consisting of 1867 acquisitions completed by public North American manufacturing companies from 1996 to 2015. Fs/QCA is a configurational approach, where complex associations like complementarity and substitutability can be reflected through equifinality (Fiss, 2007; Campbell, Sirmon, & Schijven, 2016). And it is the complementarity and substitutability among the different factors that could lead to positive cumulative abnormal returns for acquirers. Finally, this study also explores whether the configurations change under different macroeconomic environments and finds that before, during, and after the 2007-2009 crisis, there marked differences in the compositions of the configurations leading to positive acquire CAR.

Influence of Acquirer Corporate Governance and Host Countries' Formal Institutions on Acquirer Short-Term Stock Performance in Cross-Border Acquisitions

The third chapter seeks to understand the influence of corporate governance mechanisms of acquirer companies as well as host countries' formal institutions on how investors perceive the announced cross-border acquisitions.

Currently, the corporate governance literature holds two parallel views on how acquirer corporate governance can determine the outcomes of mergers and acquisitions (M&A): through wealth-creation (Filatotchev, 2007; Filatotchev & Boyd, 2009; Zahra, Filatotchev, & Wright, 2009) and wealth-protection (Masulis et al., 2007; Misangyi & Acharya, 2014; Wright, Ferris, Sarin, & Awasthi, 1996). This study posits that acquirer corporate governance drives investors reaction to announced CBA by performing the function of wealth-creation in that the corporate governance

mechanisms would be able to substitute for the acquirer competence necessary for successfully managing the deals in cases when acquirers fall short in their own competence. Furthermore, the corporate governance mechanisms would also perform the function of wealth-protection by limiting potential managerial agency (Baysinger & Butler, 1985; Baysinger & Hoskisson, 1990; Daily & Dalton, 1994) and vetting the formal institutions of host countries. In terms of limiting managerial agency, this could be accomplished either directly through separating the positions of CEO and Chairman of the Board or indirectly through monitoring by independent boards and/or powerful institutional investors (Baysinger & Butler, 1985; Baysinger & Hoskisson, 1990; Daily & Dalton, 1994). This study additionally considers the extra function of wealth-protection by independent boards and institutional investors in that they would be able to vet the quality and fit of host countries' financial and labor institutions. The importance of vetting these two formal institutions stems from the fact that beside being present, they must also qualify for strategic needs of foreign acquirers in order to be conducive toward value-creation (Barney & Zajac, 2006; Edelman, Brush, & Manolova, 2005).

Next, research suggests that countries with well-developed governance, financial, and labor institutions offer better institutional environments for successful outcomes of foreign companies, including foreign acquirers (Carney, Gedajlovic, Heugens, Van Essen, & Van Oosterhout, 2011; Weitzel & Berns, 2006; Zahra, Ireland, & Hitt, 2000). This is because host countries' governance institutions such as rule of law and control for corruption serve as the main pillars of a strong legal framework where the risks of corruption and contract opportunism are limited, which makes host countries safe for foreign acquirers to invest. Furthermore, host countries financial and labor institutions create opportunities for foreign acquirers to access capital and labor resources in these countries and subsequently create wealth via exploitation of the resources. Here, related to acquirer

corporate governance mechanisms, this study finds that they perform the wealth-protecting function by vetting the quality and fit of host countries' financial and labor institutions with the strategic needs of acquirers, subsequently driving investor reaction to announced cross-border acquisitions.

To understand the roles of acquirer corporate governance mechanisms and host countries' formal institutions, this study uses the fuzzy-set qualitative comparative analysis (fs/QCA) technique to analyze 738 cross-border acquisitions announced and completed by manufacturing companies based in North America. The period of study covers the years between 1997 and 2015. In total, the fs/QCA results consist of thirteen configurations corresponding to positive investor reaction to announced cross-border acquisitions and seven configurations corresponding to negative reaction. The configurations broadly suggest that the way investors perceive the odds of success of cross-border acquisitions depend substantially upon how well the acquirers are managed and governed as well as how well the institutional environment in host countries are developed.

Influence of M&A News Reports on Acquirer Short-Term Stock Performance

The fourth chapter seeks to understand how news reports drive market reaction to announced deals and which types of news matter the most as well as their interactive effect on market reaction to deal announcements.

Recently, scholars have started to adopt signaling theory and information economics as a way to more fully understand how signals influence M&A (Campbell, Sirmon, & Schijven, 2016; Reuer, Wu, & Ragozzino, 2013; Schijven & Hitt, 2012). Signals from potential targets perceived by acquirers influence subsequent governance, payment, and premium decisions (Reuer & Ragozzino, 2011; Reuer, Shenkar, & Ragozzino, 2003; Reuer, Tong, & Wu, 2012), while signals from acquirers perceived by investors influence their reaction to the deals (Schijven & Hitt, 2012).

Moreover, investors tend to evaluate the signals in bundles (i.e. configurations) rather than on individual basis (Campbell et al., 2016). So far, the focus of most studies has been on signals that investors proactively seek out in the aftermath of deal announcements – aspects relating to acquirer motives and capabilities as well as synergy potential.

The focus of this study is the role of media news reports, and how they inform and influence investor reactions to deal announcements. To this end, the study examines the influence of signals related to strategic deal characteristics in combination with board approval, top management rationalization, and analyst assessment on investor reaction to announced deals (i.e. acquirer cumulative abnormal returns). In total, 1650 news reports covering 134 deals valued over one billion USD announced from 2009 until 2013 were collected and coded. The results suggest that while media-transmitted acquirer top management rationale and approval from the boards of both companies are instrumental in eliciting investor reaction, but that analyst assessment are less impactful. This study builds on the configurational view of M&A signals as drivers of investor reaction through higher-order interaction. The results indicate that investors seek to overcome ambiguity of signals related to deal characteristics by linking these signals with signals from key informants, i.e. boards, top managers, and analysts. The messages from these informants become even more important during diversification deals announced in a wave or involving large premiums. Finally, this study is the first to explore the impact of media-transmitted signals from companies' board, top management, and analyst on how investors react to announced M&A. By examining the effects of messages from these key informants, this study shows that investors care more than just the easily observable deal characteristics when making up their minds about deals.

**CHAPTER 1. CRACKING THE TRILLION-DOLLAR QUESTION:
UNDERSTANDING THE ROLE OF ACQUISITION EXPERIENCE IN DOMESTIC AND
CROSS-BORDER M&A**

ABSTRACT

Research evidence for the effect of acquirer deal-making experience on its performance remain mixed. We suggest that this is because the mechanisms through which experience works are oftentimes assumed but not tested. We build a comprehensive M&A model in which experience is theorized to work through processes of target selection, deal type, and post-acquisition integration and retention. Furthermore, we posit that the international scope of the deal is an important contingency. We analyze the model's relationships across domestic and cross-border settings, by drawing on a meta-analytical dataset covering 681 effect sizes that encompass 239,810 observations drawn from 122 studies.

Keywords: mergers; acquisitions; path models; meta-analysis; structural equation modeling.

INTRODUCTION

Mergers and acquisitions (M&A) remain a popular instrument of corporate restructuring. The amount of resources involved in buying companies has set records in the past years (“Dealogic - M&A StatShot,” 2015) and continues to attract a considerable amount of research interest (Haleblian et al., 2009a). One important factor the effect of which remains unclear, is that of acquirer experience. As Hitt and colleagues note (2001: 55): “The importance of the link between managerial experience and M&A success should not be underestimated.” Interestingly, the literature remains inconsistent about the effect of acquirer experience on its performance (Barkema & Schijven, 2008). For instance, some studies show that acquirer experience has positive (Barkema et al., 1996; Bruton, Oviatt, & White, 1994) or curvilinear effects (Haleblian & Finkelstein, 1999) on performance. Yet others find no significant effects at all (Hayward, 2002; Zollo & Singh, 2004), or even negative effects (Kusewitt, 1985). In a meta-analysis that brings these studies together, King and colleagues (2004) find no significant effect of acquirer experience on performance.

We propose that the literature needs to look beyond the direct experience – performance relationship. Experience works through strategic decisions to stimulate acquisition performance. Specifically, we suggest that experience influences the type of target an acquirer selects, the deal type an acquirer engages in and the level of integration and retention it enacts. Each of these decisions in turn will ultimately affect acquirer performance. By bringing these elements together, we can distill the optimal strategic pathways to enhanced M&A performance. Additionally, we suggest that prior experience drives acquirer choices differently across domestic and cross-border settings, since the international business environment and difference in national cultures can transform the relationships at all stages of acquisitions (Haleblian et al., 2009). We thus argue that

the distinction between domestic and cross-border settings is a crucial moderator of the effect of experience in M&A relationships.

To explore the direct and mediating effects of acquirer experience on post-acquisition performance, we test a meta-analytical structural equation model (MASEM) in both domestic and cross-border settings. We conduct our analyses on a database that consists of 681 effect sizes collected from 122 unique studies, which together represent 239,810 observations. We confirm the prior finding of King et al. (2004) that acquirer experience does not have a direct effect on post-acquisition performance in either domestic or cross-border settings. However, we observe that the choices made by experienced acquirers vary significantly across domestic and cross-border deals. Experienced acquirers that conduct domestic deals are more likely to choose related and relatively small targets, and well-performing targets. They also tend to pursue deeper target integration and more target employee retention as compared to their less experienced counterparts. Experienced acquirers in cross-border deals are also more likely to choose well-performing targets, but their post-merger integration is less pronounced. They do not exhibit any preference for target size, relatedness, or the level of employee retention. These findings hold two important implications. First, though experience may not directly drive acquirer performance, its interrelations with the pre- and post-acquisition decisions do end up forming specific pathways that ultimately lead to superior performance following the deals. Second, our findings suggest that acquirer experience influences its choices quite differently across the settings. In all, our study illuminates the importance of acquirer experience on acquisition performance through mediation and moderation.

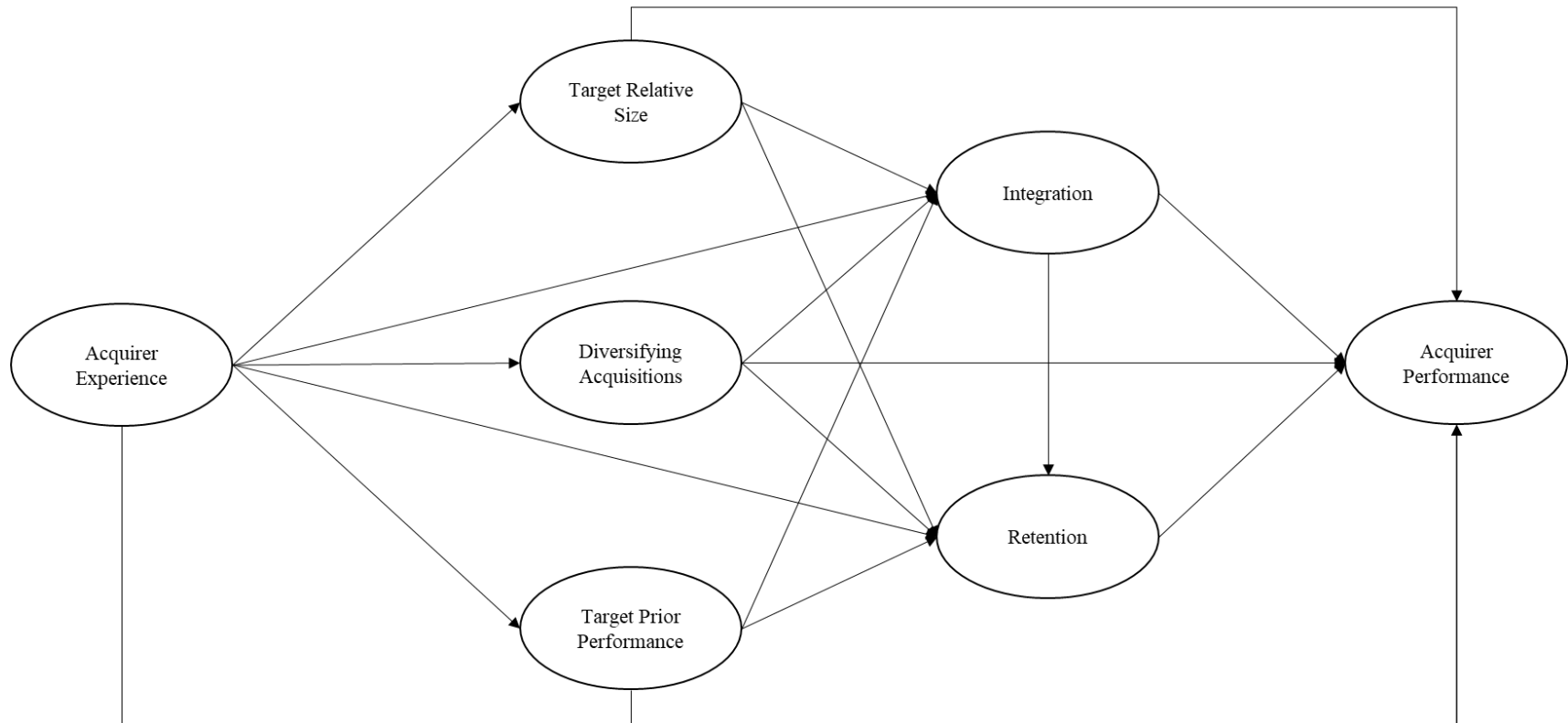
THE ROLE OF EXPERIENCE IN DOMESTIC AND CROSS-BORDER M&A

The mergers and acquisitions literature faces a conundrum. As the amount of research keeps growing at a steady pace, the overall understanding of the phenomena remains stagnant

(Cartwright, 2006; King et al., 2004). While the overwhelming evidence suggests that M&A are almost always rewarding for targets' shareholders, its effect for acquirers' performance remain uncertain (King et al., 2004). In our study we focus on how acquirer experience influences acquirer performance directly and by mediation.

So far, the accumulated evidence in the M&A literature suggests no direct influence of acquirer experience on subsequent performance (King et al., 2004). However, many positives have been mentioned about having experience that should help improve both pre-acquisition decisions as well as smooth out post-acquisition implementation issues (Bauer & Matzler, 2014). In studies where the effects of M&A experience on post-acquisition performance is tested, scholars often invoke mechanisms through which these effects should arise. The most frequently examined effects of experience are related to pre-acquisition target selection (Haleblian et al., 2006; Kusewitt, 1985), deal type (Kim et al., 2011; Yang & Hyland, 2006), and post-acquisition decisions (Puranam et al., 2006; Zollo & Singh, 2004). Therefore, we hypothesize the relationships between experience, their mediating mechanisms and performance, and explicitly test these proposed effects (see Figure 2).

Figure 2 Research model



Furthermore, we argue that in addition to mediating effects, the experience-performance relationship is also influenced by moderating effects exerted by the domestic or cross-border settings of M&A. Specifically, we posit that cross-border acquirers make different pre-and post-acquisition decisions compared to their domestic counterparts due to both amplified risks and rewards in cross-border deals (Shimizu et al., 2004). Cross-border acquirers enjoy unique synergy opportunities related to redeployment and reverse internalization of resources that domestic acquirers miss (Anand & Delios, 2002; Seth et al., 2002). Moreover, given that organizational culture could be a valuable resource (Barney, 1986) and that companies cultures are to a large extent predicated on national cultures (Stahl & Voigt, 2008), research suggests that buying foreign companies carries the potential benefit of enhancing acquirers' routines and processes (Morosini et al., 1998). However, realizing these benefits is more complex in an international setting as acquirers face additional risks related to liability of foreignness and national cultural differences (Stahl & Voigt, 2008; Zaheer, 1995). Liability of foreignness creates additional barriers for acquirers when selecting and appraising foreign targets due to the limited understanding of host countries' economic and institutional environments (McNichols & Stubben, 2014), while national cultural differences add another layer of complexity during integration and employee retention due to the compounded differences at both organizational and national levels – double-layered acculturation (Barkema et al., 1996). We thus argue that given comparable firm-specific risks of potential target companies, cross-border deals will be perceived by acquirers as riskier given the added risks of the international business environment. In the face of the added risks in the cross-border setting, experienced acquirers will make choices to navigate these extra risks based on their understanding about host countries directly or by extrapolation from similar countries (Basuil & Datta, 2015; Lu, Liu, Wright, & Filatotchev, 2014).

Acquirer Experience and Acquirer Performance

Current studies exploring the direct effect of acquirer experience on acquirer performance have found mixed results. So far, these results have indicated that experience has positive (Bruton et al., 1994; Fowler & Schmidt, 1989), negative (Kusewitt, 1985), neutral (Hayward, 2002; Kroll, Wright, Toombs, & Leavell, 1997), as well as curvilinear effects on acquirer performance (Haleblian & Finkelstein, 1999).

However, these studies did not test the mechanisms they suggest that underlie the experience – performance relationship. The predominant logic behind the positive impact is that it helps acquirers to make better decisions and avoid serious mistakes, both when choosing targets and when integrating with them (Lubatkin, 1983). Experience makes companies more cognizant of the challenges that occur during the complicated selection and negotiation stage because it helps to better manage the required managerial, financial, and legal resources (Bruton et al., 1994). For example, Castellaneta and Conti (2017) suggest that companies benefit from acquisition experience when selecting targets and that such benefit is further amplified under the condition of lack of information. In addition, acquisition experience is also helpful during the implementation stage when acquirers face the challenge of effectively integrating the resources of the combined companies to achieve synergy (Bauer & Matzler, 2014) as well as when dealing with retention of valuable human resources (Very, Lubatkin, Calori, & Veiga, 1997) and managing employee resistance (Larsson & Finkelstein, 1999).

Meanwhile, the logic behind the negative impact of experience on performance is that exposure to extensive amounts of acquisition activity without appropriate classification and codification leads to confusion and misapplication of prior experiences and decline in acquirer performance (Kusewitt, 1985; Singh & Zollo, 1998). Yet other research suggests that the main

effect of experience on performance may be moderated by the similarity of targets acquired, performance following previous deals, as well as the temporal distance between the acquisitions (Hayward, 2002), while the direct relationship may not be significant (Kroll et al., 1997). Finally, research finds that substantial and little experience may be both beneficial toward performance, while a medium level of experience has the least effect (Haleblian & Finkelstein, 1999). The logic here is that acquirers with substantial experience are especially savvy in terms of when and how to use specific episodes of their experience, while acquirers with little experience are more aware of the limitations of the knowledge they had accumulated so far and approach the application of their limited experience with extra care. Contrarily, companies with a medium amount of experience have neither the savviness verged in substantial amounts of experience nor the heightened cautiousness verged in little experience, which leads to misapplication of their experience and subsequent performance decline.

Overall, the general consensus is that the effect of experience on acquirer performance, is subject to nuances and contingencies of the M&A process that need to be taken into account (Barkema & Schijven, 2008). We consider two types of such nuances. First, we unpack the strategic choices of acquirers that stand between acquirer experience and performance to test the underlying mediating mechanisms. This allows us to gain more insight as to *how* experience works as a driver of performance. Second, we systematically examine the differences throughout the M&A process between domestic and cross-border settings. By elaborating on the intricacies that surround cross-border deals (Shimizu et al., 2004), we aim to generate new insights regarding the effect of this critical contingency on the experience – performance relationship.

Acquirer Experience and Target Relative Size

In the domestic setting, experienced acquirers will tend to select relatively small targets. Domestically, acquisitions of large competitors are not only more complex in terms of its sheer size and the associated costs, but also because of the potential organizational cultural issues: employees from companies of comparable size may find it harder to create a common new organizational identity and work toward a common organizational objective (Ahuja & Katila, 2001). In fact, when two companies of comparable size merge, the performance often suffers due to internal turf wars and inability of finding a compromise from either side (Maguire & Phillips, 2008). As their experience grows, acquirers are likelier to opt for smaller targets in order to more successfully realize the synergy potential by avoiding the post-acquisition integration issues (Puranam, Singh, & Chaudhuri, 2009; Seth, 1990a).

In the cross-border setting, acquirers need to balance the risks associated with the liability of foreignness and cultural friction with the need to establish a sizeable beachhead in a host country. We argue that experience drives up managerial perception of control of the situation surrounding the deals (March & Shapira, 1987; Sitkin & Pablo, 1992). Compared to their more experienced counterparts, less experienced acquirers tend to have higher risk perceptions and lower risk propensity (March & Shapira, 1987), both of which make relative smaller targets more preferable because of the relatively limited level of losses in case of failure (Pablo, Sitkin, & Jemison, 1996). On the other hand, more experienced acquirers with well-established routines and procedures are likely to have lower risk perception and higher risk propensity and will therefore prefer larger targets, which provide better chances to synergy creation (Capron, 1999; Larsson & Finkelstein, 1999). Taking these arguments together we predict that:

Hypothesis 1a: *In domestic deals acquirer experience is negatively related to target relative size, which in turn is negatively associated with acquirer performance.*

***Hypothesis 1b:** In cross-border deals acquirer experience is positively related to target relative size, which in turn is positively associated with acquirer performance.*

Acquirer Experience and Target Prior Performance

Experience provides acquirers with established routines and procedures (Laamanen & Keil, 2008) and increases their perception of control, thus allowing them to pursue deals that may be perceived as riskier (March & Shapira, 1987; Sitkin & Pablo, 1992). Therefore, for domestic deals, experienced acquirers tend to prefer targets with room for improved performance, e.g. underperforming or even struggling companies (Dong, Hirshleifer, Richardson, & Teoh, 2006; Shleifer & Vishny, 2003). Moreover, the shareholders of well-performing potential targets may require exorbitant premiums that may very well make an acquisition economically unjustifiable (Sirower, 1997). Such overpayment for target assets removes the economic viability for acquirers so profoundly that even long-term performance is jeopardized (Krishnan, Hitt, & Park, 2007). As such, in the domestic setting, experienced acquirers will tend to opt for targets with relatively lower prior performance.

In the cross-border setting, we predict that experienced acquirers will prefer well-performing targets that are likelier to carry better resources for synergy creation (Capron, 1999; Larsson & Finkelstein, 1999). We argue that experienced acquirers will be more aware of the additional risks posed by liability of foreignness and double-layered acculturation in cross-border deals (Barkema et al., 1996; Zaheer, 1995) and subsequently choose well-performing targets that pose less firm-specific performance risks to keep the overall risk level manageable. In other words, acquiring well-performing targets creates room for buyers to concentrate on overcoming their liability of foreignness and address double-layered acculturation without having to fix targets' performance first (Doukas & Lang, 2003; Zaheer, 1995). In short, we predict:

***Hypothesis 2a:** In domestic deals, acquirer experience is negatively related to target prior performance, which in turn is negatively associated with acquirer performance.*

***Hypothesis 2b:** In cross-border deals, acquirer experience is positively related to target prior performance, which in turn is positively associated with acquirer performance.*

Acquirer Experience and Diversifying M&A

In the domestic setting, due to concerns of managerial agency, firms are often discouraged from conducting diversifying acquisitions (Fama & Jensen, 1983; Jensen, 1988). Studies show that managers prefer to use diversifying acquisitions as an instrument to reduce their own risks related to unemployment and personal wealth (Amihud & Lev, 1981; Berger & Ofek, 1995). Furthermore, given the chance, companies' shareholders would rather diversify their investment portfolio on their own rather than through diversifying acquisitions by one of the companies they have invested in (Amihud & Lev, 1999; Lane, Cannella, & Lubatkin, 1998). Consequently, diversifying deals are often perceived as value-destroying, and companies tend to abandon these deals when challenged by shareholders (Liu & McConnell, 2013). Given that more experienced acquirers have performed deals before, we argue that they will be more cognizant of shareholders' general negative perception of diversifying deals and be less adamant in pursuing such acquisitions.

Though on the one hand, studies show that companies benefit from acquiring resources beyond their current industry because these novel resources are often transformative and create competitive advantages for acquirers (Lane et al., 1998; Ravenscraft & Scherer, 2011). On the other hand, however, research overwhelmingly shows that related acquisitions based on synergies of similarity have higher and more unequivocal chances of benefitting acquirers (Capron, Mitchell, & Swaminathan, 2001; Meyer & Altenborg, 2008; Palich, Cardinal, & Miller, 2000). Meanwhile, studies indicate that diversifying acquisitions based on synergies of dissimilarity have not

uniformly been positive on acquirer performance: they stand to suffer from higher risks of failure due to poor target selection and vetting as well as more complications in the implementation process caused by lack of understanding of targets' industries and cross-industry disparities (Agrawal et al., 1992; Berger & Ofek, 1995; Lang, Stulz, & Walkling, 1991; Morck, Shleifer, & Vishny, 1990). As such diversifying deals are likely to lead to poorer acquirer performance.

In cross-border deals, though diversifying acquisitions may still be perceived as driven by managerial agency and thus value-destroying, we posit that in this case such perception will be mitigated by the international nature of the deals. Since in cross-border diversifying acquisitions companies reach beyond both product *and* geographic markets, this could bring substantial synergy potential that domestic diversifying deals do not offer. First, it allows acquirers to exploit the imperfections of and arbitrage within international markets for goods or resources (Markides & Ittner, 1994; Markides & Oyon, 1998). Secondly, it allows acquirers to increase competitiveness through internalization and reverse internalization of resources with their foreign targets (Anand & Delios, 2002; Chakrabarti et al., 2009; Seth, Song, & Pettit, 2000). Subsequently, experienced acquirers may be more inclined to pursue cross-border diversifying deals because they will be more cognizant and capable of benefitting from the upsides of such deals. Nevertheless, in terms of actual performance of cross-border diversifying acquisitions, we posit it will be similar to the domestic deals. Here, in addition to the issues stemming from lack of understanding of targets' industries, cross-border diversifying acquirers also face issues related to the liability of foreignness and cultural differences. Thus, issues pertaining to diversifying beyond a company's industry and home country may completely forego post-acquisition performance. In sum, we hypothesize that:

Hypothesis 3a: *In domestic deals, acquirer experience is negatively related to diversifying deals, which in turn is negatively associated with acquirer performance.*

***Hypothesis 3b:** In cross-border deals, acquirer experience is positively related to diversifying deals, which in turn is negatively associated with acquirer performance.*

Acquirer Experience and Target Integration

During post-acquisition implementation, the key issues often revolve around target integration. For domestic deals, we predict that acquirer experience is positively related to the level of integration. While integration can potentially lead to substantial disruptions of employee routines that hinders their productivity (Paruchuri, Nerkar, & Hambrick, 2006; Puranam et al., 2006), acquisition experience can provide well-developed procedures to facilitate deeper and more profound integration of target assets (Singh & Zollo, 1998; Zollo & Reuer, 2009). This then drives organizational efficiency and enables the transfer and redeployment of resources between the companies (Cording, Christmann, & King, 2008; Meyer & Altenborg, 2008) and, ultimately, enhanced acquirer performance.

In cross-border deals, the relationship between acquirer experience and integration is likely to be negative. The potential obstacles posed by national cultural differences, language barriers, and the liability of foreignness can cause frictions and ultimately serious damage to acquirer performance (Stahl & Voigt, 2008; Vaara, Sarala, Stahl, & Björkman, 2012). An experienced acquirer is more cognizant of these matters as compared to first-time acquirers and will realize that the value of integration in foreign transactions, e.g. transfer and redeployment of valuable resources (Birkinshaw, Bresman, & Håkanson, 2000; Seth et al., 2002) is better achieved by a strategy of cooperation rather than assimilation and domination. Therefore, for the integration – performance relationship in cross-border deals, less is more. Hence:

***Hypothesis 4a:** In domestic deals, acquirer experience is positively related to the level of integration, which in turn is positively associated with acquirer performance.*

Hypothesis 4b: *In cross-border deals, acquirer experience is negatively related to the level of integration, which in turn is negatively associated with acquirer performance.*

Acquirer Experience and Target Employee Retention

In the domestic setting, acquirer experience is positively related to retention because it allows acquirers to correctly engage with an acquisition even when it is fundamentally disconcerting for target employees. By doing so they are better able to ensure target employees' engagement and retention (Birkinshaw et al., 2000; Iverson & Pullman, 2000). Retention in turn is positively related to performance because keeping targets' employees allows acquirers to preserve and redeploy valuable human resources (Buchholtz, Ribbens, & Houle, 2003; Lado & Wilson, 1994).

In the cross-border deals, similar to the arguments for integration, we predict that experienced acquirers are more likely to value the importance of maintaining the local staff in order to be able to draw on the knowledge and expertise residing with the local employees (Kogut & Zander, 1992; Ranft & Lord, 2002). In other words, retaining employees of foreign targets is key to overcoming the liability of foreignness and generating goodwill in host countries, which both lead to improved performance (Datta, Guthrie, Basuil, & Pandey, 2010; Zaheer, 1995).

Hypothesis 5a: *In domestic deals, acquirer experience is positively related to the level of employee retention, which in turn is positively associated with acquirer performance.*

Hypothesis 5b: *In cross-border deals, acquirer experience is positively related to the level of employee retention, which in turn is positively associated with acquirer performance.*

Completing the Model

As our aim is to investigate the direct and mediated effects of experience on performance, we limited our hypothesizing to those relations directly involving experience. Evidently however,

those mediating mechanisms involving the three pre-acquisition factors (target relative size, target prior performance, diversifying M&A) and two post-acquisition factors (integration and retention) are also related in that the former three elements impact the latter two, in turn impacting performance. As such, we will analytically incorporate these relationship in our model.

Target relative size is positively associated with integration because of the synergy potential of scale economies. Specifically, there is the opportunity to achieve scale economies through deeper integration of larger targets (Brueller, Carmeli, & Markman, 2016; Larsson & Finkelstein, 1999). In the case of target prior performance, there is the opportunity to benefit via integration of tangible and intangible resources of well-performing targets (Seth et al., 2002). For diversifying deals, there is the necessity to integrate target resources to benefit from the combinational potential created with the resources of both companies (Chakrabarti et al., 2009; Larsson & Finkelstein, 1999).

Target relative size is positively related to retention because when the acquirer and the target are comparable in size, there is higher employee commitment (Bergh, 2001; Duhaime & Baird, 1987) and more comparable relative standing among the employees from acquirers and targets which reflects well on retention of target employees (Hambrick & Cannella, 1993; Very et al., 1997). Target prior performance is positively related to retention as it signals the high quality of human resources that can be redeployed to the benefit of the combined company regardless of the relatedness of business (Coff, 2002; Hitt, Biermant, Shimizu, & Kochhar, 2001). In the case of diversifying M&A, it is even more imperative to keep targets' employees because they are the repositories of valuable knowledge and expertise, which acquirers lack due to the industry differences (Harris & Helfat, 1997; Napier, 1989).

The relationship between two of the post-acquisition processes is negative because integration between the companies inadvertently leads to elimination of overlapping positions. Furthermore, post-acquisition integration often leads to friction between acquirers and targets. There are several sources of these acquirer-target frictions including loss of relative standing by target employees (Hambrick & Cannella, 1993), their inability to adapt to acquirers' performance standards and requirements (Datta & Grant, 1990), and miscommunication and lack of trust (Maguire & Phillips, 2008). Furthermore, during the integration process, retention may also suffer from voluntary turnover of target employees because of reduced productivity and increased stress (Buono, Bowditch, & Lewis, 1985; Nahavandi & Malekzadeh, 1988).

METHOD

Literature Collection and Sample

Following the examples of meta-analyses in management (Bergh et al., 2016; Heugens & Lander, 2009; Lander & Heugens, 2017), we used three complementary search strategies to collect original studies from the M&A literature. We focused on collecting published peer-reviewed studies (Bergh et al., 2016) to ensure the quality of primary studies collected. Our search window covered the period between 1980 and 2014. The first collection strategy involved conducting keyword searches in journal databases including ABM/INFORM Global, EBSCO, JSTOR, and EconLit. Specifically, we searched for appropriate studies in these databases using key words such as “merger(s)”, “acquisition(s)”, “M&A”, “corporate restructuring”, “merging”, “acquiring”, “acquirer(s)”. The second strategy involved conducting manual searches in high-impact journals in management (*Academy of Management Journal*, *Administrative Science Quarterly*, *Journal of International Business Studies*, *Journal of Management Studies*, *Journal of Management*, *Organizational Science*, *Strategic Management Journal*), finance (*Journal of Finance*, *Journal of*

Financial Economics, *Journal of Finance and Quantitative Analysis*, *Review of Financial Studies*), economics (*American Economic Review*, *The Rand Journal of Economics*), and sociology (*American Journal of Sociology*, *American Sociological Review*). We focused on these journals for their consistent and overwhelming influence in their research areas across our literature collection time frame (Chen & Huang, 2007; Podsakoff, MacKenzie, Bachrach, & Podsakoff, 2005). We examined titles and abstracts of the studies published in these journals to determine their feasibility for further analysis. Third, we conducted snowballing searches in the reference lists of studies identified from previous two strategies as well as studies included in previous meta-analytical (Datta, Pinches, & Narayanan, 1992; King et al., 2004a; Stahl & Voigt, 2008) and review studies (Carper, 1990; Haleblan et al., 2009a; Zollo & Meier, 2008).

Together, the three search strategies yielded a total of 964 unique studies, from which 122 studies were retained. To be included in the final sample, a study must have contained one or more of the relationships identified in our research model, measured the variables in line with our operationalization, and provided statistical data for conducting meta-analysis (i.e. correlation coefficients and sample size). Considering these criteria, our final sample consists of 681 effect sizes corresponding to 239,810 observations collected from 122 studies. Furthermore, to test our research model in the contexts of cross-border and domestic M&A we decomposed our full sample into the respective sub-samples which for the cross-border sub-sample contained 84 effect sizes corresponding to 13,981 observations from 16 studies focusing on cross-border M&A only. The domestic sub-sample consists of 312 unique effect sizes corresponding to 122,743 observations collected from 47 studies focusing on domestic M&A only. The rest of the 285 unique effect sizes could not be included in either of the sub-samples due to the mixed sampling approach of the original studies, i.e. their samples contained a mix of both domestic and cross-border deals. We

also analyzed our research model based on effects sizes of this mixed sub-sample, and the results can be found in appendix A.

Coding Process

Using a comprehensive coding form to register effect sizes, the sample size, and other key characteristics two of the authors each coded half of the studies. In the initial coding stages, in order to ensure a high level of inter-coder reliability, the coders each coded the same twenty studies and discussed their understanding of the coding protocol. Differences in interpretation were discussed until consensus was reached. Furthermore, to maintain a high level of inter-coder reliability, at three equidistant points in time during the coding process, the coders double-coded studies from the other coders' paper collection. An average level of inter-coder reliability of 0.9 was established and maintained.

We operationalized our variables in accordance with extant M&A literature. *Acquirer experience* is measured as the number of acquisitions pursued by the acquirer prior to the focal deal to maintain comparability with the latest meta-analysis by (King et al., 2004). *Target prior performance* is measured as the accounting performance of target companies in the year prior to their acquisitions (ROA and ROE; Reuer & Ragozzino, 2011). *Target relative size* is the ratio between the indicators of target and acquirer size (assets, sales, employees; (Zollo & Singh, 2004). Studies in the M&A literatures evaluate *diversifying transactions*, e.g. business dissimilarity between the companies, using two types of measures. First, most studies use standardized classification systems (Haleblian & Finkelstein, 1999; SBI codes; Barkema & Vermeulen, 1998). Second, other studies measure the business dissimilarity using surveys and qualitative assessments (questions on product dissimilarity and business scope; Capron et al., 1998; Ellis, Reus, Lamont, & Ranft, 2011) and by asking expert judges to assess the degree of differentiation between the

companies' lines of business (Hambrick & Cannella, 1993). When studies used measurement constructs that are the diametrical opposite of business dissimilarity (e.g. when business similarity based on SIC codes and qualitative assessments was measured), we reverse coded the correlations coefficients. *Integration* is measured as the degree of unification and coordination between acquirers and targets (Larsson & Finkelstein, 1999). *Retention* is measured as the extent to which target companies' employees are retained (Reus & Lamont, 2009). Finally, *acquirer performance* in the aftermath of M&A is measured via accounting indicators (ROA, ROE), buy-and-hold abnormal returns, and managerial assessment beyond 1 year after a focal acquisition. These measures are considered to be more informative and appropriate for measuring the true value impact because they reflect the effects of post-acquisition implementation which are crucial for the ultimate success or failure of acquirers (Haleblian et al., 2009; Ramaswamy, 1997).

Meta-Analytical Structural Equation Modeling

The first step of a MASEM analysis is calculating the mean effect sizes for each of the pairwise relationships among all the variables. We used the Hedges-Olkin meta-analytical procedure (HOMA) to calculate the mean effect sizes (Hedges & Olkin, 2014). The results of homogeneity tests (e.g. Q and I^2 statistics) indicate significant levels of heterogeneity among the effects sizes in our full sample as well as sub-samples, which suggests that the observations of the original studies were drawn from different populations. To derive more accurate estimates of the mean effect sizes in the presence of significant heterogeneity, we used the random-effects model instead of the fixed-effects model (Hedges & Vevea, 1998; Lipsey & Wilson, 2001). We use individual effect sizes instead of studies as units of analysis because of two reasons (Bergh et al., 2016). First, it is impractical to use average effect sizes per study when there are significant levels of heterogeneity and when there are multiple forms of operationalization. Second, exhaustiveness of data results in

more accurate and robust meta-analytical results than limiting the number of effect sizes per study (Bijmolt & Pieters, 2001).

The second step of a MASEM analysis is to test the research model by applying structural equation modeling on the synthetic correlation matrices consisting of the mean effect sizes derived from the meta-analyses (for this procedure we used LISREL 9.2; (Jöreskog & Sörbom, 1986). We compiled individual matrices for the full sample and the two sub-samples (Tables 1, 2 and 3). Each cell of the tables contains the values of the mean effect size, the confidence interval, and the numbers of observations and studies testing the pairwise relationship.

Following the conventions of meta-analytical research (Lander & Heugens, 2017), we performed robustness check, to test for the influence of sample nonindependence, by selectively retaining effect sizes from studies with overlapping samples (Wood, 2008). We identified and retained the effect sizes from the main studies in case of overlapping samples by selecting either the largest or the oldest study (von Elm, Poggia, Walder, & Tramèr, 2004). The results from robustness check were essentially the same as the results from the original analyses: all the significant coefficients remained so and kept their directionality (see appendix B).

Table 1. MASEM correlation matrix for the full sample

	1	2	3	4	5	6
1. Long-term performance <i>r</i> (<i>S.E.</i>); <i>k</i> (<i>N</i>)						
2. Integration <i>r</i> (<i>S.E.</i>); <i>k</i> (<i>N</i>)	0.10 (0.03); 17 (5,036)					
3. Retention <i>r</i> (<i>S.E.</i>); <i>k</i> (<i>N</i>)	0.16 (0.04); 13 (3,019)	-0.12 (0.06); 10 (1,774)				
4. Diversifying acquisitions <i>r</i> (<i>S.E.</i>); <i>k</i> (<i>N</i>)	-0.02 (0.02); 36 (21,547)	-0.14 (0.03); 24 (13,679)	0.02 (0.03); 15 (10,158)			
5. Acquirer experience <i>r</i> (<i>S.E.</i>); <i>k</i> (<i>N</i>)	0.07 (0.02); 18 (9,278)	0.07 (0.03); 14 (2,873)	0.04 (0.03); 7 (1,546)	-0.04 (0.02); 51 (50,873)		
6. Target prior performance <i>r</i> (<i>S.E.</i>); <i>k</i> (<i>N</i>)	0.11 (0.04); 11 (4,410)	0.04 (0.09); 4 (398)	0.11 (0.03); 7 (1,159)	0.01 (0.02); 23 (16,643)	0.11 (0.04); 9 (5,025)	
7. Target relative size <i>r</i> (<i>S.E.</i>); <i>k</i> (<i>N</i>)	0.02 (0.02); 28 (7,546)	0.02 (0.03); 21 (9,098)	-0.03 (0.02); 13 (2,783)	-0.04 (0.03); 49 (45,901)	-0.06 (0.03); 26 (22,222)	-0.04 (0.01); 12 (4,842)
<i>r</i> – mean effect size, <i>S.E.</i> – standard error of the mean effect size, <i>k</i> – number of studies, <i>N</i> – number of observations.						

Table 2. MASEM correlation matrix for the domestic sub-sample

	1	2	3	4	5	6
1. Long-term performance <i>r</i> (<i>S.E.</i>); <i>k</i> (<i>N</i>)						
2. Integration <i>r</i> (<i>S.E.</i>); <i>k</i> (<i>N</i>)	0.13 (0.04); 7 (2,781)					
3. Retention <i>r</i> (<i>S.E.</i>); <i>k</i> (<i>N</i>)	0.09 (0.06); 7 (1,769)	-0.17 (0.11); 4 (957)				
4. Diversifying acquisitions <i>r</i> (<i>S.E.</i>); <i>k</i> (<i>N</i>)	-0.01 (0.02); 14 (7,179)	-0.14 (0.05); 11 (10,391)	0.12 (0.05); 6 (2,082)			
5. Acquirer experience <i>r</i> (<i>S.E.</i>); <i>k</i> (<i>N</i>)	0.03 (0.03); 9 (4,840)	0.12 (0.03); 8 (2,095)	0.05 (0.03); 4 (1,054)	-0.06 (0.03); 23 (16,701)		
6. Target prior performance <i>r</i> (<i>S.E.</i>); <i>k</i> (<i>N</i>)	0.03 (0.06); 6 (3,381)	-0.04 (0.07); 2 (236)	0.11 (0.09); 3 (410)	0.02 (0.02); 11 (13,081)	0.06 (0.04); 5 (4,570)	
7. Target relative size <i>r</i> (<i>S.E.</i>); <i>k</i> (<i>N</i>)	0.00 (0.02); 16 (3,939)	0.00 (0.04); 12 (7,955)	-0.03 (0.04); 8 (1,626)	-0.01 (0.05); 22 (24,817)	-0.10 (0.03); 13 (8,775)	-0.05 (0.02); 7 (4,104)
<i>r</i> – mean effect size, <i>S.E.</i> – standard error of the mean effect size, <i>k</i> – number of studies, <i>N</i> – number of observations.						

Table 3. MASEM correlation matrix for the cross-border sub-sample

	1	2	3	4	5	6
1. Long-term performance <i>r</i> (<i>S.E.</i>); <i>k</i> (<i>N</i>)	-0.03 (0.08); 3 (415)					
2. Integration <i>r</i> (<i>S.E.</i>); <i>k</i> (<i>N</i>)		0.27 (0.10); 2 (313)	0.04 (0.32); 2 (183)			
3. Retention <i>r</i> (<i>S.E.</i>); <i>k</i> (<i>N</i>)						
4. Diversifying acquisitions <i>r</i> (<i>S.E.</i>); <i>k</i> (<i>N</i>)	-0.05 (0.02); 6 (2,280)	0.00 (0.07); 6 (1,300)	-0.12 (0.16); 2 (183)			
5. Acquirer experience <i>r</i> (<i>S.E.</i>); <i>k</i> (<i>N</i>)		-0.07 (0.05); 4 (516)	0.00 (0.05); 3 (492)	-0.02 (0.04); 7 (2,085)		
6. Target prior performance <i>r</i> (<i>S.E.</i>); <i>k</i> (<i>N</i>)			0.12 (0.05); 2 (374)	-0.01 (0.13); 2 (117)	0.18 (0.13); 2 (168)	
7. Target relative size <i>r</i> (<i>S.E.</i>); <i>k</i> (<i>N</i>)		-0.02 (0.07); 2 (220)	-0.05 (0.09); 1 (118)	-0.01 (0.06); 4 (1,328)	0.10 (0.11); 3 (951)	AES; 0.06

AES – absence of effect sizes, *r* – mean effect size, *S.E.* – standard error of the mean effect size, *k* – number of studies, *N* – number of observations.

As there were no correlations available between target prior performance and target relative size the mean effect size could not be calculated for the cross-border sub-sample. However as structural equation modeling requires a full matrix, we used the average effect size over all other mean effect sizes in cross-border matrix (Viswesvaran & Ones, 1995). Finally, we used the harmonic mean as the sample size of each of the models (Viswesvaran & Ones, 1995) and we calculated the coefficient estimates of the structural equations using maximum likelihood (Bergh et al., 2016).

RESULTS

The goodness-of-fit indicators suggest that our research model fits well with the data of the full (RMSEA=0.03, $\chi^2=9.12$, CFI=0.98, GFI=1.00, RMR=0.01) sample as well as the domestic (RMSEA=0.02, $\chi^2=4.44$, CFI=0.99, GFI=1.00, RMR=0.01) and cross-border (RMSEA=0.00, $\chi^2=0.51$, CFI=1.00, GFI=1.00, RMR=0.01) sub-samples. We report the results of the full model, to show the integrated picture of all research evidence currently available but we focus on comparing and discussing the results of the cross-border and domestic sub-samples in line with the focus of our study (see table 4). The results of the MASEM analyses indicate many substantive differences between the domestic and cross-border deals.

Table 4. Results of meta-analytical structural equation modeling for the full sample and domestic and cross-border sub-samples

Relationships	Full sample	Domestic sample	Cross-border sample
<i>Direct effect</i>			
Acquisition experience → Acquirer performance	0.05** (0.02; 2.64)	0.01 (0.03; 0.22)	0.07 (0.06; 1.23)
<i>Hypotheses</i>			
H1: Acquisition experience → Target relative size	-0.06** (0.02; -3.25)	-0.10*** (0.02; -4.03)	0.10 (0.06; 1.62)
H2: Acquisition experience → Target prior performance	0.11*** (0.02; 5.99)	0.06* (0.02; 2.41)	0.18** (0.06; 2.95)
H3: Acquisition experience → Diversifying acquisitions	-0.04* (0.02; -2.17)	-0.06* (0.02; -2.41)	-0.02 (0.06; -0.32)
H4: Acquirer experience → Integration	0.06*** (0.02; 3.36)	0.12*** (0.02; 4.68)	-0.14* (0.06; -2.42)
H5: Acquirer experience → Retention	0.04† (0.02; 1.93)	0.07** (0.02; 2.75)	-0.02 (0.06; -0.33)
<i>Performance implications</i>			
Target relative size → Acquirer performance	0.03 (0.02; 1.59)	0.01 (0.02; 0.21)	0.13* (0.06; 2.27)
Target prior performance → Acquirer performance	0.08*** (0.02; 4.58)	0.02 (0.02; 0.95)	0.20** (0.06; 3.11)
Diversifying acquisitions → Acquirer performance	-0.01 (0.02; -0.3)	0.00 (0.02; -0.11)	-0.01 (0.06; -0.25)
Integration → Acquirer performance	0.11*** (0.02; 6.07)	0.15*** (0.03; 5.9)	-0.11† (0.06; -1.72)

Retention → Acquirer performance	0.16*** (0.02; 8.93)	0.11*** (0.03; 4.48)	0.26*** (0.06; 4.37)
<i>Non-hypothesized relationships</i>			
Target relative size → Integration	0.02 (0.02; 1.07)	0.01 (0.02; 0.33)	-0.03 (0.06; -0.53)
Target relative size → Retention	-0.02 (0.02; -1.14)	-0.02 (0.02; -0.71)	-0.06 (0.06; -0.93)
Target prior performance → Integration	0.04 [†] (0.02; 1.93)	-0.04 [†] (0.02; -1.79)	0.41*** (0.06; 7.07)
Target prior performance → Retention	0.11*** (0.02; 6.02)	0.10*** (0.02; 3.98)	0.13 [†] (0.07; 1.93)
Diversifying acquisitions → Integration	-0.14*** (0.02; -7.51)	-0.13*** (0.02; -5.38)	0.00 (0.06; 0.02)
Diversifying acquisitions → Retention	0.00 (0.02; 0.1)	0.10*** (0.02; 4.06)	-0.12* (0.06; -1.96)
Integration → Retention	-0.13*** (0.02; -6.84)	-0.16*** (0.02; -6.5)	-0.01 (0.07; -0.18)
RMSEA	0.03	0.02	0.00
χ^2	9.12	4.44	0.51
CFI	0.98	0.99	1.00
GFI	1.00	1.00	1.00
RMR	0.01	0.01	0.01

*** – 0.001, ** – 0.01, * – 0.05, † – 0.10. First number within parentheses – standard error, second number – t-value.

In contrast to King et al (2004), we do find a direct positive effect on acquirer performance for the full sample (0.05, *t-value*=2.64), albeit this effect disappears when we look at the effect of

experience in the domestic setting (0.01, $t\text{-value}=0.22$) as well as in the cross-border setting (0.07, $t\text{-value}=1.23$).

In our first mediated relationship, the emphasis was on the relationship between acquirer experience and target relative size. In hypothesis 1a we predicted that for domestic deals there would be a negative relationship between acquirer experience and target relative size and a negative relationship between target relative size and acquirer performance. This hypothesis is partly supported in that indeed experienced acquirers choose relatively smaller targets (-0.10, $t\text{-value}=-4.03$) while the relationship between target relative size and acquirer performance is non-significant (0.01, $t\text{-value}=0.21$). For hypothesis 1b we predicted a positive association of experience with target relative size and a subsequent positive relationship between target relative size and acquirer performance. Again, our hypothesis is partly supported: there is a positive but non-significant association of acquirer experience with target relative size (0.10, $t\text{-value}=1.62$) but a significant positive relationship between target relative size and acquirer performance (0.13, $t\text{-value}=2.27$).

In hypothesis 2a we stipulated a negative relationship between acquirer experience and target prior performance in the domestic setting and a subsequent negative effect of target prior performance on acquirer performance. Counter to our hypothesizing we find a positive relationship between acquirer experience and target prior performance (0.06, $t\text{-value}=2.41$) and a non-significant effect of target prior performance on acquirer performance (0.02, $t\text{-value}=0.95$). In the cross-border setting we expected a positive relationship both between acquirer experience and target prior performance and between target prior performance and acquirer performance. This hypothesis is fully supported with both relationships being positive and significant – the former being 0.18 ($t\text{-value}=2.95$) and the latter 0.20 ($t\text{-value}=3.11$).

For hypothesis 3 partial support was found. Albeit there is indeed a negative significant relationship between acquirer experience and the choice of diversifying acquisitions as predicted in hypothesis 3a (-0.06 , $t\text{-value}=-2.41$) the subsequent performance effect is slightly negative but insignificant (-0.00 , $t\text{-value}=-0.11$). For cross-border deals our prediction of positive effect of acquirer experience on the choice of diversifying acquisitions was not supported (-0.02 , $t\text{-value}=-0.32$), and our prediction of a negative effect of diversifying acquisitions on performance was not supported as the relationship was non-significant as well (-0.01 , $t\text{-value}=-0.25$).

Both hypothesis 4a and 4b are fully supported. In the domestic setting (hypothesis 4a) we found a positive relationship between acquirer experience and integration (0.12 , $t\text{-value}=4.68$) and a subsequent positive relationship between integration and performance (0.15 , $t\text{-value}=5.90$). For the cross-border setting (hypothesis 4b) we found a negative relationship between acquirer experience and integration (-0.14 , $t\text{-value}=-2.42$) and a negative relationship between integration and performance (-0.11 , $t\text{-value}=-1.72$).

We find support for our predictions in hypothesis 5a and partial support for hypothesis 5b. For hypothesis 5a we indeed found a positive relationship between acquirer experience and target employee retention (0.07 , $t\text{-value}=2.75$) and a subsequent positive relationship between retention and performance (0.11 , $t\text{-value}=4.48$). For hypothesis 5b we found that there is a negative but non-significant effect between acquirer experience and retention (-0.02 , $t\text{-value}=-0.33$), and a significant and positive relationship between retention and performance (0.26 , $t\text{-value}=4.37$).

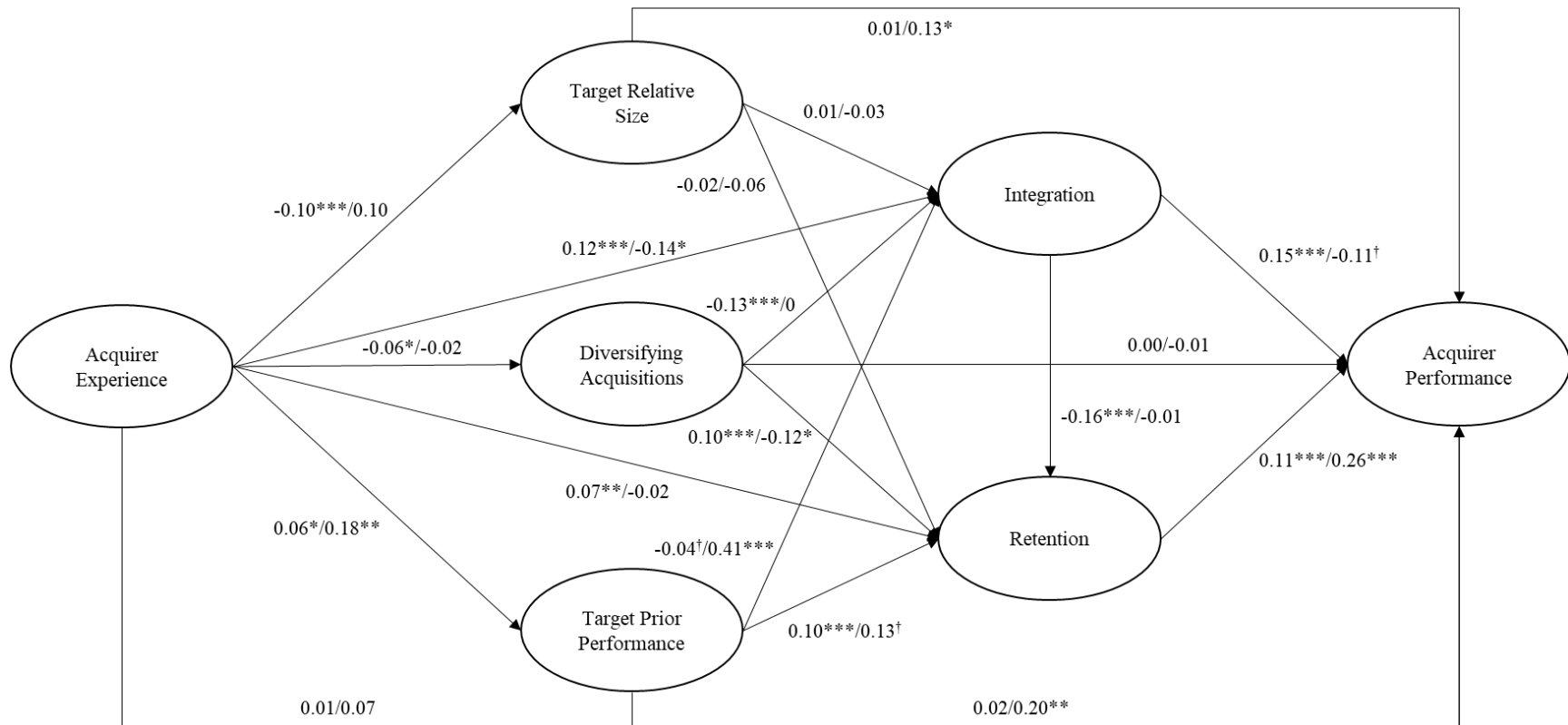
For the rest of our model we found significant relationships between target prior performance and integration (-0.04 , $t\text{-value}=1.79$), a positive relationship between target prior performance and employee retention (0.10 , $t\text{-value}=3.98$), between diversifying acquisitions and

integration (-0.13 , $t\text{-value}=-5.38$), between diversifying acquisitions and retention (0.10 , $t\text{-value}=4.06$), and between integration and retention (-0.16 , $t\text{-value}=-6.50$) in the domestic setting.

In the cross-border setting we find significant relationships between target prior performance and integration (0.41 , $t\text{-value}=7.07$), target prior performance and retention (0.13 , $t\text{-value}=1.93$), and between diversifying acquisitions and retention (-0.12 , $t\text{-value}=-1.96$).

These findings are interesting as they serve as initial pointers to the pathways through which acquirer experience ultimately contributes to acquirer financial performance (see Figure 3). In the domestic setting, acquirer experience leads to less diversifying acquisitions, leading to more retention and less integration while less integration also leads to more retention, all of which in turn positively impacts acquirer performance. The same pathway toward superior acquirer performance via integration and retention applies when acquirer experience leads to the selection of well-performing targets. In the cross-border setting, there seems to be only one optimal path toward superior acquirer performance: acquirer experience leads to the acquisition of well-performing targets, which leads to more retention and, ultimately, positive impact on acquirer performance. Whilst this path also leads to increased integration which negatively impacts performance, it is mitigated partly by a negative effect of experience on integration.

Figure 3. Comparative MASEM results between domestic and cross-border settings



*** – 0.001, ** – 0.01, * – 0.05, † – 0.10.

DISCUSSION

Years of research have yielded a considerable volume of knowledge about the complex and highly impactful organizational phenomenon of M&A. A key aspect is the effect of experience garnered by an organization over the course of its history of conducting deals. As Hitt and colleagues poignantly note (2001), its importance should not be underestimated. Yet research to date is far from definitive on its effect on performance. In this paper, we suggest that the complexity of the effect of acquirer experience on performance can be best explained by looking at both pre- and post-acquisition decisions made by acquirers. Furthermore, we suggest that acquirer experience drives companies to make different choices when conducting cross-border and domestic deals. As such, with this paper we make two contributions to the M&A literature.

The first contribution resides in that our study advances the integrative approach toward studying M&A by focusing on acquirer experience. Following the examples of (Larsson & Finkelstein, 1999) as well as Bauer and Matzler (2014), we built and tested a comprehensive research model that connects experience to the decisions in terms of target selection, deal type, and post-acquisition implementation in order to uncover the mechanisms through which experience works to influence acquirer performance. First and foremost, we find that acquirer experience does not directly influence performance in either domestic or cross-border settings, thus confirming a more nuanced perspective must be considered when examining the effect of experience on performance (Barkema & Schijven, 2008).

In accordance with studies suggesting positive influence of experience on performance (Bruton et al., 1994; Castellaneta & Conti, 2017), we find that it helps acquirers make better decisions that ultimately enhance performance. During the target selection stage in both settings, experience drives acquirers to choose well-performing targets. Subsequently, this leads to positive

performance changes, but only in cross-border deals. Moreover, in both settings acquirers of well-performing targets will retain more employees, thus benefitting from new valuable human resources and avoiding major disturbances associated with employee termination (Buchholtz et al., 2003; Vaara et al., 2012). Also, when buying well-performing targets, though domestic and cross-border acquirers make opposite choices regarding integration, they arrive at the same performance implication. Less integration in domestic deals and more in cross-border deals coupled with its positive association with performance domestically and negative association internationally leads to negative results for acquirers in both settings. Finally, our results suggest that experience drives less diversifying acquisitions in the domestic setting. Given that diversifying acquisitions are negatively associated with integration and positively associated with retention, while both positively affect acquirer performance, the impact of experience on performance through diversifying acquisitions is less consistent.

During the implementation stage in the domestic setting, experience drives acquirers to integrate and retain more, both of which result in positive performance changes. Nevertheless, integration negatively impacts retention in domestic deals, which may offset some of the cumulative positive effects on performance created by both processes. In the cross-border setting, experience also contributes positively to acquirer performance. However, in cross-border deals experience drives acquirers to integrate less with targets which, coupled with its negative association with acquirer performance, results in positive performance changes.

Overall, we find support for the thesis of positive influence of acquirer experience on performance by helping them make better decisions. Building on these findings we determined that the potential pathways through which experience benefits acquirers consist of chains of decisions that acquirers make in pre- and post-acquisition stages. In domestic acquisitions,

acquirers have two alternative paths. First, experienced acquirers may choose to purchase well-performing targets and then pursue more retention and less integration. Though pursuing less integration may reduce performance, this missed opportunity is mitigated by more retention resulting from less integration. This path affords the benefits of keeping and applying targets' human resources (Buchholtz et al., 2003; Larsson & Finkelstein, 1999). Second, experienced acquirers may choose to pursue less diversifying deals and then engage in more integration and less retention. This path affords the benefits of asset redeployment and cross-organization efficiency (Meyer & Altenborg, 2008; Puranam et al., 2009). In cross-border acquisitions, our results suggest one optimal path to acquirer performance enhancement. Experienced acquirers may choose to buy related targets with proven track-records and then pursue more employee retention, which ultimately results in enhanced performance. This path affords the benefits keeping targets' valuable human resources. However, it is worth noting that for this path, the positive effects are somewhat offset by the positive association of target prior performance with integration and the negative associations between integration and acquirer performance. In the end, most of our findings point to a strong positive influence of acquirer experience on performance in both settings.

The second contribution resides in our answer to the call to focus on the contexts and contingencies of M&A by systematically identifying the differences between cross-border and domestic acquisitions (Haleblian et al., 2009; Larsson & Finkelstein, 1999). Building on the work of (Stahl & Voigt, 2008) who suggest that cross-border acquisitions differ from domestic deals because of the impact of national culture on performance, we found differences between these two categories of deals in terms of the effect of acquirer experience on decision-making. Compared to domestic deals, cross-border acquisitions entail extra risks stemming from the liability of foreignness (Zaheer, 1995) and national cultural differences (Stahl & Voigt, 2008). Here, more

experienced acquirers enjoy a competitive edge over their less experienced counterparts by being able to handle these risks added as less experienced acquirers tend to have higher risk perceptions and lower risk propensity (March & Shapira, 1987). For example, being more experienced allows acquirers to buy relatively larger foreign targets, thus benefitting from more synergy creation potential of the targets and a larger presence in the international markets. By explicitly theorizing the effects of perceived risk, strategic necessity, and synergy realization in the different settings and testing the relationships, we found that the effect of acquirer experience differs in subtle ways across these settings that would have been overlooked otherwise (Stahl & Voigt, 2008). Specifically, we theorized and found that in the domestic setting, acquirer experience drives more integration, which then positively impacts acquirer performance. Here, experienced domestic acquirers understand the importance of integration because it facilitates resource redeployment and improved efficiency – both critical for synergy realization (Cording et al., 2008; Puranam et al., 2009). Similarly, we theorized and found opposite effect in the cross-border setting. Here, experienced cross-border acquirers understand the severe limitations imposed by the liability of foreignness and cultural differences on the effectiveness of integration and its potential negative impact on performance (Stahl & Voigt, 2008; Zaheer, 1995). These results suggest that experience benefits acquirers by helping them accurately identify the pros and cons of integration under different conditions.

Overall, our results strongly suggest that instead of considering experience as a direct influence on performance, future research should dedicate more attention to the its influence on the decisions that companies make during the pre- and post-acquisition stages as well as the contingencies surrounding the deals. Below, we suggest several directions for future research. First, though our results show a general negative association between diversifying acquisitions and

retention in cross-border deals, it is possible that some acquirers succeed at retaining foreign targets' employees better than others. Given the importance of keeping and redeploying human resources in cross-border diversifying acquisitions (Morosini et al., 1998), it is worth investigating the companies' capabilities as well as the broader contexts under which higher retention rates may occur. In case of companies' capabilities, research suggest that established routines and procedures may help companies more effectively enact post-acquisition implementation, including employee retention (Haleblian et al., 2006; Singh & Zollo, 1998). Future studies may investigate which procedures are most effective at retention in cross-border versus domestic and diversifying versus related acquisitions. To this end, perhaps studies using more qualitative methods are in order. Ideally, the next step in studying the effects of post-acquisition implantation will be closely examine its processes and how they are enacted. Second, in case of broader contexts, research suggests that depending on the distance of culture and formal institutions, companies make their decisions differently toward different outcomes (Chakrabarti et al., 2009; Reus & Lamont, 2009). Though we treat cross-border deals as a monolith group in our study, we believe that more insights would emerge if the degree of differences and commonalities among acquirer and target countries were considered. Furthermore, how would experience matter given these degrees of differences/commonalities? For example, while experience may encourage cross-border acquirers to stay vigilant of the differences when buying targets in culturally/institutionally distant countries; could experience also reduce acquirers' sensitivity when buying targets in culturally/institutionally proximate countries by complacency? In other words, would acquirer experience work the same way under different home-host country dyads? Finally, future studies may also investigate the influence of acquirer experience on their imitative behavior during target selection. Research suggests that when it comes to target selection, companies often follow the steps of their

competitors by acquiring similar targets (Yang & Hyland, 2006) or going into the same geographic locations (Guillen, 2002) to reduce the costs of selection and maintain competitiveness. Future studies may investigate whether and under what conditions experienced acquirers choose imitate acquisition choices of the competitors. Would more experienced acquirers be less or more likely to imitate than their less experienced counterparts?

CHAPTER 2. WHEN THE MARKET LIKES A DEAL: COMBINING CORPORATE GOVERNANCE, DEAL AND ACQUIRER CHARACTERISTICS

ABSTRACT

What acquirer and deal characteristics combined with corporate governance characteristics result in a positive stock market response to deals? We suggest that the complexity and the potential for managerial agency of a deal will determine the level of control and advice that is expected by the market. Additionally, we predict that acquirer competence can be substituted for advice from an independent board or institutional shareholders but one of both is a necessary condition. We test our propositions using fuzzy-set qualitative comparative analysis on a sample of 1,867 deals. We find that while these predictions hold when we compare deals before, during, and after the financial crisis, different combinations of acquirer characteristics, deal characteristics, and corporate governance mechanisms are favoured during each period.

Key words: mergers and acquisitions, corporate governance mechanisms, acquirer characteristics, stock market returns, fs/QCA.

INTRODUCTION

Top management teams of acquiring firms examine M&A targets for their potential synergies, yet it is the market who ultimately evaluates whether the deals are promising. Positive cumulative abnormal returns for acquirers following deal announcements suggest that the market has faith in the deals whilst negative market reactions suggest the opposite (Agrawal, Jaffe, & Mandelker, 1992). However, it appears that only shareholders of target firms, rather than acquirers, manage to consistently generate financial gains from M&A (King *et al.*, 2004). There is much more heterogeneity in terms of acquisition performance for acquiring firms (King *et al.*, 2004), and the question is: *What drives this heterogeneity in market reaction?* In this study, we suggest that acquirers will experience positive cumulative abnormal returns only if particular configurations of acquirer characteristics, deal characteristics, and corporate governance mechanisms are present. In particular, we expect positive market reactions to announced deals if the following conditions are satisfied: (1) there is indication of acquirer competence or substitution of acquirer competence by acquirer board independence or by substantial institutional ownership of acquirer; (2) when deals are conducted under the condition of potential managerial agency, acquirers have either board independence or substantial institutional ownership to guard against the potential agency; (3) when deals are complex, acquirers have CEO duality to facilitate decision-making.

The specific configurations of factors from these categories are important because it is their interrelations, complementarity and substitutability, that instil faith in the market about the success of announced deals. One of the key factors to positive market response to M&A announcements is acquirers' corporate governance design (Masulis, Wang, & Xie, 2007). Corporate governance is designed to help companies achieve better outcomes by performing two

functions, wealth-protection and wealth-creation (Filatotchev, 2007; Filatotchev & Boyd, 2009; Misangyi & Acharya, 2014). The wealth-protection function is especially important since companies with separated ownership and control face potential conflict of interest between the owners and managers (Fama & Jensen, 1983). Here, governance mechanisms including board independence, substantial ownership by institutional investors, and CEO non-duality, may be necessary to generate positive responses from market, as they are effective in curtailing agentic behavior of managers. Although, corporate governance mechanisms are primarily useful for double-checking on managerial actions, more recent developments in the corporate governance literature advocate for a parallel function – wealth-creation (Aguilera *et al.*, 2008; Filatotchev, 2007; Zahra, Filatotchev, & Wright, 2009). Specifically, independent boards and institutional investors with relevant experience and expertise can also perform the function of strategic advisory and counsel during M&A (Hillman, Cannella, & Paetzold, 2000; Hillman & Dalziel, 2003; Kim, Mauldin, & Patro, 2014). When the market does not regard acquirers as competent to pull off proposed deals, these two governance mechanisms may act as substitutes for acquirer competence. Finally, we will argue that in conditions of high deal complexity, it is important that acquirer CEOs can unimpededly make decisions to ensure wealth-unleashing given the importance of CEO decisions in deal execution (Finkelstein & D'Aveni, 1994; Wangrow, Schepker, & Barker, 2015). Overall, in this study we argue that independent boards, institutional ownership, and CEO duality can fulfill a wealth-protection function, a wealth-creation function, both functions (Byrd & Hickman, 1992; Ferreira, Massa, & Matos, 2010), or a wealth-unleashing function, and that their presence or absence will be considered as important by the market given different deal and acquirer characteristics.

To explore the complex interplay between deal characteristics, acquirer characteristics, and corporate governance mechanisms, we use fuzzy-set qualitative comparative analysis (fs/QCA) to analyze data on acquisitions completed by North American public manufacturing companies in the period of 1996–2015. Fs/QCA is a configurational approach, where complex relationships like complementarity and substitutability can be reflected through equifinality (Fiss, 2007; Campbell, Sirmon, & Schijven, 2016), and it is this complementarity and substitutability among the different factors surrounding the deals that is what potentially leads to positive market reactions to M&A announcements. Furthermore, we test whether the market is stable over time in its appreciation of the configurations of factors surrounding the deals or whether under different economic conditions (pre-, during and post-financial crisis) we would see that the market differs in its preferences regarding the configurations.

We make three contributions with this study. First, our findings provide support to the two-dimensional view of corporate governance as both wealth-protecting and wealth-creating (Aguilera *et al.*, 2008; Filatotchev, 2007). Specifically, our configurational analysis suggests that board independence and institutional ownership can perform the function of controlling managerial agency (i.e. wealth-protection) as well as the function of providing strategic counsel and advice when acquirers lack the experience or managerial acumen during M&A (i.e. wealth-creation). We find wealth-protection primarily in deals under conditions of heightened risk of managerial agency. Moreover, we extend this stream of literature by suggesting that CEO duality can be wealth-unleashing in case of complex deals, where swift decision-making and unity of command are instrumental for deal success.

Second, we contribute to corporate governance literature by demonstrating the complementarity and substitutability between corporate governance mechanisms and acquirer

characteristics in delivering acquisition success (Aguilera, Desender, & Kabbach de Castro, 2012; Misangyi & Acharya, 2014). Extant corporate governance literature shows that complementarity and substitutability among governance mechanisms lead to positive organizational outcomes (van Essen, Oosterhout, & Carney, 2012; Walsh & Seward, 1990), which are also supported in our findings. Mainly we observe the substitutability between board independence and substantial institutional ownership. In our results, it is rare that both board independence and substantial institutional ownership are present in the same configurations. In fact, we find that these two governance mechanisms are mainly substitutes to each other. More importantly, we show the possibility for the substitutability between corporate governance mechanisms and acquirer competence in the form of prior experience and good prior performance. While from the wealth-creation perspective, the importance of counsel has already been highlighted, we now show that it can completely substitute for the lack of experience or managerial competence and ensure a positive market reaction to deal announcements.

Third, we investigated the role of a financial crisis in shaping market appreciation of different M&A factors. Before crisis, only a small number of deals lead to consistent market appreciation, and the market did not show significant preference for any particular factors surrounding the deals. During the crisis, acquirers were expected to be financially sound and the market did want some degree of governance oversight. In the post-crisis period it is less clear about favored deal characteristics, and we see an increase in the number of acceptable configurations corresponding to what the market perceives as value-creating deals. The market appreciated M&A with renewed enthusiasm as the market responded positively across all types of deals, i.e. related or unrelated, domestic or international, small or large. The trend to increased requests for governance oversight is continuing from the crisis period. From this time-sensitivity

analysis, it becomes apparent that there is an evolution in market expectations regarding the presence or (unacceptable) absence of governance mechanisms. This has implications for theory as most of our models and theories are insensitive to such variation in macroeconomic conditions. It similarly suggests that while acquirers engage in mimetism which lead to bandwagon effects, such dynamics are not present in the assessment of the stock market.

PROPOSITION DEVELOPMENT

Above we argued that the potential presence of managerial agency, deal complexity, acquirer characteristics, and the presence or absence of specific corporate governance mechanisms are important considerations for the market to have faith in the deal. In the following section, we will first highlight how each deal type can lead to value-destruction or value-creation. Then, we will explain the need of particular acquirer characteristics such that the market can have faith in the ability of an acquirer or when concerns may arise. Finally, we will argue that the market will also look to the presence or absence of corporate governance mechanisms to decide whether an acquirer is capable to realize the proposed synergies or not.

Deal Characteristics

Decades of M&A research suggest that both *related* as well as *unrelated* M&A can be value-creating (Haleblian *et al.*, 2009). In related M&A, companies buy targets in related industries to benefit from increased market share and expanded operational scale. First, a larger market share leads to higher revenues by increasing the volume of sales and raising the unit prices due to market power (Kim & Singal, 1993; Prager, 1992). Furthermore, deals between related companies also create the opportunity for cross-selling of products and services, which ultimately boosts the level of revenue (Homburg & Bucerius, 2005). Second, by combining related operations, acquirers create economies of scale consisting from cost optimization in

auxiliary functions and lower costs of input (Capron, Dussauge, & Mitchell, 1998; Lubatkin, 1983). Cost optimization in auxiliary functions, which means reduction in fixed costs, can be implemented through reduction of overlapping positions and distributing work to fewer employees. Additionally, acquirers can save on inputs through purchases in bulk at more favorable prices. Hence, acquirers of related companies stand to benefit from both increasing revenue as well as decreasing costs. Alternatively, unrelated acquisitions are pursued for the strategic imperative of growth and revenue synergy. Specifically, by making cross-industry acquisitions, companies can benefit from access to new markets and resources. Studies show that combining firms with different knowledge and skills that are complementary can substantially benefit acquirers' financial (Uhlenbruck, Hitt, & Semadeni, 2006) and R&D performance (Makri, Hitt, & Lane, 2010).

However, both strategies can also be value-destroying. Due to concerns of managerial agency, firms are often discouraged from conducting unrelated acquisitions (Fama & Jensen, 1983) as studies show that managers prefer to use diversifying acquisitions as an instrument to reduce their own risks related to unemployment and personal wealth (Berger & Ofek, 1996). For related deals, paying significant premiums (Hayward & Hambrick, 1997) can be a serious concern for shareholders as it leads to value-destruction.

The *international* nature of deals is also a critical deal characteristic. Joining companies from different economic and institutional environments improves acquirer performance through exchange of corporate practices and access to underserved markets (Gubbi *et al.*, 2010). However, as compared to domestic deals, realizing these benefits is more complex in the international setting as acquirers face risks related to liability of foreignness (Zaheer, 1995). Liability of foreignness creates additional barriers for acquirers when selecting and appraising

foreign targets due to the limited understanding of host countries' economic and institutional environments (McNichols & Stubben, 2008). National cultural differences add complexity during integration and employee retention due to the compounded differences at both organizational and national levels – double-layered acculturation (Barkema, Bell, & Pennings, 1996). As such, international deals can both be value-creating or -destroying.

Target size is another concern for shareholders. Making large acquisitions is a double-edged sword that bear both substantial positive and negative performance implications for acquirers. Research suggests that buying large targets can benefit acquirers through two sources of synergy. On the one hand, acquirers of large targets operating in the same lines of business stand to benefit from the resulting cost synergies consisting of lowered operational costs (i.e. economies of scale) (Seth, 1990) as well as from increased market power (Bhattacharyya & Nain, 2011). On the other hand, acquirers of large targets operating in both related or unrelated industries all stand to benefit from the resources of these large targets because the size of a target corresponds with the level combinational potential that the acquirer and the target can achieve (Larsson & Finkelstein, 1999).

On the flip side, making large acquisitions also carries elevated risks. First, research suggests large targets with well-established cultures and routines are more resistant to post-acquisition changes making them harder to integrate (Maguire & Phillips, 2008). Second, large acquisitions are more demanding in terms of integration because the larger the target the more complex the integration process and more impactful it would be for the rest of the organization (Ahuja & Katila, 2001). Third, large deals generally put a financial strain on the buyer, which diverges financial resources from other goals. Furthermore, since large acquisitions require substantial financial commitments from acquirers, the potential damage to the financial health

will also be correspondingly high. Large acquisitions carry the additional challenges in the forms of cultural friction, high levels of complexity during the implementation process, and high potential financial damage to the acquirer.

Acquirer Characteristics

The market also evaluates the acquirer's competence to execute deals successfully. We consider acquirer experience and acquirer prior performance as signals for acquirer competence. First, acquirer experience positively influences the acquirer's ability to carry out successful deals.

Companies that have performed similar strategic activities before can re-apply their knowledge and increase the chances of success of current acquisitions (Barkema & Schijven, 2008).

Acquirers with previous deal-making experiences tend to be better at selecting and negotiating with potential target companies (Zollo & Singh, 2004). Furthermore, research shows that experienced acquirers are more capable at worker retention and creating an effective organizational work environment following acquisitions (Bergh, 2001; Paruchuri, Nerkar, & Hambrick, 2006). By retaining talents and fostering continuous productivity of workers in the newly formed organizations, risks associated with failed synergy realization are minimized, thus improving the expectations about future returns (Cannella & Hambrick, 1993).

A second indicator for acquirer competence for the market is the quality of the firms' prior performance. Companies' performance level prior to acquisitions can be an effective signal because acquirers with a good track record of high pre-acquisition performance are more likely to possess the managerial skills to successfully deliver the planned synergies (Abell, Felin, & Foss, 2008; Augier & Teece, 2009). The more capable the managers, the higher the likelihood that they would successfully operate the new assets merged into the acquiring

company, thus producing better outcomes (Fee & Hadlock, 2003; Hitt, Hoskisson, & Kim, 1997).

Third, acquisitions are often capital-intensive undertakings requiring substantial amounts of financial resources to execute and succeed (Martynova & Renneboog, 2009). The need for financial resources extends beyond just closing the deal. Generally, acquirers need additional financial resources to implement post-acquisition synergy realization. For example, synergies generated from cost-cutting are realized only after the acquirer has made significant financial spending first. Worker severance packages and relocations require significant amount of cash to settle (Capron & Guillén, 2009). Moreover, revenue synergies resulting from the integration information systems and synchronization of supply chains of the target resources also require additional expenditures (Larsson & Finkelstein, 1999). Hence, the market may anticipate this need and will only react positively when slack resources are present, especially for large deals.

However, according to agency theory, managers of companies with excess free cash may choose to make purchases frivolous deals that add no value to the shareholders (Jensen, 1988). Acquisitions pursued by cash-rich buyers often turn out to be failures due to the inherent uselessness of such deals or overpayment (Rau & Vermaelen, 1998). Even when the initial value proposition of announced acquisitions might be sound, acquiring companies could still risk paying economically deleterious premiums that essentially lead to wealth-transfer to target shareholders during the transaction (Hayward & Hambrick, 1997).

Overall, the literature suggests that acquirer experience, pre-acquisition performance, and free cash flow play important roles in securing successful outcomes for acquirers. Excess

free cash, however, may also enable decisions driven by managerial agency, which are ultimately value-destroying.

Corporate Governance, Wealth-protection and -creation and -unleashing

Corporate governance mechanisms help companies achieve better performance by fulfilling two functions, wealth-protection and wealth-creation (Aguilera *et al.*, 2008; Filatotchev, 2007; Filatotchev & Boyd, 2009). The wealth-protection function is especially important since companies with separated ownership and control face potential conflict of interest between the owners and managers (Fama & Jensen, 1983). According to agency theory, managers could use company resources to benefit their own interests, ignoring their fiduciary duty toward the owners (Eisenhardt, 1989). Specifically, managers can use acquisitions to increase compensation (Bliss and Rosen, 2001; Harford and Li, 2007) and boost job security (Denis, Denis, & Sarin, 1997; Lane & Lubatkin, 1998). Additionally, managers often experience overconfidence when making strategic decisions like M&A, which leads to exaggeration of potential synergies and under-estimation of potential costs (Billett & Qian, 2008; Brown & Sarma, 2007). Such miscalculations tend to result in poor post-acquisition performance (Malmendier & Tate, 2015). To ensure that managers act in the interest of owners and make decisions with realistic expectations, companies maintain governance mechanisms that monitor actions and align interests of managers, i.e. protecting the wealth of shareholders (Filatotchev, 2007; Zahra *et al.*, 2009).

Recent developments advocate for a parallel function of corporate governance mechanisms – wealth-creation (Filatotchev, 2007; Zahra *et al.*, 2009). First, independent board members with relevant experience can be helpful to acquirers by providing strategic advice and counsel during acquisitions (Kim *et al.*, 2014). Advice and counsel from independent directors tend to be more objective and free from insider bias as they are not beholden to the CEO

(Goodstein, Gautam, & Boeker, 1994; Zahra *et al.*, 2009). Second, substantial institutional ownership can be helpful to acquirers resulting from relevant expertise and helpful connections (Baysinger & Hoskisson, 1990; Goodstein *et al.*, 1994; Hill & Snell, 1988; Hillman & Dalziel, 2003; Judge & Zeithaml, 1992). In fact, over the course of the past few decades, activism from institutional investors has changed the way companies think and execute their strategy, including how companies perform M&A (Greenwood & Schor, 2009; Smith, 1996). Furthermore, substantial institutional ownership is associated with the adoption of growth-oriented strategies despite managerial opposition (Holderness & Sheehan, 1985; Wright *et al.*, 1996) and is also associated with enhanced acquirer performance due to adoption of less risky strategies with higher chances of success (Kroll *et al.*, 1997). No matter what the questions are about, either the merits of deals or how deals should be planned and executed, both independent boards and influential institutional investors can help acquirers with advice and counsel on conducting M&A (Baysinger, Kosnik, & Turk, 1991; Westphal, 1999; Zahra & Pearce, 1989). We will discuss both the wealth-protection and wealth-creation functions of three governance mechanisms next. Additionally, we will argue for a third function: the wealth-unleashing function.

We consider three governance mechanisms: *board independence*, *institutional ownership*, and *CEO duality*. First, board independence positively influences acquirer performance by keeping managers from making risky acquisitions with low expected returns (Grinstein & Hribar, 2004; Hill & Snell, 1988). Directors that have close personal or business relations with the acquirer are more likely to go along with the decisions made by the CEO and less likely to challenge proposed deals, while independent directors are more likely to remain impartial toward such decisions (Jones & Goldberg, 1982; Pfeffer, 1972). This means that a more independent board is more likely to vet the merits of proposed deals objectively, thus making potentially

value-destroying deals less likely to go through (Desai, Kroll, & Wright, 2005; Kroll, Walters, & Wright, 2008). Also, an independent board is more capable of keeping management accountable after deal completion by remunerating CEOs in strict accordance with post-acquisition performance (Wright, Kroll, & Elenkov, 2002). In addition independent board members with relevant experience can also perform the function of strategic advisory and counsel during M&A (Kim *et al.*, 2014). Studies suggest that advice and counsel of independent directors have the benefit of more objectivity and diversity because they are less influenced by CEOs (Goodstein *et al.*, 1994; Zahra *et al.*, 2009).

Second, institutional ownership is associated with initiation and implementation of strategies that prioritize the interests of shareholders (Bethel & Liebeskind, 1993; Holderness & Sheehan, 1985). For example, companies with substantial institutional ownership tend to adopt more growth-oriented strategies despite managerial opposition (Wright *et al.*, 1996). Significant presence of institutional shareholders improves acquirer performance by guiding the management toward adopting M&A strategies with higher chances of success (Kroll *et al.*, 1997). An illustration of the wealth-protection function of institutional investors is when one of Rockwell Collins' institutional shareholders, Starboard Value, challenged a proposed acquisition by the management, investors reacted positively, and its stock price went up (Reuters, 2016). In terms of wealth-creation, institutional investors are helpful to the board because of potential relevant expertise and connections (Baysinger & Hoskisson, 1990; Goodstein *et al.*, 1994; Hill & Snell, 1988; Hillman & Dalziel, 2003; Judge & Zeithaml, 1992). Hence, beside the important function of monitoring (Daily & Dalton, 1994), high levels of board independence and institutional ownership provide companies with advice and counsel. This is especially valuable

when the acquirer lacks the experience or expertise to initiate and execute strategic initiatives (Baysinger *et al.*, 1991; Westphal, 1999).

Third, studies suggest that absence of CEO duality plays a key role in improving the chances of M&A success. A CEO doubling as the Chairman has more power to make strategic decisions without challenge, which generally negatively impacts acquisition performance (Boyd, 1995; Grinstein & Hribar, 2004). For instance, powerful CEOs are more likely to pay high acquisition premiums that are hardly justifiable by the expected synergies (Hayward & Hambrick, 1997). Paying high premiums would transfer wealth to target company shareholders, resulting in negative impact on acquirer performance (Boone & Mulherin, 2008). Thus, it is essential to keep CEO power in check by separating the positions of CEO and Chairman thereby ensuring wealth-protection. On the other hand, CEO discretion would allow for swift decision-making leading to quicker integration and potentially better performance. Both in administrative theory (Fayol, 2016; Massie, 1965) and in strategy formation literature (Barnard, 1968; Miller & Friesen, 1977), it is suggested that to manage a firm successfully, the leaders would need unity of command over the decision-making process and allocation of resources of the organization. Hence, depending of the circumstance, either CEO duality or non-duality can be preferred. In the case of complex deals, CEO duality serves a wealth-unleashing function as it ensures optimization of acquirer performance.

Bringing Together Acquirer and Deal Characteristics and Corporate Governance Mechanisms

As we have argued above, both related and unrelated deals have the potential for creating or destroying shareholder wealth. While free cash flow may be necessary for deals to be successful, it could result in agentic behavior. We will argue that, in this case, corporate governance plays

the function of wealth-protection. Also, acquirer competence will be necessary for success while a lack thereof needs to be compensated with corporate governance mechanism, in which case they perform the function of wealth-creation. Based on the substitutability and complementarity of these factors with the corporate governance mechanisms (Aguilera *et al.*, 2008, 2012; Filatotchev & Boyd, 2009), we will suggest that their configurations will result in positive market reactions to deal announcements.

First, we consider the wealth-creation aspect of the corporate governance mechanisms. Successful M&A experience can reduce the magnitude of potential loss and/or the probability of loss through improved execution process as well as by improving the selection process, whereby the actor identifies the risky actions within a set of potential actions that have the greatest probability for success (Miller & Chen, 2004). Experience can also make an activity appear more likely to succeed by reducing the actor's subjective perception of the risks associated with the activity (Carpenter, Pollock, & Leary, 2003). Meanwhile, managerial competence, as exhibited by successful prior performance, reduces the market's perception of risk regarding the likelihood of realization of stipulated synergies (Fee & Hadlock, 2003; Hitt *et al.*, 1997).

Corporate governance mechanisms and acquirer characteristics are helpful in adjusting to reasoned risk-taking by acquirers. Arguably, acquirer experience and prior performance can act as signals for competence. If present, there is reduced need for advice from an independent board and/or institutional investors. When absent, the market is likely to look for assurance in the form of an independent board or institutional investors to substitute for this lack of competence. Hence, we put forward the following two propositions pointing to the possibility of substitution, in which case the corporate governance mechanisms perform the wealth-creation function:

Proposition 1 (P1) on competence *Acquirer experience or acquirer prior performance are necessary conditions for positive investor reaction to deal announcements (unless proposition 2).*

Proposition 2 (P2) on advice *Independent board and/or institutional investors can substitute for acquirer experience and/or acquirer prior performance in eliciting positive investor reaction to deal announcements.*

A second important consideration for the market is the potential for agency on the part of acquirer management. Based on the assumptions that investors are risk neutral and agents are risk averse, agency theory prescribes governance remedies such as board independence and institutional ownership that provide for the monitoring of management actions and the alignment of managers' and investors' risk preferences through stock ownership (Misangyi & Acharya, 2014). Agency can arise given excess acquirer free cash flow as described above. Therefore, we suggest that when an acquirer has significant free cash flow, the market would only have faith in the strategic soundness of the deal should the acquirer possess sufficient wealth-protecting corporate governance mechanisms. When a deal is conducted by a firm strapped for cash the market will perceive much less need for wealth-protecting governance mechanisms as there is little money to be spent, thus the acquirer will most likely have carefully selected its target. Similarly, unrelated domestic deals are often concerning for shareholders. Shareholders face agency concerns in these deals as management may use them to boost job security as well as personal wealth (Berger & Ofek, 1996). Here, board independence or substantial institutional ownership can alleviate concerns of the market about potential agentic rationale underlying a deal. Under conditions of excess free cash or unrelated domestic deals, having a CEO with limited discretion (i.e. CEO non-duality) is likewise comforting for the market as it can be more confident that the CEO was not able to coerce the board in moving forward with a deal. Overall,

with excess capital or in case of domestic unrelated deals, the market is likely to only view deals positively in the presence of at least one wealth-protecting corporate governance mechanism. In both scenarios, either competence or advice are required (as in propositions 1 and 2):

Proposition 3 (P3) on agency *Deals with increased possibility of managerial agency (presence of acquirer free cash flow or domestic unrelated deals) require either institutional ownership, board independence, or CEO non-duality to be present.*

A final important consideration for the market is deal complexity. Prior literature in managerial discretion suggests that task environment complexity alters the role of managerial discretion in a positive way (Boyd, 1995; Finkelstein & D'Aveni, 1994). Specifically, when deals are international, the variance and uncertainty in them require stronger leadership to go in one direction. On the contrary, when deals are domestic (i.e. safer and more familiar), the task environment may require more constrained managerial discretion. Additionally, international deals and large deals require significant due diligence efforts by the management to ensure that the target they are pursuing is in fact a good fit for their strategic rationale. This should alleviate concerns of the shareholders regarding the downsides of managerial discretion. Given the two aforementioned arguments, it is reasonable to conclude that deal complexity calls for management teams with higher latitude of action in order to be successful (Wangrow *et al.*, 2015). In this case, CEO duality performs the wealth-unleashing function.

Proposition 4 (P4) on deal complexity *Increased deal complexity (international deals and large deals) requires CEO duality.*

Market Reaction under Different Economic Conditions

The economic conditions during which deals are conducted may shape the perception of the market about deals. In this study, we distinguish between pre-, during, and post-crisis periods. For the pre-crisis period, a period mostly of affluence and a general lack of risk averseness (Shiller, 2015), we propose that we will see a prevalence of configurations lacking wealth-protecting corporate governance mechanisms. During the crisis period, we expect to see a significant shift where there would be (a) more wealth-protection mechanisms, but also (b) mostly capable acquirers for the market to have confidence in. Corporate governance matters most during crises to protect wealth as it is more difficult to realize any profit and concentrated owners or manager expropriation becomes more severe (Bertrand, Mehta, & Mullainathan, 2002). Moreover, research suggests that even when a country experiences only a small confidence loss because of an economic or financial shock, firms with weak corporate governance are hurt significantly more (Johnson *et al.*, 2000). While the impact of governance wealth-protection might matter less in pre- and post-crisis periods, when circumstances change drastically (e.g. a financial crisis), better corporate governance becomes key to preserving firm value (Mitton, 2002). In the post-crisis period, we expect to see more control/advice mechanisms as compared to the previous periods, as well as proliferation of CEO non-duality as the market does not want to see potential agentic application of their funds following difficult economic times. Finally, we also expect to see deals by cash strapped acquirers in an effort to restart their growth trajectories.

METHOD

Data and Sample

We focused on acquisitions completed by public North American acquirers from 1997 to 2015. To exclude the interference of cross-industry differences, we included only acquisitions

completed by companies operating in manufacturing (two-digit SIC codes between 20 and 39) (Finkelstein & D'Aveni, 1994). We also required the deal value of an acquisition to be at least 50 million U.S. dollars and that the acquirer's ownership grew from below 50 to 100 percent. We chose to focus on relatively large full-ownership acquisitions because prior research indicates that these deals are most likely to have a significant impact on acquirer market valuation and performance (Ellis *et al.*, 2011; Haleblan & Finkelstein, 1999; Masulis *et al.*, 2007).

First, we collected the initial sample of 16,590 acquisitions and their key characteristics such as acquirer-target relatedness from Thomson Reuters SDC Platinum. Second, we collected corporate governance data from Compustat ExecuComp, ISS Directors, and Thomson Reuters Institutional Holdings. Third, we collected acquirer company characteristics data from Compustat North America. Fourth, we collected acquirer short-term performance data from Center for Research in Security Prices. After matching the data, 1,867 acquisitions remained in our final sample for which there was no missing data.

Analytical Approach

Recently, M&A scholars have started advocating for a more holistic approach to studying acquirer performance mainly because there needs to be an improved understanding of the complex interactions among multiple factors (Haleblan *et al.*, 2009; King *et al.*, 2004). As such, a fuzzy-set qualitative comparative analysis (fs/QCA) approach is warranted (Aguilera *et al.*, 2008, 2012; Filatotchev & Boyd, 2009). By utilizing Boolean algebra to explore the relationships among combinations of conditions, results generated from fs/QCA allow for a clearer interpretation of these complex interrelationships as compared to the coefficients of high-order interaction terms derived using regression analysis (Fiss, 2007).

As part of the fs/QCA method, each of the conditions underwent the process of calibration into crisp- and fuzzy-set memberships (Fiss, 2007). Conditions calibrated into crisp-sets take one of two values: “fully in” (1) or “fully out” (0). Conditions calibrated into fuzzy-sets can take on values between “fully in” (1) and “fully out” (0) with a crossover point in between signifying “neither in, nor out” (0.5). Following the theoretical recommendations of previous studies using fs/QCA (Campbell *et al.*, 2016; Misangyi & Acharya, 2014; Ragin, 2008) as well as the examples of recent empirical studies in corporate governance and M&A (Bell, Filatotchev, & Aguilera, 2014; Campbell *et al.*, 2016; Misangyi & Acharya, 2014), we established the calibration thresholds for the variables based on theoretical knowledge and empirical evidence. Subsequently, we used direct calibration method of the computational software program Fs/QCA 3.0 to calibrate each of the conditions (Ragin, 2008). Finally, following the convention established by extant corporate governance research using fs/QCA, we use a lagged design where the explanatory conditions were measured in the fiscal year preceding the fiscal year of the acquisition (Bell *et al.*, 2014; Misangyi & Acharya, 2014).

Measures and Calibration of Conditions

Acquirer stock-market performance. We measure acquirer performance as the three-day cumulative abnormal returns, i.e. $CAR(-1; +1)$, calculated using the market-adjusted model (Haleblian & Finkelstein, 1999). The formulas for estimating the daily and cumulative abnormal returns are provided below.

$$AR_{jt} = R_{jt} - (\alpha_j + \beta_j R_{mt})$$

$$CAR_j = \sum_{t=-1}^1 AR_{jt}$$

R_{jt} is the observed return of company j on day t , R_{mt} is the market return on the same day, α_j and β_j are parameters calculated based on the daily stock returns during 265 to 11 days before the deal announcement, and CAR_j the cumulative abnormal return (Aybar and Ficici, 2009). By focusing on the excess returns from the day before to the day after the announcement, we reduced the possibility that $CAR (-1;+1)$ may suffer from potential confounding effects (McDonald, Westphal, & Graebner, 2008). A short window surrounding the focal event results in more accurate measures of the excess stock performance compared to CARs with longer windows of estimation. Similarly, compared to accounting measures such as return on assets or return on equity, CAR excludes the impact of unrelated factors after the deal announcement (Haleblian *et al.*, 2009). Following extant research, we calibrated the outcome condition of using a scale where negative and positive five percentage points were the “fully out” and “fully in” thresholds and zero percentage point was the crossover point. According to Campbell and colleagues (2016), a five percentage points $CAR (-1;+1)$ value represents a significant economic change for the acquirer.

Deal characteristics. We distinguish between three types of deals: *related*, *semi-related* and *unrelated*. Relatedness between acquirers and targets is measured by comparing their primary four-digit SIC codes. If all four digits of the SIC codes were identical, then the relatedness value was 4, if the first three, two, one digits were identical, then the value was 3, 2, 1 respectively, and if the SIC codes were completely different, the relatedness value was 0 (Campbell *et al.*, 2016). We removed deals which were semi-related (a two-digit SIC code overlap) from the main analyses. We did this for two reasons. First, removing these deals would leave related as well as unrelated deals for which specific configurations could be established. Second, while related and unrelated deals theoretical arguments can be made for market

preference for corporate governance mechanisms, this is much less the case for the semi-related deals. Hence, we opted to present these findings for semi-related deals in a separate analysis. We calibrated deal relatedness using a scale where 4 was “fully in”, 0 was “fully out”, and 2 was the crossover point. We assigned the value of 1 to all *international* acquisitions and 0 to all domestic acquisitions. *Deal size* is measured as the deal value and was calibrated using quartiles. Values in the top quartile were designated as high (i.e. “fully in”), the median was the crossover point, and values in the bottom quartile were designated as low (i.e. “fully out”).

Acquirer characteristics. We measured *acquirer experience* as the number of deals completed in the five years prior to the focal acquisition (Hayward, 2002; Paruchuri *et al.*, 2006). According to a Boston Consulting Group study, acquirers who completed five or more deals in the past five years (“portfolio masters”) enjoy significantly better post-acquisition performance than their counterparts with fewer deals (Strüven *et al.*, 2010). Thus, we calibrated *acquirer experience* using a scale where 5 was “fully in”, 1 was “fully out”, and 2.5 was the crossover point. *Acquirer return on assets* was measured as the ratio between the net income and the total assets. We followed Misangyi and Acharya (2014) and calibrated acquirer ROA using the scale where the value of 75 was “fully in”, 50 was “fully out”, and the midpoint between the two was the crossover point. This scale signifies that a value of acquirer ROA would be considered as high if it fell within the top quartile of its major group (two-digit SIC code level) for the observed year, while a value equal or below the median was considered as low. To calculate *free cash flow* we subtracted interest expenses, income taxes, and capital expenditures from operating income before depreciation, and then scaled the value by the value of the total assets (Masulis *et al.*, 2007). We calibrated free cash flow according to the convention established in the corporate finance literature using a scale where values in the top quartile were considered high (i.e. “fully

in”), values in the bottom quartile were considered low (i.e. “fully out”), and the median was the crossover point (Dittmar & Mahrt-Smith, 2007).

Corporate governance mechanisms. *Board independence* was measured as the ratio of independent directors on the board of directors. Following extant research in corporate governance, we classified board members as “independent” if they met three criteria: they were classified as “independent” in the ISS Directors database, they joined the company before the start of the tenure of the incumbent CEO, they held no CEO or equivalent positions themselves (Misangyi & Acharya, 2014). We believe that a more stringent criteria to classify independent directors will yield a more accurate measure of board independence, because it allows to only account for directors whose independence was not compromised in any way (Misangyi & Acharya, 2014). To calibrate board independence, we adopted the scale from extant research where 0.70 was “fully in”, 0.30 was “fully out”, and the midpoint between the two was the crossover point (Bell *et al.*, 2014). *Institutional ownership* was measured as the ratio between the sum of shares owned by institutional shareholders (as reported in the SEC Form 13F) to the total number of outstanding shares (Bethel & Liebeskind, 1993; Harford, Jenter, & Li, 2011). To calibrate institutional ownership, we set 80 percent as “full in”, 50 percent as “fully out”, and the midpoint between the two as the crossover point. The bottom threshold of the scale selected as the average institutional ownership in North American public companies is around 50 percent (Aghion, Van Reenen, & Zingales, 2013), suggesting that it is the most common level of institutional ownership among public companies. Meanwhile, institutional ownership of 80 percent and above corresponds to the top 25 percent of our sample. We set *CEO duality* as 1 if the CEO held the position of the Chairman of Board, and 0 if otherwise. Since it is a

dichotomous condition, we calibrated CEO duality values into crisp-set memberships (see table 1 for an overview of conditions and their calibration).

Table 1. Calibration points

Condition	High	Cross-over	Low
Acquirer CAR (-1;+1)	0.05	0	-0.05
Dear relatedness	4	2	0
International M&A	1		0
Deal value	75	50	25
Acquirer experience	5	2.5	1
Acquirer ROA	75	62.5	50
Acquirer free cash flow	75	50	25
Board independence	0.70	0.50	0.30
CEO duality	1		0
Institutional ownership	0.80	0.65	0.50

Following the calibration of conditions, we split the initial sample into three subsamples for the related and unrelated deals as well as three for the semi-related deals. The first covers the pre-crisis period (years 1997–2007; 1,077 deals), the second covers the crisis period (years 2007–2009; 225 deals) and the third covers the post-crisis period (years 2009–2015; 565 deals).

Following this split of the initial sample into the three subsamples, three separate truth tables containing all possible combinations of the values of causal conditions were built. The number of all possible combinations was equal to 2^k , where k was the number of independent variables. Among the large number of possible combinations in the truth table, only a portion corresponded to the observations in the sample, and only a handful of the observed combinations would qualify for solutions, i.e. positive market reaction (Ragin, 2008). To be considered viable, a configuration must satisfy two criteria. First, a configuration must reach the frequency threshold of corresponding cases. The higher the number of cases in the sample, the higher the required threshold for configurations (Rihoux & Ragin, 2009). As we had sizeable subsamples, we set the number of cases for each configuration to four for our largest subsamples (pre- and post-crisis) and to three for our smallest subsample (during crisis). Second, for each

configuration, raw consistency and PRI consistency were estimated. These measures reflect the degree to which all the cases corresponding to a configuration were similar to each other in terms of the conditions and the values of the conditions included or excluded (Ragin, Drass, & Davey, 2006). We used the conventional cut-off values for raw and PRI consistency measures, which are 0.80 and 0.70 respectively (Fiss, 2011). Finally, to derive the configurations that lead to post-acquisition success, we used the Fs/QCA 3.0 analytical software program. Fs/QCA 3.0 allows researchers to whittle down the large number of combinations in the truth table via analysis based on easy and difficult counterfactuals, which creates the distinction between intermediate and parsimonious solutions (Ragin, 2008).

In Table 1 we report intermediate and parsimonious solutions together (Crilly, 2010; Fiss, 2011). A “●” represents the presence of a condition and a “⊗” represents the absence of a condition. The larger size of a “●” or “⊗” designate core conditions and the smaller size of the signs designate peripheral conditions. Compared to core conditions, which are present in both intermediate and parsimonious solutions, peripheral conditions are present only in intermediate solutions. Combinations with missing circular signs signify ‘don’t care’ conditions, i.e. they can either be present or absent. Finally, for the semi-related deals, the condition of deal relatedness was not included in the analysis. This is denoted by the “⤴”.

RESULTS

The results in Table 2 represent 22 configurations (seven pre-crisis, six during crisis and nine post-crisis), which lead to a positive market reaction. The unique coverage values of each of the configurations indicate that each configuration is linked to non-overlapping cases in the sample, indicating that each individual configuration represents a unique path to successful M&A.

Table 2. Configurations of elevated acquirer CAR (-1; +1)

Car -1 +1	pre-crisis					during						post-crisis															
	1	2	3	4a	4b	1	2	3	1	2	3	4	5	6	1	2	3	4a	4b	5	6	7	8a	8b	8c	1a	1b
Deal type																											
Related	●	●	⊗	⊗	⊗	⋈	⋈	⋈	●	⊗	⊗	⊗	⊗	⊗	●	●	●	⊗	⊗	⊗	●	●	⊗	⊗	⊗	⋈	⋈
International	⊗	⊗	●	●	●	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	●	⊗	⊗	⊗	⊗	⊗	⊗	●	●	●	●	●	⊗	⊗
Large deal	⊗	⊗	⊗	●	●	●	⊗	⊗	●		⊗	⊗	●	⊗	⊗	●	●	⊗	⊗	●	●	●	⊗	⊗	⊗	●	●
Acquirer characteristics																											
Acquirer experience	⊗	⊗	⊗	●	●	⊗	⊗	⊗		⊗	⊗	●	●	●	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	●	●	⊗	⊗	⊗
Acquirer ROA	●	●	●	●	●	●	●	⊗	●	●	⊗	⊗	●	●	●	●	●	●	●	●	●	⊗	⊗	●	●	⊗	●
Free cash flow	⊗	●	⊗	●	●	⊗	●	⊗	●	●	⊗	⊗	●	●	●	⊗	●	⊗	●	●	⊗	⊗	●	⊗	⊗	⊗	●
Governance mechanisms																											
Board independence	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	●	⊗	⊗	●	●	●	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗
Ceo duality	⊗	●	●	⊗	●	●	●	●	⊗	●	⊗	●	●	●	⊗	●	⊗	●	⊗	⊗	⊗	●	●	●	●	●	●
Institutional holding	⊗	⊗	⊗	⊗	●	⊗		●	●	●	●	●	⊗	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Consistency	0.84	0.95	0.91	0.83	0.88	0.98	0.84	0.96	0.87	0.89	0.83	1.00	0.94	0.99	0.89	0.95	0.83	0.91	0.91	0.89	0.90	0.89	0.97	0.97	0.92	0.87	0.97
Raw Coverage	0.02	0.02	0.02	0.01	0.02	0.08	0.14	0.07	0.05	0.08	0.02	0.02	0.05	0.04	0.03	0.03	0.03	0.02	0.04	0.03	0.02	0.02	0.02	0.02	0.02	0.08	0.08
Unique Coverage	0.02	0.02	0.01	0.01	0.01	0.06	0.06	0.05	0.05	0.07	0.02	0.02	0.04	0.04	0.01	0.03	0.02	0.02	0.02	0.01	0.02	0.02	0.01	0.02	0.01	0.08	0.08
Overall Solution Consistency	0.90					0.89			0.91						0.90											0.91	
Overall Solution Coverage	0.08					0.27			0.26						0.23											0.16	
Cases	4.00					4.00			3.00						4.00											4.00	

A “●” represents the presence of a condition and a “⊗” represents the absence of a condition. The larger size of a “●” or “⊗” designate core conditions and the smaller size of the signs designate peripheral conditions. Combinations with missing circular signs signify ‘don’t care’ conditions, i.e. they can either be present or absent. For the semi-related deals, the condition of deal relatedness was not included in the analysis. This is denoted by the “⋈”.

Pre-crisis. The market responded positively to seven different configurations consisting of deal and acquirer characteristics, as well as corporate governance mechanisms. Configuration 1 corresponds to related domestic small deals conducted by inexperienced well-performing acquirers with limited free cash flow. These acquirers have no board independence, no CEO duality, and no substantial institutional ownership. Configuration 2 corresponds to related domestic small deals conducted by inexperienced well-performing acquirers with abundant free cash flow. These acquirers have CEO duality and do not have board independence or substantial institutional ownership. Configuration 3 corresponds to unrelated international small deals conducted by inexperienced well-performing acquirers with limited free cash flow. These acquirers have CEO duality and do not have board independence or substantial institutional ownership. Configurations 4a and 4b feature the same core conditions. Both configurations correspond to unrelated international large deals conducted by experienced well-performing acquirers with free cash flow. Acquirers in configuration 4a have no board independence, no substantial institutional ownership, and no CEO duality. Acquirers in configuration 4b have CEO duality and substantial institutional ownership and do not have board independence.

The next three configurations correspond to semi-related deals where acquirers and targets share a two-digit SIC code, putting the deal between related and unrelated M&A. All of them are domestic and only configuration 1 is correspond to large deals, whilst configuration 2 and 3 correspond to small deals. Configuration 1 corresponds to deals conducted by inexperienced well-performing acquirers with limited free cash flow. These acquirers have CEO duality and do not have board independence or substantial institutional ownership. Configuration 2 corresponds to deals conducted by inexperienced well-performing acquirers with abundant free cash flow. These acquirers have CEO duality, do not have board independence, and may or may

not have substantial institutional ownership. Finally, configuration 3 correspond to deals conducted by inexperienced poor-performing acquirers with limited free cash flow. These acquirers have CEO duality and substantial institutional ownership and do not have board independence.

During crisis. During the 2007–2009 financial crisis, we find that the market still reacted positively to M&A. Configuration 1 is the only one featuring related deals, which are likewise domestic and large. These deals are conducted by well-performing acquirers with abundant free cash flow, which can but do not necessarily have to be experienced. These acquirers have substantial institutional ownership and do not have board independence or CEO duality. Configuration 2 corresponds to unrelated domestic deals, which may be big or small. They are conducted by inexperienced well-performing acquirers with abundant free cash flow. These acquirers have CEO duality and substantial institutional ownership and do not have board independence. Configuration 3 corresponds to unrelated domestic small deals conducted by inexperienced poor-performing acquirers with limited free cash flow. These acquirers have substantial institutional ownership and do not have board independence or CEO duality. Configuration 4 corresponds to unrelated international small deals conducted by experienced poor-performing acquirers with limited free cash flow. These acquirers have CEO duality and substantial institutional ownership and do not have board independence. Configuration 5 corresponds to unrelated domestic large deals conducted by experienced well-performing acquirers with abundant free cash flow. These acquirers have CEO duality and do not have board independence or substantial institutional ownership. Configuration 6 corresponds to unrelated international small deals conducted by experienced well-performing acquirers with abundant free

cash flow. These acquirers have board independence, CEO duality, and substantial institutional ownership. There are no semi-related deals consistently related successful deals in this period.

Post-crisis. Interestingly in the post-crisis period we see that the market finds more configurations as acceptable, as compared to other periods. In total, we find nine different (first order) configurations covering a variety of deals. Configuration 1 corresponds to related domestic small deals conducted by inexperienced well-performing acquirers with abundant free cash flow. These acquirers have substantial institutional ownership and do not have board independence or CEO duality. Configurations 2 and 3 correspond to related domestic large deals conducted by inexperienced well-performing acquirers. In configuration 2, this is combined with limited free cash flow, absence of board independence, presence of CEO duality and substantial institutional ownership. In configuration 3, this is combined with abundant free cash flow, presence of board independence and substantial institutional ownership as well as absence of CEO duality. Configurations 4a and 4b correspond to unrelated domestic small deals conducted by inexperienced well-performing acquirers. In configuration 4a this is combined with limited free cash flow, presence of board independence, CEO duality, and significant institutional ownership. In configuration 4b this is combined with abundant free cash flow, presence of board independence and substantial institutional ownership and absence of CEO duality. Configuration 5 corresponds to unrelated domestic large deals conducted by inexperienced well-performing acquirers with abundant free cash flow. These acquirers have substantial institutional ownership and do not have board independence or CEO duality. Configurations 6 and 7 correspond to related international large deals. Deals in configuration 6 are conducted by inexperienced well-performing acquirers with abundant free cash flow. These acquirers have substantial institutional ownership and do not have board independence or CEO duality. Deals in configuration 7 are

conducted by inexperienced poor-performing acquirers with limited free cash flow. These acquirers have CEO duality and substantial institutional ownership and do not have board independence. Configurations 8a, b, and c correspond to unrelated international small deals. These deals are conducted by either experienced poor-performing acquirers with limited free cash flow (configuration 8a), or by experienced well-performing acquirers with abundant free cash flow (configuration 8b), or by inexperienced well-performing acquirers with limited free cash flow (configuration 8c). These three configurations include the same corporate governance mechanisms: absence of board independence, presence of CEO duality and substantial institutional ownership. The final two configurations (1a and 1b) correspond to semi-related deals. These are domestic large deals conducted by inexperienced acquirers. In configuration 1a, acquirers are poor-performing with limited free cash flow, whilst in configuration 1b acquirers are well-performing with abundant free cash flow. Acquirers in both configurations have board independence, CEO duality and substantial institutional ownership.

Proposition analysis. In our first proposition, we argued that the market would only respond favorably to a deal when the acquirer is judged as being sufficiently competent. As such, we argued either the acquirer should have prior acquisition experience, or it should have a good prior performance record. This proved to be the case for 23 out of 27 configurations. For the remaining four configurations, we see the substitutability effect as proposed in proposition 2. In these configurations, we see institutional ownership compensating for the absent competence of acquirers. Hence, we find full support for these two propositions.

In proposition 3, we suggested that under conditions of managerial agency, the market would respond favorably to a deal only if there was absence of CEO duality or presence of board independence or substantial institutional ownership. In proposition 4 we argued for the need of

CEO-duality in complex deals. Obviously, cases may arise when these complex deals unfold under conditions of agency. Consequently, it can be the case that both propositions are satisfied (i.e. when both substantial institutional ownership and CEO duality are present) or when proposition 3 is satisfied but proposition 4 is not (i.e. when there is no CEO duality) or when proposition 4 is satisfied but proposition 3 is not (i.e. when there are no board independence or substantial institutional ownership, but there is CEO duality). We observed eight configurations corresponding to deals conducted under the managerial agency condition without overlapping with the condition of deal complexity. In these eight configurations, six of them show at least one corporate governance mechanism being present (during crisis configurations 2, 3, 4; post-crisis configurations 1, 4a&b), while one configuration shows that the presence of substantial institutional ownership is a ‘don’t care’ condition (pre-crisis *semi-related* configuration 2), and in the other configuration there is no corporate governance mechanism present to control managerial agency (pre-crisis configuration 2). For proposition 4 we observe seven configurations corresponding to complex deals without overlapping with the condition of potential managerial agency all of which show CEO duality (pre-crisis configuration 3 and *semi-related* configuration 1; post-crisis configurations 2, 7, 8a&c and *semi-related* configuration 1). Hence, proposition 3 and 4 are supported as well. In configurations corresponding to deals that were both complex and conducted under the condition of managerial agency (10 in total), we find that both propositions are supported in four instances (pre-crisis configuration 4b; during crisis configuration 6; post-crisis configuration 8b and *semi-related* configuration 1b), proposition 3 supported in favor of proposition 4 in five instances (pre-crisis configuration 4a, during crisis configuration 1; post-crisis configurations 3, 5, 6), and proposition 4 supported in favor of proposition 3 in one instance (during crisis configuration 5). It thus appears that the

market is keener in having the potential for agency curtailed than having wealth unleashing potential present (see table 3 for an overview).

Table 3. Proposition and temporal analyses

Proposition	Pre-crisis					during						Post-crisis															
	1	2	3	4a	4b	1	2	3	1	2	3	4	5	6	1	2	3	4a	4b	5	6	7	8a	8b	8c	1a	1b
Proposition 1: Competence	√	√	√	√	√	√	√	×	√	√	×	√	√	√	√	√	√	√	√	√	√	×	√	√	√	×	√
Proposition 2: Substitution								√			√											√				√	√
Proposition 3: Agency		×		√	√		×		√	√	√	√	×	√	√		√	√	√	√	√			√			√
Proposition 4: Complexity			√	×	√	√			×				√	√		√	×			×	×	√	√	√	√	√	√
Overlap 3 and 4: Free cash flow*large deal				!	!				!				!				!			!	!						!
Overlap 3 and 4: Free cash flow*international deal														!										!			

√ suggests proposition confirmed; × suggests proposition refuted; ! suggests overlap in propositions hence only one of both can be confirmed. An empty cell means not relevant to proposition

Temporal analysis. Our results show a clear evolution in the market preferences during each distinct period. During the pre-crisis period, there are two important features to note. First, there are only two types of deal possible for consistent market appreciation: domestic related and international unrelated. These deals require presence of acquirer characteristics and corporate governance mechanism, resulting in coverage level of 0.08. This level of coverage indicates that a significant number of alternative configurations do not lead to consistently positive results. Second, for the semi-related deals, they must be international. However, since the coverage here is 0.27, the market was much clearer as to when semi-related deals were perceived as appropriate. During the crisis, the majority of deals were domestic and unrelated, with only one configuration corresponding to related deals and one for international deals. Also, we see a stark increase in the number of configurations where substantial institutional ownership was present. Moreover, acquirers with free cash flow and good prior performance conducted the majority of deals. In sum, dealmakers were expected to be financially sound and the market did want some degree of corporate governance oversight (from institutional investors). As compared to the pre-crisis period, there is a much higher coverage level with just one additional configuration, meaning the market had a much clearer idea as to when deals were considered value-creating. The post-crisis period has a slightly lower coverage level but sees a vast increase in the number of acceptable combinations for value-creating deals. The market appreciated M&A with renewed vigor and as compared to the previous period, it is now possible to receive positive market response for all types of deals, domestic or international, small or large. However, we do see that all deals involve firms with substantial institutional ownership. Additionally, there is a visible increase in acquirers with board independence and without CEO duality. The trend to increased requests for corporate governance oversight is persisting from the crisis period.

DISCUSSION

Decades of M&A research have yielded an impressive amount of knowledge about the drivers of acquirer performance (Haleblian *et al.*, 2009). Yet, the volume of knowledge has yet to deliver clarity about when acquisitions for acquirers are likely to be successful (King *et al.*, 2004). In this study, we argue that for acquirers to achieve M&A success, they can pursue any type of deal if they possess what the market perceives as the necessary combination of acquirer characteristics and corporate governance mechanisms.

Our contribution to the literature is three-fold. First, we contribute to the corporate governance literature by providing support to the two-dimensional view of corporate governance mechanisms as both wealth-protecting and wealth-creating (Filatotchev, 2007; Filatotchev & Boyd, 2009; Zahra *et al.*, 2009a). From the wealth-protection perspective, we suggest that monitoring mechanisms such as board independence and institutional ownership or absence of CEO duality would instill faith in the market. Specifically, we argue for the wealth-protecting effect in deals where there is greater likelihood of managerial agency. We find that when the market positively reacts to deals, there are 18 configurations in which signs of potential managerial agency were present. In 15 of these 18 configurations we find presence of wealth-protection corporate governance mechanisms. Therefore, the market still considers the wealth-protecting function of governance mechanisms as instrumental to M&A success. Alternatively, we argued for the wealth-creating effect in deals where acquirers lack perceived competence which can be substituted for with institutional ownership or board independence. The substitutability effect can be found in four configurations.

Responding to recent call for investigating both wealth-protecting and wealth-creation aspects of corporate governance mechanisms, our findings create a compelling case for

considering corporate governance mechanisms more than just guards against potential managerial agency. We argue that corporate governance mechanisms are also valued as an asset that could provide resources such as strategic guidance and managerial acumen in times of need. Future studies could go further and investigate whether the wealth-protecting or the wealth-creating role is more prevalent with institutional investors and independent board members during M&A. Furthermore, given extant research evidence pointing toward collaboration between boards of directors and institutional investors on strategic issues like internationalization (Tihanyi *et al.*, 2003), it would also be important to understand whether and through what mechanisms boards and institutional investors could potentially work together to facilitate deals. This is because only in two configurations do we see a simultaneous presence of board independence and substantial institutional ownership. For some reason, the market is not readily positive when both are present, which may be due to the nature of influence and vested interests that institutional investors have upon boards (Gilson & Kraakman, 1991).

In addition to finding clear evidence for both the wealth-protection and wealth-creation roles of corporate governance mechanisms (Aguilera *et al.*, 2008; Filatotchev, 2007; Filatotchev & Boyd, 2009; Zahra *et al.*, 2009a), we suggest a third scenario in which corporate governance mechanisms play a role. We argue that when deals are complex, acquirers must have a firm hand of leadership to ensure unity of command and swift decision-making (i.e. CEO duality); a situation we term *wealth-unleashing*. In the 17 configurations corresponding to complex deals, we find 12 configurations where CEO duality is present. However, interestingly, in nine of these 12 configurations, either board independence and/or substantial institutional ownership are also present, while in three configurations, neither of the two are present. Considering that the condition of managerial agency mitigation takes precedence over the condition of deal

complexity in five configurations (i.e. proposition 3 supported in favor of proposition 4), it appears that while unleashing wealth is important, it is secondary to protecting wealth.

Second, following recent studies examining complementarity and substitutability effects among corporate governance mechanisms (Aguilera *et al.*, 2012; Misangyi & Acharya, 2014), we extend this possibility by looking for the substitutability between governance structure (board independence or institutional ownership) and acquirer competence (prior experience and good prior performance). The vast majority of all deals across all periods show either good acquirer prior performance and/or acquirer experience (23 out of 27 configurations). In the remaining four configurations neither of these conditions are present but substantial institutional ownership is present, supposedly covering for this lack of competence, at least from the market perspective. However, we do not see this effect with board independence, the presence of which is always with some form of acquirer competence. Future studies could investigate why and what the difference is between these forms of governance mechanisms and the difference in their substitutability to acquirer competence. It is also interesting to note that we only see both board independence and substantial institutional ownership in two configurations out of 27. It seems that the market does not appreciate too much oversight during strategic corporate events like acquisitions. This would suggest these features are more substitutes than complements, and it is important to understand why this is the case.

Third, we reveal an evolutionary appreciation of the market of M&A based on our results. From our time sensitive analysis, it becomes apparent there is an evolution in market expectations regarding the presence or (unacceptable) absence of corporate governance mechanisms. It has implications for theory in that most of our models and theories are static and expected to be applicable during any period. While obviously there are time insensitive behaviors on the part of

the market to which existing theory can apply, there is also significant variance in behavior following different economic conditions. Hence, future research needs to consider the economic conditions under which their study is taking place. Similarly, these results are of interest for the M&A literature. Bandwagon effect leading to merger waves is an established phenomenon. It occurs for various reasons: deal-making as a form of mimetism because deals initiated by skilled deal-makers or deals initiated by direct competitors (DiMaggio & Powell, 1983) or because of board interlocks (Haunschild & Beckman, 1998). These reasons may be strategically unsound but more of a reaction to anticipated market demand. Bandwagon behavior has been shown to lead to poor acquirer performance when initiated during the height of the waves (Carow, Heron, & Saxton, 2004) yet they do happen. We see part of the evidence of why that is the case in our results. Not only does the market differ in its preference of deal types and acquirer characteristics under different economic conditions, the vast array of configurations in the post-crisis period suggest that the market does not prefer one dominant deal type over another as normally witnessed during merger waves. So, while acquirers fall victim to bandwagon effects, it seems the market does not and continues to act based on evidence of acquirer characteristics and corporate governance mechanisms.

CHAPTER 3. SHAPING INVESTORS' VIEW OF CROSS-BORDER ACQUISITIONS THROUGH CORPORATE GOVERNANCE AND FORMAL INSTITUTIONS

ABSTRACT

What is the role of acquirer corporate governance mechanisms and host countries' formal institutions in shaping investors' reaction to cross-border acquisitions? Using the fuzzy-set qualitative comparative technique to analyze 738 international deals completed by North American manufacturing companies, this study finds that acquirers corporate governance mechanisms shape the way investors perceive announced transnational deals by performing the functions of wealth-creation and wealth-protection. Furthermore, host countries' governance, financial, labor institutions also play significant roles in forming investors' reaction to CBA announcements by showcasing the chances of successful value-creation for the foreign acquirers.

Key words: mergers and acquisitions, foreign direct investment, formal institutions, corporate governance, cumulative abnormal returns, fs/QCA.

INTRODUCTION

The year of 2017 saw cross-border acquisitions (CBA) surge back to its peak levels of the pre-crises year 2007 (Reuters, 2017). Given the continuing economic growth worldwide, companies reinvigorated their cross-border deal-making agenda. Whether it is for the purpose of business development in new geographies or product markets or horizontal expansion in the global market, cross-border acquisitions remain an important instrument in the arsenal of companies (Deloitte, 2017). Yet, despite the growing importance of cross-border acquisitions, our understanding about what makes or breaks international deals remain limited and fragmented (Shimizu et al., 2004). This study seeks to investigate the role of acquirer corporate governance as well as of host countries' formal institutions in shaping investor reaction to cross-border acquisitions.

Research suggests that acquirers' corporate governance determine the outcomes of mergers and acquisitions (M&A) through two functions: wealth-creation (Filatotchev, 2007; Filatotchev & Boyd, 2009; Zahra et al., 2009) and wealth-protection (Masulis et al., 2007; Misangyi & Acharya, 2014; Wright et al., 1996). This study posits that corporate governance would influence how investors in stock markets perceive announced CBA by substituting for the lack of acquirer competence necessary for successfully managing the deals (i.e. wealth-creation), keeping managerial agency in check as well as vetting the formal institutions in host countries involved in these international transactions (i.e. wealth-protection). Studies find that well-developed governance, financial, and labor institutions in host countries play crucial roles in driving the outcomes of CBA (Carney et al., 2011; Weitzel & Berns, 2006; Zahra et al., 2000). On the one hand, governance institutions serve as the foundations of a strong legal framework where the risks of corruption and contract opportunism are limited, making host countries safe for foreign acquirers to invest. On the other hand, it is through financial and labor institutions that foreign

acquirers access capital and labor resources of host countries and subsequently create wealth. Here, acquirer corporate governance would influence investor reaction to CBA announcements by vetting the quality and fit of host countries' financial and labor institutions with the strategic needs of acquirers (i.e. wealth-protection).

Currently, the most conventional way corporate governance mechanisms are viewed is that they act as safeguards against managerial agency and associated risks (Baysinger & Butler, 1985; Baysinger & Hoskisson, 1990; Daily & Dalton, 1994). This function of wealth-protection is important because of the potential conflict of interest between the owners and managers (Fama & Jensen, 1983). To ensure that managers act in the interest of the owners, companies maintain governance mechanisms that directly or indirectly limit managerial agency (Allen, 1974; Jones & Goldberg, 1982; Kolasinski & Li, 2013; Oviatt, 1988; Walsh & Seward, 1990; Zajac & Westphal, 1994). More recently, another perspective that considers corporate governance mechanisms as instruments of wealth-creation has garnered momentum in the literature (Aguilera et al., 2008; Filatotchev, 2007; Zahra et al., 2009). According to this perspective, corporate governance mechanism can be useful for companies when making important decisions (Greenwood & Schor, 2009; Hillman, Cannella, & Paetzold, 2000; Ryan & Schneider, 2002; Westphal & Zajac, 1997). This study considers acquirer corporate governance as wealth-creating by being substitutive to acquirer competence and as wealth-protecting by limiting managerial agency and vetting host countries' formal institutions.

Next, studies suggest that countries with well-developed institutions are generally better destination for investors, e.g. foreign acquirers (Pajunen, 2008; Wei, 2000; Weitzel & Berns, 2006). Well-developed governance institutions make the case for better legal systems and lower corruption, which is good for company performance (Glaeser & Shleifer, 2002; Kinoshita &

Campos, 2003). Meanwhile, well-developed financial and labor institutions offer foreign acquirer access to capital (Holmström & Tirole, 1993; Levine & Zervos, 1998) and labor resources (Barro, 2001; Hanushek & Kimko, 2000), which are essential for development and growth in the new markets.

To understand the roles of acquirer corporate governance mechanisms and host countries' formal institutions, this study analyzed 738 cross-border deals announced and completed by manufacturing companies based in North America. The period of study covers the years between 1997 and 2015. Using the fuzzy-set qualitative comparative analysis (fs/QCA) technique, this study uncovered thirteen configurations corresponding to positive investor reaction to announced CBA and seven configurations corresponding to negative reaction. In terms of wealth-creation, this study finds that acquirer corporate governance mechanisms can substitute for the lacking acquirer competence necessary for managing CBA successfully (Kim, Mauldin, & Patro, 2014; Kroll, Walters, & Wright, 2008). This substitution effect plays a key role in shaping investor reaction to CBA because these deals are distinctive from domestic transactions with unique opportunities (Anand & Delios, 2002; Contractor, Kundu, & Hsu, 2003) and challenges (Barkema et al., 1996; Zaheer, 1995). To capture these opportunities and overcome the challenges, acquirers would have to be competent themselves or have independent boards and/or institutional investors to potentially help them with strategic counsel. These findings contribute to the corporate governance literature by adding more evidence toward the newly evolving perspective of companies' corporate governance mechanisms as wealth-creating, rather than just wealth-protecting. In terms of wealth-protection, this study finds that acquirer corporate governance mechanisms can act as constraints on managerial agency (Desai, Kroll, & Wright, 2005; Kroll et al., 2008) and as potential evaluators of the quality and fit of host countries' financial and labor

institutions in relation to the strategic needs of acquirers (Carney et al., 2011; Weitzel & Berns, 2006; Zahra et al., 2000). First, it is important to limit the potential negative performance implications of managerial agency through separation of CEO and Chairman positions and/or monitoring from independent boards and/or institutional investors. Second, acquirer corporate governance mechanisms such as independent boards and/or institutional investors also perform the wealth-protection function by ensuring the quality and fit of host countries' financial and labor institutions match with the strategic needs of acquirers (Barney & Zajac, 2006; Carney et al., 2011). Finally, host countries' governance institutions would be also crucial to the success of CBA given that they create the foundation for a strong legal framework that shields foreign acquirers' wealth from being wasted through corruption and contractual opportunism (Glaeser & Shleifer, 2002; Weitzel & Berns, 2006). Together, these findings contribute to the literature on CBA by demonstrating the importance of host countries' formal institutions in determining the outcomes of international transactions.

PROPOSITION DEVELOPMENT

Wealth-creation and Wealth-Protection Functions of Corporate Governance

The corporate governance literature has developed two distinct perspectives on the role of corporate governance mechanisms in driving the outcomes of companies. The first perspective considers corporate governance mechanisms as instruments with which companies guard against managerial agency and associated risks (Baysinger & Butler, 1985; Baysinger & Hoskisson, 1990; Daily & Dalton, 1994). This wealth-protection function is especially important for companies where ownership is separated from day-to-day operational control and, subsequently, where there is potential conflict of interest between the owners and managers (Fama & Jensen, 1983). According to the agency theory, managers could use company resources to benefit their own

interests, often times to the detriment of the interests of the owners (Eisenhardt, 1989). Specifically, managers can use acquisitions to increase their compensation (Bliss & Rosen, 2001; Harford & Li, 2007), boost their job security (Denis, Denis, & Sarin, 1997; Lane et al., 1998), and reduce the risk of their own wealth portfolio (Amihud & Lev, 1981; Lane et al., 1998). Hence, to ensure that managers act in the interest of owners and shareholders, companies maintain governance mechanisms that either directly curtail potential managerial agency (i.e. ruling out CEO duality) or that indirectly limit potential managerial agency through monitoring of managerial actions (i.e. having independent boards and/or influential institutional investors) (Allen, 1974; Jones & Goldberg, 1982; Kolasinski & Li, 2013; Oviatt, 1988; Walsh & Seward, 1990; Zajac & Westphal, 1994).

Though the perspective of corporate governance mechanisms as being wealth-protective has been the dominant perspective in the literature, more recently, there has been an emergence of another perspective that examines the function of wealth-creation of corporate governance mechanisms (Aguilera et al., 2008; Filatotchev, 2007; Zahra et al., 2009). According to the wealth-creation perspective, companies maintain corporate governance mechanism also for the purpose of using them when making important decisions. Studies suggests that board members, especially those invited from outside of the companies, bring vital resources, including specialized and relevant skills, expertise, and knowledge, that can help companies solve strategic issues (Hillman et al., 2000; Westphal & Zajac, 1997). Furthermore, board members can also help companies with strategic counsel and advice as well as play significant roles during strategy formulation (Judge & Zeithaml, 1992; Pfeffer & Salancik, 2003). Relatedly, studies in finance and management indicate that institutional investors can also significantly alter how companies strategize and execute their strategic plans, and, subsequently, how companies derive their outcomes (Greenwood & Schor,

2009; Ryan & Schneider, 2002). Specifically, Ryan and Schneider (2002) show that institutional investors can influence companies strategic restructuring decisions (including M&A decisions) through investor activism, while Greenwood & Schor (2009) show that institutional investors can play significant roles in facilitation of deals by matching and connecting potential acquirers and targets. Overall, the function of wealth-creation of corporate governance mechanisms through provision of skills and expertise as well as participation in strategic processes could be particularly helpful for companies attempting to conduct complex endeavors such as CBA. This study considers acquirer corporate governance as wealth-creating by being substitutive to acquirer competence and as wealth-protecting by limiting managerial agency and vetting host countries' formal institutions.

The Role of Host Countries' Formal Institutions in CBA

The literature on international business suggests that countries with well-developed institutions tend to be better destinations for foreign investors, including foreign acquirers (North, 1991; Pajunen, 2008; Weitzel & Berns, 2006). On the one hand, countries with well-developed governance institutions, i.e. stronger rule of law and more effective control for corruption, offer higher quality of legal systems and limited risks of corruption, which carries positive performance implications for companies (Glaeser & Shleifer, 2002; Kinoshita & Campos, 2003). This is because without these well-developed governance institutions, resources expended by companies on dealing with corruption and wrestling with the consequences of weak rule of law (e.g. contract enforcement) would negatively impact acquirer performance (Du, Lu, & Tao, 2008; Lambsdorff, 2002; Weitzel & Berns, 2006). On the other hand, countries with well-developed financial and labor institutions offer access to their pools of capital (Holmström & Tirole, 1993; Levine & Zervos, 1998) and labor force (Barro, 2001; Hanushek & Kimko, 2000), enabling foreign acquirers

to develop and grow their operations in new markets. While, capital can be accessed through well-developed and maintained financial infrastructure (i.e. national stock markets) (Demirgüç-Kunt & Levine, 1996), labor can be access in the form of large quantity of high-quality workforce (Benhabib & Spiegel, 1994; Hanushek & Kimko, 2000). Together, the formal institutions of host countries contribute significantly toward CBA success by constituting well-developed institutional environments in which foreign acquirers can profitably operate.

Shaping Investor Reaction via Wealth-Creation: Acquirer Competence and Management of CBA Opportunities and Challenges

For investors in stock markets to react positively to CBA announcements, they must be convinced the transactions are pursued by acquirers with enough competence to manage the unique and significant opportunities and challenges successfully. In other words, investors would want to see that acquirers are competent enough to be able to reap the benefits and resolve the challenges in their international ventures.

Opportunities and challenges in CBA. The literature on cross-border mergers and acquisitions has underscored the unique distinctions between the transactions involving acquirers and targets from different countries and those that involve only domestic companies (Shimizu et al., 2004). Among these distinctions are the synergy potentials and the challenges embedded in cross-border deals.

In terms of distinctive synergy potentials, CBA could offer the opportunity to gain access to resources and/or markets. On the one hand, acquirers of foreign companies enjoy the access and potential redeployment of resources with foreign targets (Anand & Delios, 2002; Seth et al., 2002). Here, the benefit of accessing resources reside with either applying them into production in host countries locally or transferring them to other countries (including home countries) for better

deployment. On the other hand, CBA can help acquirers gain or expand their commercial presence in foreign markets, i.e. increased market share (Barkema & Vermeulen, 1998; Contractor et al., 2003). These resources could either be capital (Levine & Zervos, 1998) or labor (Barro, 2001). The concrete need for the resources and the choice for host countries in which one type or another of resource would be more abundant will depend on the strategic needs of the acquirers.

In terms of distinctive challenges, CBA could be especially difficult with respect of synergy realization due to acquirers' liability of foreignness and acquirer-target cultural disparities. Liability of foreignness refers to costs incurred by acquirers due to their lack of understanding about host countries, lack of legitimacy in local or international environments, and restrictions on conducting CBA in home and host countries (Zaheer, 1995). In particular, liability of foreignness can negatively impact CBA by increasing the risks related to valuation of foreign targets. Because acquirers generally lack the understanding about the local specificities such as accounting practices and regulations, it makes the complex task of target valuation even harder, which will likely reflect negatively upon acquirer performance (Marquardt & Zur, 2014; McNichols & Stubben, 2014). Furthermore, foreign acquirers may also face the obstacles of not being able to correctly address the problems associated with local governance (e.g. corruption and weak enforcement of law) (Weitzel & Berns, 2006). Meanwhile, cultural differences between acquirers and targets at both national and organizational levels (i.e. double-layered acculturation) could lead to serious obstacles for synergy creation. Double-layered acculturation can be problematic for synergy realization in CBA when organizational cultures and the related practices differ greatly and cannot be productively reconciled between acquirers and targets (Barkema et al., 1996; Dikova & Rao Sahib, 2013).

Acquirer competence and wealth-creation through corporate governance. To be convinced that acquirers pursuing CBA are competent enough to manage the significant synergy opportunities and challenges of CBA, investors would evaluate whether the acquirers possess enough managerial abilities (i.e. prior performance record) and enough deal-making savviness (i.e. deal experience). On the one hand, acquirers past performance record can be crucial for value-creation in CBA. This is because well-performing acquirers have a better chance of being capable to successfully execute the transactions and deliver the planned synergies, which could be achieved in two ways. First, as the managerial capabilities rise, so do the likelihood that the newly acquired assets would be merged and operated smoothly by the parent company, which is beneficial to the performance of acquirers (Fee & Hadlock, 2003; Hitt, Hoskisson, & Kim, 1997; Ingham, Kran, & Lovestam, 1992). In CBA, this would mean smoother transfer and/or direct application of the resources of foreign targets. Second, by the virtue of having the managerial capability to run a company well, acquirers with a good track record would then be better prepared to deal with various organizational problems arising during CBA, including problems pertaining to liability of foreignness and double-layered acculturation (Abell, Felin, & Foss, 2008; Augier & Teece, 2009). On the other hand, acquirers' experience with conducting M&A carries cumulative impact on their ability to successfully carry out CBA. Studies show that companies with the experience of performing similar strategic activities in the past can re-apply their knowledge and improve the odds of success in future deals (Barkema & Schijven, 2008; Fowler & Schmidt, 1989; Halebian & Finkelstein, 1999). First, experienced acquirers are better at selecting and negotiating with potential targets (Singh & Zollo, 1998; Zollo & Singh, 2004). By selecting targets with better synergy potentials acquirers augment the amount of value created, while by negotiating a favorable price for assets of targets acquirers avoid transferring excessive value to target sellers beforehand

(Sirower, 1997). Second, experienced acquirers are better at keeping employees and maintaining a productive work environment following deal-closures, both of which carry positive performance implications (Bergh, 2001; Paruchuri et al., 2006). In the pre-transaction stage of CBA, experience would help acquirers select the most promising foreign targets in terms of resources and access to new markets. In the post-transaction stage of CBA, experience would help acquirers manage the challenges presented by double-layered acculturation. Hence, considering the importance of acquirer competence in managing opportunities and challenges of CBA, it is proposed:

Proposition 1a: *Acquirer competence is necessary for positive investor reaction to CBA announcements.*

Though acquirer competence is crucial for eliciting positive investor reaction to CBA, it is argued that in case of insufficient competence manifested by acquirers themselves, investors would also look for acquirer corporate governance mechanisms that could compensate for such competence insufficiency. This argument is based on the function of wealth-creation of corporate governance mechanisms such as board independence and substantial institutional ownership (Filatotchev, 2007; Zahra et al., 2009). First, independent board members with relevant experience can be helpful to acquirers by performing the functions of strategic advisory and counsel during acquisitions (Kim, Mauldin, & Patro, 2014; Kroll, Walters, & Wright, 2008). Advice and counsel from independent directors tend to be more objective and free from insider bias because independent directors are not beholden to the CEO (Goodstein, Gautam, & Boeker, 1994; Singh & Harianto, 1989; Zahra et al., 2009). Second, substantial institutional ownership can be helpful to acquirers through provisioning relevant expertise and helpful connections during acquisitions (Baysinger & Hoskisson, 1990; Goodstein et al., 1994; Hill & Snell, 1988; Hillman & Dalziel, 2003; Judge & Zeithaml, 1992). In fact, over the course of the past few decades, activism from

large and market-moving institutional investors has changed the way companies think and execute their strategy to a significant degree, including how companies perform mergers and acquisitions (Greenwood & Schor, 2009; Smith, 1996). Furthermore, substantial institutional ownership is associated with adoption of growth-oriented strategies despite managerial opposition (Bethel & Liebeskind, 1993; Holderness & Sheehan, 1985; Wright et al., 1996) and with enhanced acquirer performance due to adoption of less risky strategies with higher chances of success (Kroll et al., 1997b). Whether the questions is about the merits of deals or about how deals should be planned and executed, both independent boards and influential institutional investors can help acquirers with advice and counsel, which is especially valuable in case acquirers fall short on either capabilities or experience on conducting M&A (Baysinger, Kosnik, & Turk, 1991; Westphal, 1999; Zahra & Pearce, 1989). Hence, it is proposed:

Proposition 1b: *Acquirer board independence and/or substantial institutional ownership can substitute for acquirer competence in eliciting positive investor reaction to CBA announcements.*

Host Country Governance Institutions as Necessary Conditions for CBA Success

Host countries' formal institutions play crucial roles in wealth-protection for foreign acquirers. This is primarily achieved through protection of the wealth-generated and its sources from economically harmful actions such as extortion, expropriation, and fraud. The literature on international business suggests that rule of law and control for corruption are key to creating and guarding a sound legal framework where businesses incur less transaction costs related to dealing with counter-parties as well as governmental agencies (North, 1991). Specifically, countries with stronger rule of law offer higher quality of legal system and observance of the law by the general population, reducing the risk of corruption and contractual opportunism as well as improving the level of contractual enforcement (Glaeser & Shleifer, 2002; Kinoshita & Campos, 2003). Since

the resources expended by foreign acquirers on dealing with local corruption (either going along with it or actively resisting it) and enforcing contracts in host countries are, in fact, additional transaction costs, stronger rule of law helps countries achieve higher levels of attractiveness among potential foreign acquirers (Du et al., 2008; Pajunen, 2008). Similar to strong rule of law, research suggests that the importance of keeping corruption in check (i.e. control for corruption) stems from the fact that corruption forces foreign acquirers to incur extra expenditure of resources, negatively impacting their profitability and diverting valuable resources from being productively invested, which carries negative long-term consequences such as reduced operational efficiency (Lambsdorff, 2002; Weitzel & Berns, 2006). In parallel to being economically wasteful, foreign acquirers engaging in corruption also may find such practice morally wrong and decide to avoid such hostile environments altogether (Habib & Zurawicki, 2002; Mauro, 1995; Wei, 2000). Overall, it is crucial for acquirers to pursue CBA in well-governed countries, so that the uncertainties and additional transaction costs would be reduced, and subsequently the wealth-generated from these deals would be safe from waste, expropriation, and theft. Furthermore, whether a host country is well-governed enough for CBA depends not only on whether the governance institutions are present, but also on whether these institutions are good enough. For instance, international business scholars have theorized that businesses pursuing different strategic objective or operating in different industries can experience different levels of impact from corruption and loose law enforcement, meaning that some industries would require stronger governance frameworks than others (Chan, Isobe, & Makino, 2008; Cuervo-Cazurra, 2006; Habib & Zurawicki, 2002). And, as such, well-developed governance institutions guaranteeing the wealth of foreign acquirers is absolutely crucial for CBA to succeed. Hence, it is proposed:

***Proposition 2:** Host countries' governance institutions must be well-developed to elicit positive investor reaction to CBA announcements.*

Shaping Investor Reaction via Wealth-Protection: Vetting Host Countries' Financial and Labor Institutions

In parallel to governance institutions that are crucial for protecting acquirer wealth, the literature points to host countries' financial and labor institutions as crucial factors in ensuring that foreign acquirers manage to create wealth through access to resources and through business development in host countries. Specifically, host countries' financial and labor institutions can be crucial for foreign acquirers to tap into the pools of capital (Holmström & Tirole, 1993; Levine & Zervos, 1998) and labor force (Barro, 2001; Hanushek & Kimko, 2000), which enable foreign acquirers to develop and grow their operations in new markets. On the one hand, access to capital in host countries is enabled via well-developed and maintained financial infrastructure such as national stock markets (Demirgüç-Kunt & Levine, 1996). On the other hand, access to labor in host countries is enabled via substantial quantity and quality of labor force (Benhabib & Spiegel, 1994; Hanushek & Kimko, 2000). In addition to having access to capital and labor resources in host countries, foreign acquirers also would need to ensure that the resources accessed are well-aligned with their strategic needs (Barney & Zajac, 2006). In other words, having access to financial and labor resources in host countries would lead to successful outcomes in CBA only if the foreign acquirers manage to ensure co-alignment between their strategic needs with the resources. This is because whether foreign acquirers would be able to fully benefit from the newly acquired access to financial and labor resources would depend on their initial strategic goals and how co-aligned these goals are with the resources accessed (Edelman et al., 2005; Venkatraman & Camillus, 1984). For example, acquisitions of businesses requiring intensive deployment of capital could mean the

need for well-developed capital infrastructure in host countries, while acquisitions of businesses requiring intensive deployment of labor could mean the need for access to high-quality labor. In case foreign acquirers fail to select countries with well-developed financial and labor institutions or fail to co-align the access to these resources with their strategic needs, their performance may suffer (Carney et al., 2011; Khanna & Palepu, 2000). Overall the studies suggest that performance of foreign acquirers depends heavily on the quality of financial and labor institutions in host countries as well as on the co-alignment between the access to financial and labor resources and acquirers' strategic needs. Hence, it is proposed:

Proposition 3: *Host countries' financial and/or labor institutions co-aligned with the strategic needs of foreign acquirers would elicit positive investor reaction to CBA announcements.*

Furthermore, given that non-institutional investors may not reliably observe and accurately gauge the true quality and fit of host countries' financial and labor institutions for the announced CBA, it is then argued that investors in stock markets would rely on independent boards and/or institutional investors to vet and ensure that the host countries do offer the necessary financial and/or labor institutions that satisfy the strategic needs of acquirers. In other words, presence of corporate governance mechanisms that could double-check on the managerial decision regarding the choice of host countries would help investors in stock markets make their judgements about announced CBA more accurately.

Proposition 3a: *If complemented with acquirer board independence and/or substantial institutional ownership, Host countries' financial and/or labor institutions would more likely to elicit positive investor reaction to CBA announcements.*

***Proposition 3b:** If not complemented with acquirer board independence and/or substantial institutional ownership, Host countries' financial and/or labor institutions would less likely to elicit positive investor reaction to CBA announcements.*

Shaping Investor Reaction via Wealth-Protection: Limiting Managerial Agency

Due to their international nature, CBA are inherently exposed to the possibility of being exploited by acquirer managers to diversify the risk of their own wealth-portfolio, should their own wealth-portfolio remain tied-up significantly to the market capitalization of the companies they manage (Amihud & Lev, 1981; Lane et al., 1998). Alternatively, managers could use CBA to boost their own employment security and compensation by inflating the size and complexity of their company (Bliss & Rosen, 2001; Denis et al., 1997; Harford & Li, 2007; Humphery-Jenner, 2012). Given these risks of managerial agency in CBA, investors in stock markets would need to be reassured that the announced deals are free of suspicion of being motivated by managerial agency. To this end, corporate governance mechanisms contribute significantly toward ensuring managers act according to their fiduciary duty to the investors (Allen, 1974; Jones & Goldberg, 1982; Kolasinski & Li, 2013; Oviatt, 1988; Walsh & Seward, 1990; Zajac & Westphal, 1994). The literature emphasizes separation of CEO and Chairman positions, oversight in the forms of board independence and substantial institutional ownership as the most common and effective instruments for limiting managerial agency and curtailing pursuit of value-destructing CBA. This is the function of wealth-protection of corporate governance mechanisms.

On the one hand, research overwhelmingly suggests that absence of CEO duality is crucial for achieving success in acquisitions. Chief executives doubling as the Chairman of the board hold excessive power and, as a result, can make decisions without much credible check and balance, which could enable them to make CBA for the advancement of personal gains (Boyd, 1995;

Grinstein & Hribar, 2004; Rechner & Dalton, 1991). On the other hand, research indicates that board independence and substantial institutional ownership play a crucial role in curtailing agentic behavior of managers. Board independence is an effective instrument for preventing managers from pursuing risky acquisitions with low expected returns that are more beneficial to them personally than to their companies in general (Grinstein & Hribar, 2004; Hill & Snell, 1988). In the event of board non-independence, where the majority of directors have close personal or business relations with the managers, there would be a higher risk of tolerance of the M&A decisions made by the CEO without regard to the true merit of proposed deals, while the opposite would hold in the event of board independence (Allen, 1974; Jones & Goldberg, 1982; Pfeffer, 1972b). In other words, with an independent board in place, companies would have better chances of stopping potentially value-destructing deals to proceed due to stricter vetting of proposed deals (Desai et al., 2005; Kroll et al., 2008). Additionally, a more independent board is more capable of keeping the management accountable after deal completion by remunerating CEO in strict accordance with post-acquisition performance (Wright, Kroll, & Elenkov, 2002).

Next, studies find that substantial institutional ownership is associated with initiation and implementation of strategies that prioritize the interests of shareholders (Bethel & Liebeskind, 1993; Holderness & Sheehan, 1985; McConnell & Servaes, 1990). Moreover, substantial institutional ownership compels companies to pursue strategies more oriented to value-creation despite managerial opposition (Wright et al., 1996). With regard to M&A, research suggests that significant levels of institutional ownership tend to improve acquirer performance by guiding the management toward adopting M&A strategies with higher chances of success and avoiding those that are likely to fail (Kroll, Wright, & Theerathorn, 1993; Kroll et al., 1997). Hence, considering

the negative role played by CEO duality and the positive roles played by board independence and institutional investors during acquisitions, it is proposed:

Proposition 4: *CEO duality must be absent or complemented with either board independence and/or substantial institutional ownership to elicit positive investor reaction to CBA announcements.*

METHOD

Analytical Approach

Given the parallel accumulation of inconsistent results along with growth in the number of M&A studies, scholars examining the complex phenomena of M&A were called on to adapt more integrative approaches suitable for investigating interactions among multiple aspects surrounding deals (Haleblian et al., 2009; King et al., 2004). One such integrative approach is to investigate how the different aspects of M&A collectively rather than individually determine the deal outcomes. Compared to the hard-to-interpret coefficient estimates for higher-order interactions in regression analysis, configurations consisting of presence/absence of causal conditions produced using fuzzy set qualitative comparative analysis (fs/QCA) are more suitable for determining complex interrelationships (Aguilera et al., 2012, 2008; Filatotchev & Boyd, 2009). Based on the principles of set theory and Boolean algebra, fs/QCA determines how various sets (i.e. configurations) of causal conditions correspond to the outcome condition, which are more susceptible for accurate interpretation in comparison with the coefficient estimates of high-order interaction terms of regression analysis (Fiss, 2007).

The method of fs/QCA consists of several key steps. First, to render the data analyzable, each of the conditions (causal and outcome) were calibrated to reflect their crisp- and fuzzy-set memberships (Rihoux & Ragin, 2009). Crisp-set calibrated conditions take either the value of

“fully in” (1) or “fully out” (0). Fuzzy-set calibrated conditions take values in ranging from “fully in” (1), crossover point meaning “neither in, nor out” (0.5), and “fully out” (0). In accordance with established conventions of application of fs/QCA in management research, each of the conditions were calibrated using scales derived from theoretical knowledge and empirical evidence (Bell, Filatotchev, & Aguilera, 2014; Campbell et al., 2016; Misangyi & Acharya, 2014). The procedure of direct calibration was carried out using Fs/QCA 2.0 software. Similar to extant studies in corporate governance and M&A, the causal conditions preceded the outcome condition by one fiscal year (Bell et al., 2014; Campbell et al., 2016).

Data and Sample

The data on deals was collected from Thomson Reuters SDC Platinum. The focus of data collection was on completed cross-border deals by North American public companies from 1997 to 2015 inclusively to accommodate since the earliest data on corporate governance mechanisms was available since 1996. Following extant M&A studies, data was collected only for full-ownership cross-border acquisitions, in which acquirers’ ownership in targets grew from below 50 percent before the announcement and up to 100 percent following the announcement (Ellis et al., 2011; Halebian & Finkelstein, 1999; Masulis et al., 2007). The focus on minority-to-majority ownership deals is justified by their heightened performance implications. Furthermore, to minimize the potential influence of cross-industry differences in the data, only deals completed by manufacturing companies were considered (i.e. SIC codes 20 – 39) (Finkelstein & D’Aveni, 1994; Rechner & Dalton, 1991). The data on corporate governance mechanisms was collected from Thomson Reuters Institutional Holdings (i.e. institutional ownership) and ISS Directors (i.e. board independence and CEO duality). The data on acquirer characteristics (i.e. prior performance and free cash flow) was collected from COMPUSTAT North America, and the data on acquirer

experience was collected from SDC Platinum. The data on host countries' governance (i.e. rule of law and control for corruption), financial (total capitalization of the national stock market), and labor (share of labor force with advanced degrees) institutions was collected from World Bank databases. Specifically, data on governance institutions was collected from World Bank's Worldwide Governance Indicators database, while the data on financial and labor institutions was collected from World Bank's Development Indicators database. After selecting the deals based on the criteria listed above and matching the outcome condition (i.e. cumulative abnormal returns) with all the causal conditions (i.e. acquirer corporate governance mechanisms and characteristics, host countries' institutions), the final sample consisting of 738 observations was derived from the initial sample of 16590 observations collected from SDC Platinum.

Measurement and Calibration of Conditions

Cumulative abnormal returns were calculated using the market adjusted model based on an estimation period spanning between 265 days and 11 days before the announcement date. The three-day span of the event window was set from one day before until one day after the day of the deal announcement (Aybar & Ficici, 2009). A short event window minimizes the chances of confounding events and subsequently improves the accuracy of the results (Schijven & Hitt, 2012). The outcome condition of cumulative abnormal returns was calibrated using the scale introduced by Campbell et al. (2016) where values of CAR above +5% corresponded to "fully in", below -5% to "fully out", and 0% to the crossover threshold. Causal conditions were calibrated as the following.

Acquirer competence. Acquirer experience in the form of number of completed deals during the five years prior to the year of a focal deal was calibrated using the scale where 5 corresponded to "fully in", 1 to "fully out", and the midpoint between the two to the crossover

threshold (Strüven et al., 2010). *Acquirer prior performance* in the form of the ratio between net income and total assets was calibrated using the scale where values within the top quartile of the major group (i.e. two-digit SIC code level) for the observed fiscal year corresponded to “fully in”, values below the median to “fully out”, and the midpoint between the two to the crossover threshold (Misangyi & Acharya, 2014).

Acquirer corporate governance mechanisms. *Board independence* in the form of the ratio between independent directors on the board of directors was calibrated using the scale where 70% corresponded to “fully in”, 30% corresponded to “fully out”, and the midpoint to the crossover threshold (Bell et al., 2014). Following Misangyi and Acharya (2014), board members were classified as “independent” only when they were designated as such in the ISS Directors database, joined the acquirer before the incumbent CEO, and were not CEO themselves. The adoption of these three criteria, representing a more stringent filter on director independence, makes it possible for the causal condition reflect the degree of true board independence more accurately since only directors whose independence remained uncompromised were accounted for. *Institutional ownership* in the form of the ratio between the sum of shares owned by institutional shareholders to the total number of outstanding shares (Bethel & Liebeskind, 1993; Greenwood & Schor, 2009; Harford, Jenter, & Li, 2011) was calibrated using the scale where 80% corresponded to “fully in”, 50% to “fully out”, and the midpoint to the crossover threshold (Aghion, Van Reenen, & Zingales, 2013; Johnson & Greening, 1999).

CEO duality was calibrated as “fully in” if the CEO also was the chairman of the board of directors and as “fully out” if otherwise.

Host country formal institutions. *Financial institutions* were operationalized in the form of the ratio between the total capitalization of the national stock markets and the gross domestic

product. The total capitalization of a national stock market was estimated as the product between the number of outstanding shares and the share price of all companies listed on all of the stock exchanges in a host country (“World Development Indicators, World Bank Data Bank,” 2017). This causal condition was calibrated using the scale where 78.51% corresponded to “fully in” (the top quartile of all country-year observations between 1997 and 2015), 19.78% to “fully out” (the bottom quartile of all country-year observations between 1997 and 2015), and 39.96% to the crossover threshold (the median of all country-year observations between 1997 and 2015). *Labor institutions* were operationalized in the form of the ratio between the working age population with an advanced level of education and the total working-age population. Advanced education was defined as short-cycle tertiary education, bachelor’s, master’s, and doctoral degrees or their equivalents (Kaufmann, Kraay, & Mastruzzi, 2010). This causal condition was calibrated using the scale where 81.4% corresponded to “fully in” (the top quartile of all country-year observations between 1997 and 2015), 73.48% to “fully out” (the bottom quartile of all country-year observations between 1997 and 2015), and 77.60% to the crossover threshold (the median of all country-year observations between 1997 and 2015). *Governance institutions* were operationalized in the form of rule of law and control for corruption (Kaufmann et al., 2010). Rule of law estimate reflects the degree to which agents are confident in and abide by the rules of society, particularly the quality of contract enforcement, property rights, the police, and the courts. Meanwhile, control of corruption estimate reflects the degree to which public power is limited (i.e. controlled) in being used for the extraction of private gains and state “capture”. Both causal conditions were calibrated using the scale where +2.5 corresponded to “fully in”, -2.5 to “fully out”, and 0 to the crossover threshold. The scale is defined in units of a standard normal distribution ranging from -2.5 to +2.5. Table 1 contains the calibration scales for each of the conditions.

Control conditions. Following prior studies in the M&A literature (Schijven & Hitt, 2012), this study controls for two key aspects of the deals, i.e. relatedness and acquirers free cash flow. *Acquirer-to-target relatedness* was operationalized in the form of their primary four-digit SIC codes. The more common digits between the SIC codes, the higher the degree of relatedness between the businesses of the two companies (Campbell et al., 2016). This causal condition was calibrated using the scale where 4 corresponded to “fully in”, 0 to “fully out”, and 2 to the crossover threshold. *Acquirer free cash flow* in the form of the difference between operating income before depreciation and interest expenses, income taxes, and capital expenditure scaled by the value of total assets was calibrated using the scale where values in the top quartile corresponded to “fully in”, values in the bottom quartile to “fully out”, the median to the crossover threshold (Harford, Mansi, & Maxwell, 2008; Masulis et al., 2007; Opler, Pinkowitz, Stulz, & Williamson, 1999).

Table 1. Calibration scales for the outcome and causal conditions

Conditions	Fully In	Crossover	Fully Out
CAR (-1;+1)	0.05	0.00	-0.05
Acquirer experience	5.00	3.00	1.00
Acquirer prior performance	75.00	62.50	50.00
Free cash flow	75.00	50.00	25.00
Board independence	0.70	0.50	0.30
Institutional ownership	0.80	0.65	0.50
CEO duality	1.00		0.00
Relatedness	4.00	2.00	0.00
National stock market capitalization	78.51	39.96	19.78
Labor force with advanced education	81.40	77.60	73.48
Control for corruption	2.50	0.00	-2.50
Rule of law	2.50	0.00	-2.50

The step following the calibration of the conditions is to construct a truth table consisting of all possible combinations of the values of causal conditions that correspond to the outcome

condition of interest. Given a number of causal conditions of k , the total number of rows in the truth table would be 2^k . Though there would be numerous rows in the truth table corresponding to many different combinations of the eleven causal conditions, only a limited number of these combinations would find corresponding cases in the data set. Furthermore, even fewer of those cases would qualify for the solutions (Ragin, 2008). A configuration must satisfy two key parameters to be considered as viable: frequency and consistency. The parameter of frequency is the number of cases in the sample belonging each of the configurations, and the more cases in the sample the higher the frequency threshold (Rihoux & Ragin, 2009). In accordance with extant literature, a frequency threshold of two cases per configuration was set so that at least 80% of all the cases of the sample was retained (Fiss, 2011; Misangyi & Acharya, 2014; Ragin, 2008). Once the configurations satisfying the frequency parameter were established, there were then subjected to the parameter of consistency, i.e. both raw and PRI consistency. Raw and PRI consistency reflect the level to which the cases belonging to each of the configurations are similar to each other with regard to the conditions and their values (Lander, Heugens, & Van Oosterhout, 2017; Ragin et al., 2006). Whereas raw consistency reflects the degree to which a case corresponds to an outcome, PRI consistency also reflects the degree to which that case may correspond to the negated outcome. A configuration high in consistency corresponds to the outcome of interest with higher likelihood. The cut-off rates for raw and PRI consistency were set at the recommended levels of 0.80 and 0.70 suggested by Fiss (2011).

The analytical software program of Fs/QCA 2.0 was used to derive the configurations corresponding to the outcome conditions, i.e. presence or absence of positive market reaction to announced cross-border M&A. Fs/QCA 2.0 uses easy and difficult counterfactuals to develop both intermediate and parsimonious solutions (Crilly, 2010; Fiss, 2011), where “●” represents the

presence of a condition and a “⊗” represents the absence of a condition. Large “●” or “⊗” designate core conditions and small ones designate peripheral conditions. While core conditions are present in both intermediate and parsimonious solutions, peripheral conditions are present only in intermediate solutions. Configurations with missing signs do not need the missing conditions to operate.

RESULTS

Table 2 contains the results of the analyses for the main outcome. The results consist of thirteen configurations corresponding to the positive investor reaction to announced international M&A.

Table 2. Configurations corresponding to positive acquirer CAR (-1; +1)

	1	2	3	4	5	6	7	8	9	10	11	12	13
Board independence	●	●	●	●		⊗	⊗	⊗	⊗	●	⊗	⊗	⊗
Institutional ownership	●	●	●	●	●	●	●	●	●	⊗	⊗	⊗	
CEO duality	●	●	⊗		●	●	⊗	●	●	⊗	⊗	●	⊗
Acquirer experience	●	⊗	●	⊗	⊗	●	●	●	⊗	⊗	●	●	●
Acquirer prior performance	⊗	●	●	●	●		●	●	●	●	⊗	●	●
Acquirer free cash flow	⊗		●	⊗	●	⊗	●	●	⊗	●	⊗	⊗	●
Deal relatedness	●		⊗	⊗	●	⊗	●	⊗	⊗	●	⊗	⊗	●
Rule of law	●	●	●	●	●	●	●	●	●	●	●	●	●
Control for corruption	●	●	●	●	●	●	●	●	●	●	●	●	●
National stock market capitalization	●	●	●	●	●	●	●	●	⊗	●	●	⊗	●
Labor force with advanced education	●	●	●	⊗	●	●		⊗	⊗	●	●	●	⊗
Raw coverage	0.02	0.06	0.02	0.05	0.09	0.05	0.04	0.05	0.03	0.02	0.01	0.01	0.03
Unique coverage	0.004	0.02	0.01	0.02	0.04	0.02	0.01	0.03	0.01	0.01	0.005	0.005	0.001
Consistency	0.93	0.92	0.93	0.9	0.9	0.91	0.92	0.92	0.93	0.96	0.98	0.91	0.94
Overall solution coverage	0.28												
Overall solution consistency	0.89												

A “●” represents the presence of a causal or control condition and a “⊗” represents the absence of it. A large “●” or “⊗” means a core condition and a small “●” or “⊗” means a peripheral condition.

Configurations for Positive Investor Reaction to CBA

The results provide support for *proposition 1a* in that each of the thirteen configurations include at least one of the conditions associated with acquirer competence (i.e. acquirer experience and/or prior performance). Specifically, 10 out of 13 configurations include acquirer experience and 8 include acquirer prior performance. Configurations 3, 7, 8, 12, and 13 include both. *Proposition 1b* is supported in that the majority of configurations (10 out of 13) include either independent boards or substantial institutional ownership, while configurations 1 – 4 include both. Additionally, nine configurations (1 through 9) include substantial institutional ownership, while only five configurations include independent boards (1 through 4 and 10). Also, configuration 10 is the only one including board independence exclusively. Potentially, these results hint to the different weights between the two corporate governance mechanism, i.e. institutional investors potentially could be more useful on a standalone basis compared to independent boards. The results also support *proposition 2* in that host countries' governance institutions play an absolutely crucial role in eliciting positive investor reaction to announced CBA. As evidenced by the resulting configurations, all the thirteen of them includes both of the governance institutions, i.e. rule of law and control for corruption.

Next, *proposition 3* is support given that all thirteen configurations, except configuration 9, include either financial and/or labor institutions (i.e. national stock market capitalization and labor force with advanced education). Configurations 1, 2, 3, 5, 6, 10, 11, include both financial and labor institutions, while configurations 4, 7, 8, 9, 12, 13 include one of the two. These configurations deserve more detailed explanation given the absence of either financial or labor institutions in them. Configurations 4, 7, 8, and 13 are represented by CBA where the resource emphasis is on capital. For these deals, it is imperative to for the foreign acquirers to have access

to capital in host countries. One such deal from the data set was the acquisition of the Canadian manufacturer of medical discovery and analytical tools MDS Analytical Technologies by the US company Danaher heavily involved in manufacturing of pharmaceutical and medical equipment. The importance of the financial institution in the host country could be justified by the capital-intensity of the business of designing and producing medical equipment (e.g. research and development, production machinery). Meanwhile, configuration 12 is represented by CBA in which the resource emphasis is on labor. One such deal from the data set would be the acquisition of Norwegian industrial goods manufacturer Kvaerner Hydro by General Electric under the tenure of its iconic deal-making CEO, Jack Welch a.k.a. Turbo Jack. In this case, building large scale industrial goods such rotors for hydro-electric power plants can be highly labor intensive. And as a result, the availability of well-trained labor in the host country of Norway ensures that one of the key resources would be secured, which carries positive performance implications for General Electric. Configuration 9 is represented by CBA in which the presence of well-developed governance institutions is both necessary and sufficient for eliciting positive investor reaction. An example of such deals from the data set would be the acquisition of the Italian ceramic maker Marazzi Group by the US home refurbishment manufacturer Mohawk Industries. In this case, given the relatively small scale of this primarily family business, neither capital nor labor were a primary concern for the ultimate success of the venture. Rather, it was important that the investment made into the host country and the wealth-created would have been shielded from potential corruption.

Furthermore, *proposition 3a* is supported in that the majority of the thirteen (10 out of 13) configurations include either board independence and/or substantial institutional ownership, suggesting that these two corporate governance mechanisms could boost investor confidence in

announced CBA due to higher likelihood of co-alignment between foreign acquirers' strategic needs and host countries' financial and labor institutions. Finally, *proposition 4* is supported in that acquirer CEO duality is either absent or complemented with independent boards and/or substantial institutional ownership.

Configurations for Negative Investor Reaction to CBA

Table 3 contains the seven configurations corresponding to the negated outcome, i.e. negative investor reaction to announced international M&A. Compared to the thirteen configurations which correspond to positive market reaction, these seven configurations are distinctive in several crucial aspects. First, as evidenced by configurations 1, 2, and 3, international deals involving targets based in countries without strong governance institutions and without access to capital and/or labor are not well-regarded by investors. Configurations 1 and 2 include none of the four formal institutions, while configuration 3 includes only national stock market capitalization. Echoing the thirteen configurations, all of which include governance institutions, it appears that rule of law and control for corruption are truly deal-breaking for CBA. Second, configuration 4 and 5 indicate that CBA pursued in host countries with well-developed formal institutions but by acquirers not competent enough and lacking any oversight from independent boards and/or institutional investors are not well-regarded by investors. Furthermore, configurations 6 and 7 deserve further explanation given that both of them include board independence and substantial institutional ownership as well as strong formal institutions in host countries. Configuration 6 is represented by CBA for which mere well-developed governance institutions are not enough. In addition to strong rule of law and control for corruption, these deals also require either capital or labor resources to succeed. A representative deal from the data set corresponding to this configuration would be the acquisition of the German manufacturer of medical beds Voelker by the US holding company Hill-

Rom. Similar to the example of acquisition of MDS Analytical Technologies by Danaher, for the acquisition of a medical equipment maker like Voelker to succeed, access to capital (e.g. machinery, production facilities) would have been crucial. Since this was not the case, investors reacted with skepticism. Configuration 7 is represented by CBA for which access to labor resources plays a lead role in securing success. A representative deal of this configuration would be the acquisition of the Singaporean chip and circuitry manufacturer Achieva Components by the US electronics company Arrow Electronics. On the one hand, access to capital could also be important for the deal success considering the capital intensity of electronic manufacturing (e.g. machines and equipment), and such need is covered by the well-developed financial institutions in the host country. However, given that the business of electronic manufacturing may also require considerable amount of high-quality labor (e.g. machine operators), the absence of access to labor in the host country could hamper the prospects of the deals.

Table 3. Configuration corresponding to negative acquirer CAR (-1; +1)

	1	2	3	4	5	6	7
Board independence	⊗	⊗	●	⊗	⊗	●	●
Institutional ownership	⊗	⊗	●	⊗	⊗	●	●
CEO duality	⊗	●	●	⊗	●	⊗	⊗
Acquirer experience	⊗	●	●	⊗	●	⊗	●
Acquirer prior performance	●	⊗	⊗	⊗	⊗	●	⊗
Free cash flow	⊗	⊗	⊗	⊗	⊗	●	⊗
Deal relatedness	●	●	⊗	●	⊗	⊗	●
Rule of law	⊗	⊗	⊗	●	●	●	●
Control for corruption	⊗	⊗	⊗	●	●	●	●
National stock market capitalization	⊗	⊗	●	●	●	⊗	●
Labor force with advanced education	⊗	⊗	⊗	⊗	●	⊗	⊗
Raw coverage	0.01	0.01	0.02	0.01	0.02	0.02	0.02
Unique coverage	0.01	0.01	0.01	0.01	0.02	0.01	0.01
Consistency	0.93	0.95	0.93	0.9	0.94	0.94	0.95
Overall solution coverage	0.09						
Overall solution consistency	0.94						

A “●” represents the presence of a causal or control condition and a “⊗” represents the absence of it. A large “●” or “⊗” means a core condition and a small “●” or “⊗” means a peripheral condition.

DISCUSSION

The rise of global trade and international business played a crucial role in making CBA an integral part of companies' strategic arsenals. And, as such, the proliferation of CBA has drawn considerable research attention from management scholars (Aybar & Ficici, 2009; Chakrabarti et al., 2009; Shimizu et al., 2004). This study seeks to understand how acquirers' corporate governance mechanisms and host countries' formal institutions shape investor reaction to CBA. On the one hand, the corporate governance literature considers two ways through which acquirers' corporate governance determine the outcomes of M&A: through the function of wealth-creation (Filatotchev, 2007; Filatotchev & Boyd, 2009; Zahra et al., 2009) and the function of wealth-protection (Masulis et al., 2007; Misangyi & Acharya, 2014; Wright et al., 1996). On the other hand, the international business literature examines the role of formal institutions. Specifically, studies find host countries' governance, financial, and labor institutions play crucial roles in creating and maintaining institutional environments in which foreign acquirers can reliably create and protect their wealth (Carney et al., 2011; Weitzel & Berns, 2006; Zahra et al., 2000).

Currently, the predominant view of the role of corporate governance mechanisms in shaping companies' outcomes is one of wealth-protection (Masulis et al., 2007; Misangyi & Acharya, 2014; Wright et al., 1996). Given the inherent risk of managerial agency in CBA, this role of protecting shareholders' wealth through directly limiting CEO power and monitoring strategic managerial decisions has been ever more emphasized. And the results of this study concur with extant studies propagating the function of wealth-protection of corporate governance mechanisms by confirming that investors in stock markets do require reassurances from acquirers in the form of absence of CEO duality and/or presence of board independence and/or substantial institutional ownership in order to have good faith in announced CBA. Furthermore, the results

suggest that acquirer corporate governance mechanisms such as board independence and substantial institutional ownership can also increase the likelihood of positive investor reaction to CBA announcements by vetting the quality and fit of host countries' financial and labor institutions with acquirers' strategic needs. Next, in parallel to the view of corporate governance mechanisms as wealth-protecting, an emerging voice in the literature has been advocating for the consideration of an additional role that corporate governance mechanisms could play to the benefit of acquirers – the role of wealth-creation (Aguilera et al., 2008; Filatotchev, 2007; Filatotchev & Boyd, 2009; Zahra et al., 2009). In line with the perspective on wealth-creation by corporate governance mechanisms, this study finds that given that in case when acquirers fall short in terms of competence for successfully executing on CBA, their independent boards and institutional investors could cover the lack of competence by provisioning skills, counsel, and advice (Hillman et al., 2000; Pfeffer & Salancik, 2003). Overall, this study contributes to the corporate governance literature by demonstrating that acquirers' corporate governance mechanisms can benefit them through wealth-creation and wealth-protection. Wealth-creation means generating investor confidence and good faith in announced CBA by ensuring the level of competence that acquirers would need to succeed. Wealth-protection means eliciting positive investor reaction by limiting managerial agency and vetting host countries' financial and labor institutions for quality and fit during CBA.

Next, this study also speaks to the international business literature which examines the role of formal institutions in driving CBA outcomes. First, the results reaffirm the vital role played by the governance institutions of host countries, i.e. stronger rule of law and more effective control for corruption, in eliciting positive investor reaction to announced CBA (Glaeser & Shleifer, 2002; Kinoshita & Campos, 2003). Such necessity stems from the fact that resources expended by

foreign acquirers on dealing with corruption and fighting contractual opportunism would negatively impact their performance (Du et al., 2008; Lambsdorff, 2002; Weitzel & Berns, 2006). Second, the results also show that well-developed financial and labor institutions make countries more attractive to foreign acquirers as they offer access to capital (Holmström & Tirole, 1993; Levine & Zervos, 1998) and labor force (Barro, 2001; Hanushek & Kimko, 2000) crucial for development and growth. Hence, this study contributes to the CBA literature by reaffirming the importance of macro-level factors such as governance, financial, and labor institutions in host countries as core determinants of investor reaction to announced CBA.

Future Research Directions

The findings of this study can be built upon in future research. First, future studies could examine other acquirer competence characteristics that could play a crucial role in securing the success of CBA. For example, though the current study focused on acquirer deal-making experience, future studies could look into the effect of alliance experience on the outcomes acquisitions given that research shows that alliance experience could help potential acquirers avoid mistakes related to target selection and negotiation (Cartwright & Cooper, 1996; Hagedoorn & Sadowski, 1999; Porrini, 2004). Furthermore, though this study measures acquirer managerial capabilities using accounting returns a year before focal deals, future studies could choose to use more fine-tuned measures. For example, the focus could be on acquirers' accounting performance under the tenure of the CEO announcing focal deals. Quantifying acquirer performance as the performance under particular managers could make the measurement more reflective of the managerial capabilities (Carpenter, Geletkanycz, & Sanders, 2004; Finkelstein & Hambrick, 1990). Finally, future studies could also examine whether the creation and development of specialized and permanent M&A task-forces within the acquirers would improve their competence with regards to deal-making, and

whether this would be helpful in instilling good faith with the investors. In other words, would investors have more good faith in deals, including CBA, performed by acquirers with specialized M&A teams? Second, in addition to examining other measures of acquirer competence, future studies could also investigate more granular-level measures of the board and institutional investors. For example, whether specific board members or types of board members tend to be helpful with regard to provisioning advice and counsel or with regard to dutifully monitoring and limiting managerial agency. It could be that board members with business backgrounds would be more helpful with regard to providing strategic business counseling, while board members with governmental or non-profit backgrounds would be more helpful with regard to monitoring. Furthermore, research suggests that various types of institutional investors tend to have different investment strategies (i.e. risk appetite, investment horizon, core business ethics principles etc.) (Gillan & Starks, 2000, 2000; Karpoff, Malatesta, & Walkling, 1996). Hence, future studies could examine whether these characteristics of institutional investors would influence their functions of wealth-creation and wealth-protection.

Second, though this study has examined host countries' financial, labor, and governance institutions and their effect on investor reaction to CBA announcements. Future studies could consider the effect of other host country institutions on the perceived odds of success of CBA. For example, this study included only governance institutions regarding law enforcement and corruption. Though rule of law and control for corruption have been proven to be highly important and effective governance institutions (Pajunen, 2008; Weitzel & Berns, 2006), there are other governance institutions such as government effectiveness, regulatory quality, and government accountability that could potentially influence how investors view the odds of CBA success (Kaufmann et al., 2010). Furthermore, given the gradual rise of corporate citizenship change (Belz,

Robinson, Ruf, & Steffens, 2013; Financial Times, 2015), future studies could contribute to the CBA and international business literature by examining the effect of countries taxation systems on companies' CBA decisions and, consequently, how investors react to deals performed purely for taxation reasons. Furthermore, though this study controls for the relatedness between acquirer and targets, future studies could focus more on the either the industry of acquirers or targets. It would be particularly contributive to the CBA literature to explore the exact interactive effects between companies' industries and countries institutions. For example, would host countries' institutions and policies regarding certain industries make them more/less suitable for potential foreign acquirers? If so, how do foreign acquirers make their CBA decisions and how do investors react to those decisions?

CHAPTER 4. BEARERS OF (GOOD) NEWS: THE IMPACT OF BUSINESS NEWS REPORTS ON ACQUIRER SHORT-TERM PERFORMANCE

ABSTRACT

In this study we investigate the effects of news reports on acquirer short-term performance. Our focus is on the extent to which key deal characteristics - the type of deal, during a merger wave or not or the presence of a significant premium – are made explicit. Moreover, we look for the effect of the assessment of the deal characteristics by different key informants: Board members, TMT members and analysts. Configurations derived using the set-theoretic approach suggest that media-transmitted signals form complex interrelations among content and informant. We find that investors react positively to deals that are surrounded by unequivocal signals of synergy potential: they contain explicitly stated deal characteristics as well as deal endorsements from the boards and/or top management of acquirer and target companies. Analysts' assessments of the deals seem to bear little influence on investor reaction. Meanwhile, investors react negatively to deals with low or absent media coverage as well as deals surrounded by signals of ambiguous synergy potential.

Key words: mergers, acquisitions, signaling, news, media, information economics, cumulative abnormal returns, fs/QCA

INTRODUCTION

Mergers and acquisitions (M&A) remain a popular topic of study due to its complexity and its enormous economic impact on organizations and industries. Recently, scholars have started to adopt signaling theory and information economics as a way to more fully understand how signals influence deal making (Campbell et al., 2016; Reuer et al., 2013; Schijven & Hitt, 2012). According to these scholars, the signals emitted from potential target companies and perceived by acquirers influence their governance, payment, and premium decisions (Reuer & Ragozzino, 2011; Reuer et al., 2003, 2012), while signals emitted from acquirers and perceived by investors influence their immediate reaction in the stock markets (Schijven & Hitt, 2012). Moreover, these signals do not work in isolation of each other as investors consider them together in bundles (i.e. configurations (Campbell et al., 2016). So far, the focus of most studies has been on signals that investors proactively seek out in the aftermath of deal announcements – aspects relating to acquirer motives and capabilities as well as deals' synergy potential.

In our study we focus on the role of media, in particular of news reports, and how they inform and influence investor reactions to deal announcements. To this end, we investigate the influence of signals related to strategic deal characteristics in combination with board approval, top management rationalization, and analyst assessment on investor reaction to announced deals (e.g. cumulative abnormal returns). We collected and coded 1650 news reports covering 134 deals valued over one billion USD announced from 2009 until 2013. Our study makes two contributions to the M&A literature. First, our study extends the emerging view on signals working conjointly rather than in strict seclusion in driving investor reaction (Campbell et al., 2016). Our results suggest that given that signals related to deal characteristics are interpretable both positively and negatively, investors additionally consider messages from key informants to put a definitive spin

on whether consolidation/diversification deals involving large premium and announced during waves are value-creating or destructing. We find that when signals related to deal characteristics are particularly ambiguous, e.g. diversifications announced during waves or involving large premium, investors require strong endorsement from all three key informants to react positively, or else their reaction will be negative. Second, our study examines the effects of a new class of signals – media-reported messages from companies’ boards, top management, and analysts – on investor reaction as research suggests that market participants closely follow and act upon media-transmitted signals from these three informants (Hermalin & Weisbach, 1998; Joe, Louis, & Robinson, 2009; Zuckerman, 1999). Our results suggest that while media-transmitted acquirer top management rationale and approval from the boards of both companies are instrumental in eliciting investor reaction, analyst assessment are less impactful.

MEDIA-TRANSMITTED SIGNALS AND INVESTOR REACTION

Signaling plays an indispensable role in markets because it helps the participants reduce information asymmetry and make more informed decisions (Akerlof, 1970; Spence, 1973). Signaling theory found its way into the M&A literature recently, when researchers started to investigate the effect of signaling on acquirers’ strategic decision-making. First, studies show that signals from potential targets can influence acquirer decisions about form of governance, structuring of acquisition contracts, and premium paid (Reuer & Ragozzino, 2011; Reuer et al., 2003, 2012). Second, studies find that due to information asymmetry between managers and investors of acquirer companies, the latter tend to look for additional clues surrounding announced deals to determine the motive and abilities of the managers and gauge the viability of the deals (Campbell et al., 2016; Schijven & Hitt, 2012). By analyzing signals such as industry similarity and premium, investors make their investment decisions accordingly. Here, signals from acquirers

drive investor decisions. It remains to be investigated however, how media-transmitted signals about announced deals inform investors and influence their reaction. We focus on how signals related to strategic characteristics of the deal and quoted assessments from key informants about announced deals determine investor reaction. Specially, we consider board approval, top management rationalization (e.g. why a deal was pursued), and analyst assessment (positive or negative) of announced deals in relation to signals of diversification or consolidation, premium and merger waves as relayed by the media.

Reports by the media are considered important by investors (Deepphouse, 2000; Pollock, Rindova, & Maggitti, 2008) as they reduce the information asymmetry between managers and investors of companies, allowing the latter to make more informed decisions regarding their investments (Blankespoor, Miller, & White, 2013; Zingales, 2000). News media functions as an information intermediary by collecting and disseminating information to a broad audience of interested parties (Bushee, Core, Guay, & Hamm, 2010; Engelberg & Parsons, 2011). Scholars in communication studies found for instance that news reports play a substantial role in disseminating information about major political events and influencing public opinions (Golan & Wanta, 2001; McCombs, Llamas, Lopez-Escobar, & Rey, 1997). More recently, scholars in management and finance have determined that media is crucial to informing and shaping investor reaction to companies' CSR initiatives (Flammer, 2013), initial public offerings (Pollock & Rindova, 2003), management changes (Quigley, Crossland, & Campbell, 2017), and earnings projections (Tetlock, 2007; Tetlock, Saar-Tsechansky, & Macskassy, 2008). On the subject of M&A, research shows that depending on potential targets' risk signals, acquirers may use contingent payments to mitigate such risks (Reuer et al., 2003) or choose joint venture as the form of governance instead of a complete purchase (Reuer & Ragozzino, 2011). Relatedly, Reuer, Tong, and Wu (2012) show that

association with prominent actors such as venture capitalists and investment banks increases the premium that target companies receive from acquirers such association serves as quality assurance signals.

In our study, we focus on two groups of media-transmitted signals – strategic deal characteristics and messages from key informants. Research shows that investors judge the economic merit of announced deals based on several key characteristics (Haleblian et al., 2009). We focus on whether clear signals were given that a deal was primarily a diversification or consolidation deal (King et al., 2004). Also we focus on the salience of deal premium reported in the new articles as well as if the deal was conducted in an industry M&A wave (Haleblian et al., 2009). We chose these characteristics because prior research suggests that each of these signals can be interpreted both as positive and negative, and as such signals related to strategic deal characteristics will be regarded as ambiguous by investors (King et al., 2004). Building on the findings of Campbell and colleagues (2016), we argue that investors will formulate definitively positive or negative reactions if considering these deal characteristics based on the accompanying messages from key informants perceived to be knowledgeable about the announced deals (Tetlock, 2007). Messages from these informants might allow investors to better make sense of these characteristics and interpret them as either positive or negative signals. Research suggests that investors pay attention to and adjust their investment decisions in accordance with the media-transmitted signals transmitted from three types of informants: company boards (Joe et al., 2009), top management (Hermalin & Weisbach, 1998), and analysts (Zuckerman, 1999). We focus on board approval, top management team rationalization (e.g. why a deal was pursued), analyst assessment of announced deals.

Deal Characteristics as Media-Transmitted Signals

As deal characteristics, we consider the type of deal – consolidation and diversification (King et al., 2004), for the size of the premium paid for targets (Laamanen, 2007) and whether a deal was announced during an industry M&A wave (Duchin & Schmidt, 2013; McNamara, Halebian, & Dykes, 2008).

Research suggests that consolidation deals are mostly value-creating for acquirers. Companies pursuing consolidation deals stand to benefit from cost-based synergies including economy of scale (Capron, 1999; Lubatkin, 1983) and increased market power (Clougherty & Duso, 2009; Kim & Singal, 1993). Furthermore, the sameness between acquirers and targets in consolidation deals can facilitate more straightforward valuation, selection, and integration of targets (Hitt, Harrison, & Ireland, 2001; Seth, 1990a), which ultimately leads to performance enhancement for acquirers (Lubatkin, 1983; Ramaswamy, 1997). However, there is also a possibility that managers would pursue consolidation deals for the sake of increasing their own compensation as managing larger companies often increases their salaries (Core, Holthausen, & Larcker, 1999; Finkelstein & Hambrick, 1989). Meanwhile, research remains more ambiguous about the impact of diversification deals on value-creation for acquirer shareholders. On the one hand, diversification deals can create value through resource complementarity as companies from different industries combine their unrelated yet complementary resources to generate new sources of value (Bauer & Matzler, 2014; Larsson & Finkelstein, 1999). On the other hand, due to managerial agency, top managers may pursue diversification deals for personal gains including reduction of employment and personal financial risks as well as enhancement of managerial power via empire-building (Amihud & Lev, 1981; Morck et al., 1990), in which case diversification deals are value-destructing (Berger & Ofek, 1995).

Similar to deal types, large premium paid for targets and deal announcement during waves are ambiguous signals to investors. If acquirers could exploit target resources to generate substantial post-acquisition synergy, then paying a large premium would make economic sense (Laamanen, 2007). However, more often than not, acquirers choose to pay economically unviable premiums that in effect transfer significant portions of projected synergy to target shareholders, thus jeopardizing their own performance (Hayward & Hambrick, 1997; Sirower, 1997). Finally, studies suggest that acquisitions pursued during waves can play a crucial role in improving buyers' competitiveness via strategic repositioning during ground-shifting periods for the industry (Haleblian, McNamara, Kolev, & Dykes, 2012; McNamara et al., 2008). For example, in technology industries, acquisitions during waves can be crucial for sustaining companies' innovative capabilities and maintaining competitiveness (Haleblian et al., 2012). Contrarily, research also suggests that making acquisitions during a wave may harm buyers' performance because they often merely mimic the acquisitive behavior rather than pursuing their strategic interests. In this case, buyers tend to overpay for lackluster targets that end up wasting financial and managerial resources (Duchin & Schmidt, 2013; Goel & Thakor, 2010). Overall, though informative, strategic deal characteristics may not be sufficient for investors to formulate coherent reactions to announced deals on an individual basis.

Proposition 1: *Individually, media-transmitted signals such as deal type, larger premium, and announcement during M&A waves will elicit neither positive nor negative investor reactions.*

Messages from Key Informants as Media-Transmitted Signals

Studies show that media-reported messages from key informants – board approval, top management rationalization, and analyst assessment – help investors understand companies decisions and the underlying context behind them better, which allows them to adjust their

investment decisions accordingly (Tetlock, 2007; Tetlock et al., 2008). Furthermore, research suggests that investors react to the prevalent positive or negative tone of media coverage of events (Flammer, 2013; Pollock & Rindova, 2003; Pollock et al., 2008; Tetlock, 2007). Since signals related to strategic deal characteristics are ambiguous, we argue that to inform their reaction to deal announcements, investors will look for messages from boards, top management, and analysts.

First, due to the executive nature of their jobs, members of the top management are very much informed about the intricacies of announced deals (Wright, Kroll, Lado, & Van Ness, 2002), thus the deal rationales offered by top managers would be instrumental in convincing investors about the future success announced deals. Their opinion however may be biased (hubris) because of their vested interests (managerial agency) in completing the deals (Jensen, 1988; Roll, 1986). Second, acting as the principal for the shareholders (Filatotchev & Toms, 2003; Hill & Snell, 1988), boards' function is to prevent managers from conducting acquisitions with dubious implications for shareholder value. Given that announced deals must be first vetted by the boards, signals of board approval in the media would be key for eliciting positive investor reaction as this provides them with confidence of an accurate assessment of proposed synergies and their ability of management to realize them. Third, compared to the members of company boards and top management teams, analysts are broadly considered corporate outsiders whose independent status affords them the ability to provide impartial assessment of announced deals (Rao, Greve, & Davis, 2001). As such, analyst assessment would also hold significant sway over investor reaction to announced deals. Overall, research suggest that board approval, top management rationale, and analyst assessment all carry significant influence on how investors react to announced deals by signaling their economic merits and faults.

Explaining deal type and M&A wave. Though, neither deal type nor announcement during a wave is unlikely to elicit unequivocal investor reaction, we argue that together with messages from key informants they will form a combination of signals resulting in either positive or negative reactions. Consolidation deals during waves are imperative for maintaining cost competitiveness and preserving market shares of companies (Lambrecht, 2004). Furthermore, due to business similarity, buyers will be able to select targets with better a fit (Pennings, Barkema, & Douma, 1994), produce more accurate valuations (Brush, 1996), and integrate targets' resources more effectively (Cohen & Levinthal, 1990), which all increase the chances for positive outcomes. Hence, investors would react positively to consolidation deals during waves. These conditions do not require many additional positive messages from the key informants as such deals are strategically necessary and have favorable chances of successful execution. We posit that this situation will only change if there is negative analyst assessment, in which case investors would react negatively. Investors would perceive deals accompanied by negative analyst assessment with more skepticism because these signals create additional hurdles for understanding the value implications of the deals (Gao, Darroch, Mather, & MacGregor, 2008; Riley, 1975).

Diversification deals are value-creating when there is unique fit between resources of acquirers and targets (Barney, 1988; Bauer & Matzler, 2014). By combining complementary resources with targets, acquirers benefit from creating new sources of value not enjoyed by the competitors. The unique fit between company resources implies that it would be hard to imitate a diversification deal successfully. Furthermore, diversification deals by their nature are harder to successfully execute due to the industry differences between acquirers and target (Carow et al., 2004). Due to more uncertainty regarding their value-creating potential, diversification deals would require more reassurance from the key informants to elicit positive investor reaction. Hence,

we argue that diversification deals during waves would elicit positive investor reaction only if accompanied with positive messages from all three informants – both boards’ approval, top management rationale, and positive analyst assessment. Contrarily, these deals would elicit negative investor reaction if accompanied by negative analyst assessment or if the boards would not publicly announce their support or if top management would not elaborate on the intentions of the deals.

Proposition 2a: *During M&A waves, consolidation deals will elicit positive investor reaction if accompanied by board approval and/or top management rationale and/or positive analyst assessment. If accompanied by negative analyst assessment, they will elicit negative investor reaction.*

Proposition 2b: *During M&A waves, diversification deals will elicit positive investor reaction if accompanied by both boards’ approval and top management rationale and positive analyst assessment. Otherwise, they will elicit negative investor reaction.*

Explaining deal type and large premium. In consolidation and diversification deals, paying a large premium is interpretable both positively and negatively. Acquirers may justifiably pay a large premium given that they will be compensated with synergies (cost and revenue synergies in consolidations and unique resource combinations in diversifications). However, paying a large premium upfront often removes deals’ economic viability because the premium essentially transfers much of projected synergies to target shareholders. Hence, we posit that investor reaction would depend on the messages from the key informants. Given the inherent risks of large premium, we argue that only deals accompanied simultaneously by board approval, top management rationale, and positive analyst assessment would elicit positive investor reaction. Contrarily, deals accompanied by negative analyst assessment as well as deals for which positive

messages from any of the informants is missing in the media coverage would elicit negative investor reaction, since negative or missing messages from key informants signal potential issues or even conflicts surrounding announced deals. Given that M&A are already complex and risky corporate events involving material portions of companies' wealth, presence of disagreement and inconsistency between the insiders and outsiders may undermine the overall viability of a deal in the eyes of investors.

Proposition 3a: *Given large premium, consolidation and diversification deals will elicit positive investor reaction only if accompanied by board approval and top management rationale and positive analyst assessment.*

Proposition 3b: *Given large premium, consolidation and diversification deals will elicit negative reaction if accompanied by negative analyst assessment and/or missing board approval, top management rationale, positive analyst assessment.*

METHOD

Sample and News Reports Coding

To understand the influence of media-transmitted signals on investor reaction to announced deals, we collected 1650 news reports covering all 134 deals (12.31 reports per deal on average) valued over one billion USD announced from 2009 - 2013 in the United States. Since our outcome condition is acquirers' cumulative abnormal returns, our sample is limited to deals involving public companies. Because we calculated the stock returns over the event window spanning the announcement day and the day after, we also collected news reports over the same period. We chose to focus on large transactions announced in the United States because large transactions attract significant media attention, and because the United States is home to the largest stock exchanges and well-developed capital markets ("Statista," 2016; Wurgler, 2000). Hence, the

assumption of the efficient market hypothesis would be well respected in the U.S. context. We collected deal data from SDC Platinum and news reports from Factiva. Following extant studies (Farrell & Whidbee, 2002; Pollock & Rindova, 2003), we focused on media outlets publishing at the U.S. national-level: *Bloomberg*, *CNBC*, *CNNMoney*, *CNN*, *Dow Jones Institutional News*, *Forbes*, *Los Angeles Times*, *MarketWatch*, *NBC News*, *New York Times*, *Wall Street Journal*, *Washington Post*, *Reuters*, *the Financial Times*. We carefully screened for duplicate articles and included only the earliest versions of a news report in our final sample (Ferrier, Smith, & Grimm, 1999).

Outcome condition. We measure the outcome condition as the cumulative abnormal returns estimated using the market-adjusted model over the window spanning the announcement day and the after (Haleblian & Finkelstein, 1999).

Causal conditions. Following content analysis studies, we designated individual news reports as units of analysis since they are discrete representations of announced deal (Pollock & Rindova, 2003; Pollock et al., 2008). We designated the references and accounts pertaining to our conditions of interest as units of recording (Deephouse, 2000). It is therefore possible that individual units of analysis (news reports) may contain several units of recording (relevant accounts; Lamertz & Baum, 1998). For diversification deals, we counted the number of times the reported primary purpose was to acquire new complementary resources or expansion into new and previously unfamiliar markets. For consolidation deals, we counted the number of times the reported primary purpose was to increase company size or market share within the same industry. For high premium paid in announced deals, we counted the number of times the premium was designated as significant or substantially over the market value of targets. For deal announcement during industry waves, we counted the number of times it was mentioned that a focal deal was

taking place during an industry wave or at the same time of other big deals in the same industry. Next, recording units were counted as board approvals if they explicitly stated that boards of the companies approved announced deals. Recording units were counted as top management rationale if they explicitly stated the deal rationale offered by top management of either of the companies. Finally, recording units were counted as a positive (negative) assessment by analysts if they explicitly stated analysts' praise or concern (criticism or doubt). See Table 1 for the descriptions and example excerpts from news reports of the causal and control conditions. At the start of the coding processes a subset of 10% of all news articles were independently coded by both authors and checked for inter-rater reliability through Cohen's kappa (Cohen, 1960). Inter-rater agreement levels of 0.70 and up are considered strong (LeBreton & Senter, 2008). The inter-rater agreement was above 0.70 for each of our conditions, ranging from 0.74 (for consolidation to 1.00 (for target top management rationalization). Across all conditions the inter-rater reliability was 0.82. Differences in opinion on these initial 10% of articles was discussed until consensus was reached. The remaining articles were coded by the first author solely.

Table 1. Descriptions and examples of causal conditions

Conditions	Description	Excerpts from news reports
Informant Messages Acquirer board approval	Explicit approval and/or praise from acquirers' board of directors	"The transaction was unanimously approved by the Board of Directors of UHS" - TR
Target board approval	Explicit approval and/or praise from targets' board of directors	"CV Therapeutics' Board of Directors have unanimously approved the transaction and has agreed to recommend to its stockholders that they tender their shares pursuant to the tender offer." - TR

Acquirer top management rationale	Explicit justification and explanation about announced deals from acquirer top management (CEO, CFO, Heads of divisions etc.)	"With AMO, Abbott is enhancing and strengthening its diverse mix of medical-device businesses and gaining a leadership position in another large and growing segment," said Miles White, Abbott's chairman and chief executive." - MW
Target top management rationale	Explicit justification and explanation about announced deals from target top management (CEO, CFO, Heads of divisions etc.)	Mr. Perlmutter called Disney "the perfect home for Marvel's fantastic library of characters given its proven ability to expand content creation and licensing businesses." - WSJ
Analyst positive assessment	Explicit praise from analysts at investment banks, asset management funds, rating agencies etc.	"Priceline.com's planned acquisition of Kayak Software Corp. got mostly upbeat reviews Friday from analysts who say the cash-and-stock merger would give Priceline greater exposure in the U.S. market as well as better technology." - MW
Analyst negative assessment	Explicit criticism from analysts at investment banks, asset management funds, rating agencies etc.	"It's a huge distraction for somebody to pursue this strategy," said Oliver Brahmst, head of law firm White & Case's mergers and acquisitions group in the Americas. – TR
Deal Characteristics		
Diversification deals	Acquisitions of unrelated assets or expansion into new product markets.	"The purchase also reflects Cisco's push to evolve beyond networking equipment." - WSJ
Consolidation deals	Acquisitions for increasing acquirer company size and/or market presence within the same industry.	"If Ticketmaster Entertainment and Live Nation agree to merge, it would become a powerhouse in the music industry and an early test of the Obama administration's views on concentrated corporate power, particularly in an area with potentially stark implications for consumers." - NYT
Industry Wave	Instances when similar deals were being performed around the same time of the focal deal.	"The takeover is the latest of a flurry of deals in the sector, following Pfizer's \$68bn acquisition of Wyeth unveiled in January. Roche and Genentech were still negotiating yesterday to reach a deal on the Swiss pharma's longstanding takeover offer for the US biotech group, which

		was boosted to \$45.6bn on Friday." - FT
Large Premium	Instances when premium paid for target companies were reported as outsized or significantly over targets' market value.	"The valuation, 30 per cent above Marvel's share price last Friday, "is as high a premium as I've seen in any studio deal", said Tuna Amobi, an analyst with Standard & Poor's. " - FT

* FT – Financial Times, MW – MarketWatch, NYT – New York Times, TR – Thomson Reuters, WSJ – Wall Street Journal

Analytical Approach

We use fuzzy-set qualitative comparative analysis (fs/QCA) to explore the configurations of signals corresponding to either positive or negative investor reaction to announced deals. As we are interested in the higher-order interrelationship between deal characteristics and informant messages, fs/QCA through Boolean algebra, allows us to explore the effects of configurations of these conditions (Fiss, 2007b) on investor reactions. As part of the fs/QCA analytical approach, each of the conditions underwent the process of calibration into fuzzy-set membership (Fiss, 2007b). Calibrated conditions can take on values between “fully in” (1) and “fully out” (0) with a crossover point signifying “neither in, nor out” (0.5). To calibrate the conditions, threshold values need to be determined. For the outcome condition, *CAR* (0; +1), we set 0.05 (+5%) as fully in and -0.05 (-5%) as fully out with the crossover point at 0 following (Joanna Tochman Campbell et al., 2016)¹. We chose to look at the salience of the information on key deal characteristics and informant messages by dividing the count of each condition by the total number of news articles of that particular deal. While the amount of news coverage is positively related to the public’s awareness of a firm (Carroll & McCombs, 2003), if the majority of that news does not contain

¹ We conducted a robustness analysis by utilizing *CAR* (-3; +1) as the outcome condition. Our results remain unaltered and thus robust.

information necessary for investors it will not help their decision making. For the subsequent ratios of each of our conditions, we followed previous research (Joanna Tochman Campbell et al., 2016; Lander et al., 2017) by establishing threshold values based on sample distribution. For *diversification* we set 0.40 as fully in (75th percentile), 0.19 as the crossover point (the mean of the sample) and 0 as fully out. For *consolidation* we set 0.61 as fully in (75th percentile), 0.40 as the crossover point (50th percentile) and 0 as fully out. For *industry wave* we set 0.17 as fully in (75th percentile), 0.09 (the mean) as the crossover point and 0 as fully out. For *premium* we 0.43 as fully in (75th percentile), 0.29 (50th percentile) as the crossover point, and 0 as fully out. For *acquirer board approval* we set 0.17 (75th percentile) as fully in, 0.07 (50th percentile) as crossover point and 0 as fully out. For *target board approval* we set 0.21 (75th percentile) as fully in 0.11 (50th percentile) as crossover point and 0 as fully out. For *acquirer top management rationale* we set 0.33 (75th percentile) as fully in, 0.18 (50th percentile) as crossover point and 0 as out. For *target top management rationale* we set 0.07 (75th percentile) as fully in, 0.05 (mean) as crossover point and 0 as fully out. For *positive analyst assessment* we set 0.17 (75th percentile) as fully in, 0.10 (50th percentile) as crossover point and 0 as fully out. For *negative analyst assessment* we set 0.08 (mean plus one standard deviation) as fully in, 0.02 (mean) as crossover point and 0 as fully out. Subsequently we used the direct calibration method of the computational software program fs/QCA 2.0 (Ragin, 2008).

Next, a truth table is built based on the calibrated conditions. The truth table contains all possible combinations of the causal and control conditions, the number of which is equal to 2^k (k – the number of causal and control conditions). Only a limited number of combinations of causal and control conditions in the truth table match the actual cases in the real data set, and even fewer the observed combinations will form solutions corresponding to the outcome of interest (Ragin,

2008). Two conditions must be met for a combination to be eligible as a solution: frequency threshold and minimum consistency. The frequency threshold should be based on the researchers' knowledge of the cases, the precision of the calibration and the number of cases under investigation, but preferably capturing 75-80% of the cases (Bell et al., 2014; Ragin, 2008). In our case, this would amount to 1 case per configuration, hence in order to err on the side of caution, to increase robustness and generalizability we set the threshold at 2 cases (Judge, Fainshmidt, & Iii, 2014). Second, raw consistency reflect the extent to which a configuration's cases are similar to each other in terms of the conditions' values (Ragin et al., 2006). Configurations with higher consistencies are likelier to lead to desired outcomes. We follow (Fiss, 2011) and set the cut-off values for raw consistency at 0.80. We derived the final configurations using Fs/QCA 2.0, which, based on easy and difficult counterfactuals, creates intermediate and parsimonious solutions (Ragin, 2008). A “●” represents the presence of a causal or control condition and a “⊗” represents the absence of it. A large “●” or “⊗” means a core condition and a small “●” or “⊗” means a peripheral condition. While core conditions are present in both intermediate and parsimonious solutions, peripheral conditions are present only in intermediate solutions. Finally, a blank space denotes a ‘don't care’ condition, meaning the condition can be present or absent in relation to the outcome.

RESULTS

Our results consist of six configurations corresponding to positive investor reaction and four configurations corresponding to negative investor reaction (Table 2). In both cases the presence of multiple solutions points to 1st order (i.e. across-type) equifinality. Moreover, configurations 1a, 1b, 1c; 2a and 2b; 4a and 4b; 5a and 5b point to 2nd order (i.e. within type) equifinality. In the former case core conditions differ, thus constituting a different configuration. In the latter case

core conditions are the same but peripheral conditions differ, thus pointing possible variation in peripheral conditions.

Leading to positive investor reactions, configurations 1a, 1b, 1c are consolidation deals announced during waves. Deals of 1b and 1c are explained by acquirer top managers in the media, deals in configuration 1c were also explicitly approved by both boards. Configuration 2a contains consolidation deals supported by acquirer top management rationale, while 2b are diversification deals with approval by both boards and acquirer top management rationale. Configuration 3 are diversification deals during a wave, coupled with both boards' approval, acquirer top management rationale, and positive analyst assessment. Leading to negative investor reaction, configuration 4a are deals with only board approvals, while 4b are deals with no traceable media-transmitted signals. Configurations 5a and 5b are diversification deals involving large premium. Moreover, deals in configuration 5b were announced during a wave. While deals of 5a and 5b are followed by acquirer top management rationale and positive analyst assessment, deals of 5b also received target board approval.

Our results fully support proposition 1 in that none of the strategic deal characteristics alone is enough to elicit positive or negative investor reaction. However, configurations 4a and 4b do suggest that it is the absence of signals related to deal characteristics altogether might elicit significant negative investor reaction. Next, our results strongly support proposition 2a. While for configuration 1a acquirer top management rationale was a don't care condition so there are instances where no deals assessment could lead to positive investor reaction, consolidation deals during waves accompanied by either top management rationale or also by board approval (configurations 1b and 1c) certainly lead to positive investor reactions. Proposition 2b is also supported in that diversification deals during waves with top management rationale and positive

analyst assessment, but missing board approvals elicit negative investor reaction (configuration 5b). Finally, proposition 3a and 3b are supported in that deals involving large premium elicit positive investor reaction only when accompanied by board approval and top management rationale and positive analyst assessment (configuration 3). Meanwhile, deals involving large premium elicit negative investor reaction when board approval is missing (configuration 5a and 5b). Configurations 2a and 2b conform with our theorization in that consolidations have more favorable chances for success than diversifications, thus top management rationale alone can elicit positive investor reaction for consolidations while for diversifications there also must be board approval. Finally, configurations 4a and 4b make the case for negative investor reaction to announced deals due to the overall lack of media coverage. These results suggest that investors would rather proceed with caution and sell acquirers' shares when they pursue deals with barely any signals to interpret.

Table 2. Configurations of positive and negative investor reaction

Causal Conditions	Investor Reaction, CAR (0;+1)									
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Configurations	1a	1b	1c	2a	2b	3	4a	4b	5a	5b
Informant Messages										
Acquirer Top Management Rationale		●	●	●	●	●	⊗	⊗	●	●
Target Top Management Rationale	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗
Positive Analyst Assessment	⊗	⊗	⊗	⊗	⊗	●	⊗	⊗	●	●
Negative Analyst Assessment	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗	⊗
Acquirer Board Approval	⊗	⊗	●	⊗	●	●	●	⊗	⊗	⊗
Target Board Approval	⊗	⊗	●	⊗	●	●	●	⊗	⊗	●
Strategic Characteristics										
Consolidation deals	●	●	●	●	⊗	⊗	⊗	⊗	⊗	⊗
Diversification deals	⊗	⊗	⊗	⊗	●	●		⊗	●	●
Industry Wave	●	●	●		⊗	⊗	⊗	⊗	⊗	●
Large premium	⊗		⊗	⊗	⊗	●	⊗	⊗	●	●
Consistency	0.82	0.80	0.88	0.83	0.84	0.84	0.85	0.81	0.84	0.80
Raw Coverage	0.07	0.08	0.06	0.08	0.05	0.07	0.08	0.06	0.06	0.06
Unique Coverage	0.01	0.02	0.02	0.03	0.02	0.03	0.04	0.03	0.03	0.03
Overall Solution Consistency	0.85						0.80			
Overall Solution Coverage	0.21						0.17			

A “●” represents the presence of a causal or control condition and a “⊗” represents the absence of it. A large “●” or “⊗” means a core condition and a small “●” or “⊗” means a peripheral condition.

DISCUSSION

Recently, signaling theory has garnered significant interest from M&A scholars (Reuer et al., 2013). So far, the literature has determined two ways in which signals influence M&A outcomes. First, signals from potential targets influence key acquirer decisions including payment methods (Reuer et al., 2003), premium level (Reuer et al., 2012), and governance structure (Reuer & Ragozzino, 2011). Second, signals from acquirers influence how investors perceive announced deals (Campbell et al., 2016; Schijven & Hitt, 2012). Collectively, these findings suggest that signals play crucial roles in determining acquisition outcomes. Building on these studies, we examine the role of media-transmitted signals related to deal characteristics and messages from key informants about announced deals. To this end, we examined the influence of board approval, top management rationale, and analyst assessment on investor reaction to combinations of deal type, announcement during waves, and involvement of large premium. Our study extends the nascent configurational view on how M&A signals influence investor reaction through complex interaction instead of isolation. We find that to overcome ambiguity of signals related to deal characteristics, investors would consider them together with messages from key informants. These messages are especially important given elevated uncertainty regarding value implications during diversification deals announced in a wave or involving large premium. Investors react positively to such deals only when there are endorsements from all informant groups. Furthermore, our study is the first to explore the impact of media-transmitted messages from companies' board, top management, and analyst on how investors react to their M&A initiatives. By examining the effects of messages from these key informants, we showed that investors care more than just the easily observable deal characteristics. We find that acquirer top management rationale and board

approval from both companies reported by the media play are crucial for eliciting investor reaction, while media-transmitted analyst assessment are less impactful.

We observe that deal characteristics alone do not elicit either positive or negative investor reaction, rather it is in combination with messages from key informants that these characteristics lead to significant investor reaction. Interestingly, two configurations (4a and 4b) suggest that it is the lack of media-transmitted signals related to deal characteristics that elicit negative investor reaction. This finding might indicate that under the condition of severe information deficit, investors would rather proceed with caution and sell the shares of acquirers involved in deals lacking any media-transmitted signals. Furthermore, we found that during waves, consolidation deals elicit positive investor reaction with minimum informant messages (configurations 1a, 1b, 1c), while diversification deals elicit negative reaction with missing acquirer board approval (configuration 5b). Dovetailing with our theorization, these results suggest that investors view consolidations more favorably than diversifications during M&A waves since imitating consolidations are important for preserving/enhancing company competitiveness while imitating diversifications are often futile efforts that fail at synergy creation via resource complementarity. Finally, we found that in deals involving large premium, even consolidation deals require simultaneous messages from all three key informants to elicit positive investor reaction (configuration 3), while diversifications with any missing messages elicit negative reaction (configuration 5a and 5b). These results fall in line with our theorization in that deals involving large premium will be treated by investors with strict caution regardless of the deal type. Hence, though investors may not always consider large premium as detrimental to acquirer performance (as in transferring much of value to the target), they do need reassurance from boards, top managers, and analysts about the positive economic value of paying substantial premium for targets.

Our findings open up future research directions. None of the configurations include target top management rationale or negative analyst assessment, and only three configurations include positive analyst assessment (configurations 3, 5a, 5b). The conspicuous absence of signals of these key informants begs the question about their role in informing investors. The absence of target top management rationale could be explained by their diminished standing during acquisitions (Lubatkin, Schweiger, & Weber, 1999). In this case, messages conveyed by target managers would bear little effect on the mind of investors because the expectation will be mostly with what acquirer managers plan to enact during and in the aftermath of the transactions. It remains to be investigated whether investors would take messages from target top management into consideration when these managers joined their acquirers or when targets were granted full autonomy and remained under the control of their current management. Next, the absence of negative and scant presence of positive analyst assessment in our results might suggest that despite their outsider status analyst may hold little influence over investor decisions. This could be that investors are aware of the potential bias in analysts assessments as their firm may be involved as interested party in the transaction, making investors reluctant to base their decisions on analyst assessment (Kolasinski & Kothari, 2008). It remains to be examined whether investors differentiate analysts by their characteristics, e.g. institutional affiliation, length of coverage of the focal companies, accuracy of prior forecasts etc., and whether there are significant differences in the impact of assessments from different analysts.

Finally, future research could investigate whether different types of investors react differently toward the signals surrounding announced deals and whether other sources of public information (e.g. minutes from board meetings, conference calls, and records from press-conferences) carry different impact on investor reaction. Current research suggests that there is a

differentiation between sophisticated and non-sophisticated investors in how they approach their investments (Bartov, Radhakrishnan, & Krinsky, 2000) and even how where they garner relevant information to make investment decisions (Bence, Hapeshi, & Hussey, 1995). Hence, it remains to be investigated how the effect of acquisition signals and their sources differ across investor types.

DISCUSSION

The business phenomenon of mergers and acquisitions has attracted considerable interest from scholars in many academic disciplines for an extended period of time. The expansive scope of organizational life upon which M&A touches has generated a significant amount of knowledge about this complex and often unpredictable business phenomenon (Haleblian et al., 2009). The four chapters of this thesis were design to contribute to the extant body of knowledge about M&A by resolving some of the pressing and long-lasting inconsistencies in the research on acquirer performance and exploring new potentially promising directions of future investigation.

Chapter 1 makes two contributions. First, the MASEM study advances the integrative approach toward studying M&A by focusing on acquirer experience. Following (Larsson & Finkelstein, 1999) as well as Bauer and Matzler (2014), this study focuses on a directional research model linking acquirer experience and key decisions acquirers make before and after deal closure and, ultimately, acquirer long-term performance. Building the directional model and testing many of its main associations made it possible to bring light to a number of pathways through which acquirer experience translates into performance. Most notably, the results indicate absence of any significant association between acquirer experience and long-term performance either domestically or internationally, offering additional evidence of nuanced influence of acquirer experience over performance (Barkema & Schijven, 2008). The study strongly suggests that acquirer experience positively influences performance better decisions made by acquirers before and after deal closure. Two pathways can be distinguished for domestic deals. On the one hand, experienced acquirers could buy well-performing targets, with which they would integrate less and from which they would retain more employees. Though less integration puts downward pressure on performance, this is mitigated by more target employee retention as a result of less integration.

This path benefits acquirers through keeping and applying targets' human resources (Buchholtz et al., 2003; Larsson & Finkelstein, 1999). On the other hand, experienced acquirers could buy more related targets, with which they would integrate more and from which they would retain fewer employees. This path benefits acquirers through asset redeployment and organizational efficiency (Meyer & Altenborg, 2008; Puranam et al., 2009). For cross-border deals, solely one path can be distinguished. Experienced acquirers could buy related well-performing targets, from which they would retain more employees. This path benefits acquirers through keeping and applying targets' human resources. Nevertheless, on this path, the positive effects are somewhat offset by the positive association between target prior performance and integration as well as the negative associations between integration and acquirer performance.

The second contribution of Chapter 1 lies with the systematic comparison of the directional model between the contexts of domestic and cross-border acquisitions (Haleblian et al., 2009; Larsson & Finkelstein, 1999). Building on the findings of (Stahl & Voigt, 2008) suggesting that domestic and cross-border deals differ significantly because of national cultures, this study finds that cross-border acquisitions entail extra risks related to liability of foreignness (Zaheer, 1995) and national cultural differences (Stahl & Voigt, 2008) and that experienced acquirers are more capable of handling these extra risks (March & Shapira, 1987). For example, more experienced acquirers tend to buy relatively larger foreign targets, creating more synergy potential through higher quantity of target resources and establishment of larger presence in foreign markets. Furthermore, the systematic comparison between domestic and cross-border deals revealed several key disparities in the directional model. On the one hand, domestically, acquirer experience leads to deeper integration, benefitting acquirer performance. Integration facilitates resource redeployment and enhances organizational efficiency – both critical sources of synergy (Cording

et al., 2008; Puranam et al., 2009). On the other hand, internationally, the opposite was found: acquirer experience leads to less integration, which then leads to better performance. Here, it was posited that in cross-border deals, severe limitations imposed by the liability of foreignness and cultural differences on the effectiveness of integration and its potential negative impact on performance are better understood and taken into account by experienced acquirers (Stahl & Voigt, 2008; Zaheer, 1995), who subsequently deliberately chose to integrate less.

Chapter 2 makes three contributions. First, this study provides further support to the two-dimensional view on corporate governance mechanisms, i.e. wealth-protection and wealth-creation (Filatotchev, 2007; Filatotchev & Boyd, 2009; Zahra et al., 2009). In terms of wealth-protection, monitoring mechanisms such as board independence, substantial institutional ownership, and CEO non-duality help make deals more compelling to market by imposing limits on potential managerial agency. For example, among the 18 configurations where managerial agency was potentially an issue (i.e. free cash flow and domestic diversifications), 15 included wealth-protection mechanisms. Hence, market does think of wealth-protecting corporate governance mechanisms as instrumental to securing successful deals. In terms of wealth-creation, whenever acquirers lacked competence, it could be substituted by influential institutional investors and/or independent boards. Such substitutability could be observed in four configurations. Future studies could investigate whether one of the two functions of corporate governance mechanisms are more pronounced for either substantial institutional ownership or board independence. Next, given that boards and institutional investors could cooperate on strategic issues like internationalization (Tihanyi et al., 2003), it would also be important to understand whether and through what mechanisms boards and institutional investors could work together to facilitate acquisitions. Furthermore, this study suggests a third potential function of corporate governance

mechanisms. It appears that in complex transactions (i.e. large and/or international), acquirers need unity of command with the CEO, which improves strategy execution through swift and non-conflicting decision-making. This would be a situation called wealth-unleashing. In 17 configurations pertaining to high-complexity deals, 12 included CEO duality. Interestingly, nine of them included an alternative governance mechanism where board independence and/or substantial institutional ownership were present, while three of them included neither. And since limiting managerial agency takes precedence over dealing with deal complexity (i.e. proposition 3 supported in favor of proposition 4), in five configurations it appears that though unleashing wealth is important, it is secondary to protecting wealth.

Second, in line with studies examining substitution and complementary among governance mechanisms (Aguilera et al., 2012; Misangyi & Acharya, 2014), this study examines the substitutability between acquirer corporate governance (i.e. board independence or institutional ownership) and acquirer competence (experience and prior performance). Among all the configurations, most include good acquirer prior performance and/or acquirer experience (i.e. 23 out of 27), while the remaining four configurations include neither of these conditions. But these configurations do include substantial institutional ownership, substituting acquirer competence. Notably, only two out of 27 configurations include both board independence and substantial institutional ownership. This suggests that market does not regard too much oversight as a good thing in strategic corporate events like M&A, suggesting that board independence and institutional ownership are more substitutes rather than complements. Future studies could explore whether and why it is the case.

Third, this study demonstrates the evolution of what market considers at the right configurations of factors leading to successful deals. The results of temporal analyses reveal that

market's expectations regarding the presence or (unacceptable) absence of corporate governance mechanisms vary under different macroeconomic conditions. Though most of the management theories assume a static or, at least, highly stable environment in which companies operate, future studies would be well-advised to account for the potential impact of broader macroeconomic contexts on company-level outcomes. Finally, though collective mimetism (DiMaggio & Powell, 1983) or board interlocks (Haunschild, 1993; Haunschild & Beckman, 1998) could lead to M&A waves and negative performance implication in many deals (Carow et al., 2004), this study finds that market does not follow the same logic, but continue to evaluate deals on acquirer characteristics and corporate governance mechanisms.

Chapter 3 makes two contributions. First, it contributes to the corporate governance literature by providing further evidence toward the dual-functioning of corporate governance mechanisms. This study joins the emerging voice in the literature that has been advocating for the consideration of an additional role of corporate governance mechanisms in parallel to the predominant view of corporate governance mechanisms as wealth-protecting (Masulis et al., 2007; Misangyi & Acharya, 2014; Wright et al., 1996). Specifically, the role of corporate governance mechanisms as wealth-creating (Aguilera et al., 2008; Filatotchev, 2007; Filatotchev & Boyd, 2009; Zahra et al., 2009). In line with the perspective on wealth-creation by corporate governance mechanisms, this study finds that given that when acquirers fall short of competence necessary for successfully managing cross-border acquisitions, the independent boards and institutional investors could help them navigate such situations by filling up the competence gap by provisioning skills, counsel, and advice (Hillman et al., 2000; Pfeffer & Salancik, 2003). Overall, this study contributes to the corporate governance literature by demonstrating that acquirers' corporate governance mechanisms can benefit them through wealth-creation as well as wealth-

protection. On the one hand, wealth-creation is achieved through provisioning competence that acquirers lack. On the other hand, wealth-protection is achieved through limiting managerial agency and vetting host countries' financial and labor institutions for quality and fit during cross-border acquisitions. Specifically, the curtailment of managerial agency is achieved either directly via separation of the positions of CEO and Chairman of the board or indirectly via monitoring by independent boards and powerful institutional investors. Furthermore, wealth-protection can be also achieved through vetting of the quality and fit of host countries' financial and labor institutions with acquirers' strategic needs by independent boards and powerful institutional investors.

Second, this study contributes to the international business literature by extending the evidence of the vital role played by the countries formal institutions during cross-border acquisitions (Pajunen, 2008; Weitzel & Berns, 2006; Zhu, Ma, Sauerwald, & Peng, 2017). Specifically, this study focuses on the role of governance, financial and labor institutions of host countries. On the one hand, well-developed governance institutions such as stronger rule of law and more effective control for corruption are instrumental for positive outcomes of cross-border acquisitions (Glaeser & Shleifer, 2002; Kinoshita & Campos, 2003). This is because well-developed governance institutions protects foreign acquirers from the need to waste resources on dealing with corruption and fighting contractual opportunism would negatively impact their performance (Du et al., 2008; Lambsdorff, 2002; Weitzel & Berns, 2006). On the other hand, well-developed financial (Holmström & Tirole, 1993; Levine & Zervos, 1998) and labor (Barro, 2001; Hanushek & Kimko, 2000) institutions such as well-capitalized national stock markets and well-educated and trained labor force create the conditions for foreign acquirers to develop and growth in host countries.

Chapter 4 makes two contributions. First, it expands on the holistic viewpoint on how M&A signals influence market reaction through higher-order interaction among two groups of factors. This study finds that in reacting to deal announcements, investors account for configurations of signals consisting of both deal characteristics as well as messages from key informants. These messages are especially salient due to the uncertainty about value implications during diversification deals announced in a wave or involving large premium. Market reacts positively to such deals only when there are endorsements from all informant groups (i.e. management, board, analysts). Second, this study is the first to explore the impact of media-transmitted messages from companies' board, top management, and analyst on how market reacts to M&A initiatives. It was determined that acquirer managerial rationale and board approval from both companies reported by the media are crucial for investor reaction, while media-transmitted analyst assessment are less impactful.

Future Research Directions

In terms of future research directions, further investigation is warranted for the effect of acquirer experience on acquirer decisions before and after deal closure as well as the contingencies surrounding the deals. Though there is a negative association between diversifying acquisitions and retention of target employees in cross-border deals, it is possible that some acquirers are better at retaining foreign targets' employees than others. Given the importance of keeping and redeploying human resources in cross-border diversifying acquisitions (Morosini et al., 1998), it is worth investigating companies' capabilities and the broader contexts under which higher retention rates may occur. Regarding companies' capabilities, established routines and procedures may be helpful for improved post-M&A implementation, including target employee retention (Haleblian et al., 2006; Singh & Zollo, 1998). It would be up for future studies to investigate which

procedures are most effective at retention in domestic v. cross-border and related v. diversifying acquisitions.

Regarding deal contexts, depending on cultural and institutional distances, companies make different decisions carrying different performance implications (Chakrabarti et al., 2009; Reus & Lamont, 2009). It remains to be explored whether the degree of differences and commonalities among acquirer and target countries could be associated with more precise insights regarding how cross-border M&A transpire. Furthermore, how would acquirer experience matter differently given different degrees of differences/commonalities? In other words, would acquirer experience work the same way under different home-host country dyads? Finally, future studies may also investigate the influence of acquirer experience on their imitative behavior during target selection. When it comes to target selection, companies often follow the steps of their competitors by acquiring similar targets (Yang & Hyland, 2006) or going into the same geographic locations (Guillen, 2002) to reduce the costs of selection and maintain competitiveness. Possible contributions could be made with regard to whether and under what conditions experienced acquirers choose to imitate acquisition decisions of their competitors. For example, would more experienced acquirers be less or more likely to imitate?

Furthermore, though this thesis focuses on acquirer experience and prior performance as hallmarks of competence, future studies could examine other acquirer competence characteristics that could play a crucial role in securing the success of deals. First, future studies could look into the effect of alliance experience on the outcomes acquisitions given that research shows that alliance experience could help potential acquirers avoid mistakes related to target selection and negotiation (Cartwright & Cooper, 1996; Hagedoorn & Sadowski, 1999; Porrini, 2004). Second, future studies could choose to use more fine-tuned measures for acquirer competence. For example,

the focus could be on acquirers' accounting performance under the tenure of the CEO announcing focal deals. Quantifying acquirer performance as the performance under particular managers could make the measurement more reflective of the managerial capabilities (Carpenter et al., 2004; Finkelstein & Hambrick, 1990). Third, future studies could also examine whether the creation and development of specialized and permanent M&A task-forces within the acquirers would improve their competence with regards to deal-making, and whether this would be helpful in instilling good faith with the investors. In other words, would investors have more good faith in deals performed by acquirers with specialized M&A teams?

Next, in addition to examining other measures of acquirer competence, future studies could also investigate more granular-level measures of the board and institutional investors. For example, whether specific board members or types of board members tend to be helpful with regard to provisioning advice and counsel or with regard to dutifully monitoring and limiting managerial agency. It could be that board members with business backgrounds would be more helpful with regard to providing strategic business counseling, while board members with governmental or non-profit backgrounds would be more helpful with regard to monitoring. Furthermore, research suggests that various types of institutional investors tend to have different investment strategies (i.e. risk appetite, investment horizon, core business ethics principles etc.) (Gillan & Starks, 2000, 2000; Karpoff et al., 1996). Hence, future studies could examine whether these characteristics of institutional investors would influence their functions of wealth-creation and wealth-protection.

Though this study has examined host countries' financial, labor, and governance institutions and their effect on investor reaction to cross-border M&A announcements. Future studies could consider the effect of other host country institutions on the perceived odds of success of cross-border M&A. For example, this study included only governance institutions regarding

law enforcement and corruption. Though rule of law and control for corruption have been proven to be highly important and effective governance institutions (Pajunen, 2008; Weitzel & Berns, 2006), there are other governance institutions such as government effectiveness, regulatory quality, and government accountability that could potentially influence how investors view the odds of success of cross-border deals (Kaufmann et al., 2010). Furthermore, given the gradual rise of corporate citizenship change (Belz, Robinson, Ruf, & Steffens, 2013; Financial Times, 2015), future studies could contribute to the international business literature by examining the effect of countries' taxation systems on companies' cross-border M&A decisions and, consequently, how investors react to deals performed purely for taxation reasons. Next, though this study controls for the relatedness between acquirer and targets, future studies could focus more on either the industry of acquirers or targets. It would be particularly contributive to the cross-border M&A literature to explore the exact interactive effects between companies' industries and countries' institutions. For example, would host countries' institutions and policies regarding certain industries make them more/less suitable for potential foreign acquirers? If so, how do foreign acquirers make their cross-border M&A decisions and how do investors react to those decisions?

Finally, the absence/lack of signals in the form of messages from target top management and independent analysts raises the question about their role in informing investors. The absence of target top management rationale could be explained by their diminished standing during acquisitions (Lubatkin et al., 1999). It could be possible that messages from target managers had little effect on the market because its expectation would be mostly about what acquirer managers plan to enact during and in the aftermath of the transactions. It remains to be investigated whether the market would take messages from target top management more seriously when these managers joined their acquirers or when targets were granted full autonomy and remained under the control

of their current management. Second, the absence of negative and scant presence of positive analyst assessment might suggest that, despite their outsider status, analysts may hold little influence over investor decisions. It could be that market is aware of the potential bias in analyst assessments as their firms may be involved as interested parties in the transactions, making market reluctant to base its decisions on analyst assessments (Kolasinski & Kothari, 2008). It remains to be examined whether investors differentiate analysts by their characteristics (e.g. firm affiliation) and whether there are significant differences in the impact of assessments from different analysts. Third, future research could investigate whether different types of investors react differently toward the signals surrounding announced deals and whether other sources of public information (e.g. minutes from board meetings, conference calls, and records from press-conferences) carry different impact on investor reaction. Current research suggests that there is a differentiation between sophisticated and non-sophisticated investors in how they approach their investments (Bartov et al., 2000) and even how where they garner relevant information to make investment decisions (Bence et al., 1995). Hence, it remains to be investigated how the effect of acquisition signals and their sources on market reaction depend on investor types.

CONCLUSIONS

This Ph.D. thesis is intended to contribute the literature on mergers and acquisitions. Through its four chapters, the thesis sought to resolve some of the pressing inconsistencies in the literature, push the current understanding about the drivers behind M&A success and failure, and illuminate potential directions for future research on the topic of mergers and acquisitions.

Chapter 1 adds clarity to the question of how acquirer experience ultimately translates into acquirer long-term performance by building a meta-analytical structural equation model and testing it in domestic and cross-border contexts. The results suggest that instead of driving performance directly, acquirer experience drives it through series of pre- and post-deal decisions, forming specific pathways that vary between domestic and cross-border deals. Chapter 2 investigates the complex interactions among different factors about which the literature remains ambiguous in terms of their ultimate impact on deal outcomes. The configurations of fuzzy-set qualitative comparative analysis suggest that positive acquirer short-term stock returns are predicated upon how well managed and governed the acquirers are in the perception of investors. Chapter 3 examines the role of acquirer corporate governance and formal institutions of host countries in determining investor reaction to cross-border acquisitions. The configurations suggest that such reaction depends on whether the investors believe that the acquirers are well managed and governed as well as whether the host countries have well-developed institutional environments in which foreign acquirers could grow and develop. Finally, chapter 4 explores the influence of business news media on investor perception about large scale M&A transaction in the United States. The results suggest that given the ambiguity of signals surrounding the deals (i.e. waves, relatedness, and premium), investors would look for additional clues in the business media. Specifically, it was determined that both the messages transmitted by the news outlets (i.e.

approval or disapproval) as well as the sources of these messages (i.e. boards, top managers, analysts) matter to investors.

Overall, the findings derived in the four chapters of this Ph.D. thesis offer new insights toward a clearer and more thorough understanding of the trillion-dollar question of mergers and acquisitions.

Appendix A. MASEM results for the Mixed sub-sample

Relationships	Full sample	Mixed sub-sample
<i>Hypotheses</i>		
<i>H1</i> : Acquisition experience → Target relative size	-0.06** (0.02; -3.25)	-0.05 (0.04; -1.29)
<i>H2</i> : Acquisition experience → Target prior performance	0.11*** (0.02; 5.99)	0.21*** (0.04; 5.54)
<i>H3</i> : Acquisition experience → Diversifying acquisitions	-0.04* (0.02; -2.17)	-0.03 (0.04; -0.77)
<i>H4</i> : Acquirer experience → Integration	0.06*** (0.02; 3.36)	0.03 (0.04; 0.65)
<i>H5</i> : Acquirer experience → Retention	0.04 [†] (0.02; 1.93)	0.01 (0.04; 0.21)
<i>Performance implications</i>		
Acquisition experience → Acquirer performance	0.05** (0.02; 2.64)	0.04 (0.04; 1.11)
Target relative size → Acquirer performance	0.03 (0.02; 1.59)	0.02 (0.04; 0.45)
Target prior performance → Acquirer performance	0.08*** (0.02; 4.58)	0.16*** (0.04; 4.19)
Diversifying acquisitions → Acquirer performance	-0.01 (0.02; -0.30)	0.02 (0.04; 0.49)
Integration → Acquirer performance	0.11*** (0.02; 6.07)	0.13*** (0.04; 3.38)
Retention → Acquirer performance	0.16*** (0.02; 8.93)	0.21*** (0.04; 5.49)

Non-hypothesized relationships

Target relative size → Integration	0.02 (0.02; 1.07)	0.05 (0.04; 1.20)
Target relative size → Retention	-0.02 (0.02; -1.14)	-0.03 (0.04; -0.65)
Target prior performance → Integration	0.04 [†] (0.02; 1.93)	-0.09* (0.04; -2.26)
Target prior performance → Retention	0.11*** (0.02; 6.02)	0.05 (0.04; 1.17)
Diversifying acquisitions → Integration	-0.14*** (0.02; -7.51)	-0.19*** (0.04; -4.95)
Diversifying acquisitions → Retention	0.00 (0.02; 0.10)	-0.06 [†] (0.04; -1.66)
Integration → Retention	-0.13*** (0.02; -6.84)	-0.13** (0.04; -3.24)
RMSEA	0.03	0.02
χ^2	9.12	3.85
CFI	0.98	0.99
GFI	1.00	1.00
RMR	0.01	0.01

*** – 0.001, ** – 0.01, * – 0.05, † – 0.10. First number within parentheses – standard error, second number – t-value.

Appendix B. Robustness check results

Relationships	Full sample	Robustness check
<i>Hypotheses</i>		
H1: Acquisition experience → Target relative size	-0.06** (0.02; -3.25)	-0.06*** (0.02; -3.34)
H2: Acquisition experience → Target prior performance	0.11*** (0.02; 5.99)	0.11*** (0.02; 5.84)
H3: Acquisition experience → Diversifying acquisitions	-0.04* (0.02; -2.17)	-0.04* (0.02; -2.21)
H4: Acquirer experience → Integration	0.06*** (0.02; 3.36)	0.04* (0.02; 2.07)
H5: Acquirer experience → Retention	0.04 [†] (0.02; 1.93)	0.03 [†] (0.02; 1.73)
<i>Performance implications</i>		
Acquisition experience → Acquirer performance	0.05** (0.02; 2.64)	0.05** (0.02; 2.9)
Target relative size → Acquirer performance	0.03 (0.02; 1.59)	0.02 (0.02; 1.27)
Target prior performance → Acquirer performance	0.08*** (0.02; 4.58)	0.08*** (0.02; 4.27)
Diversifying acquisitions → Acquirer performance	-0.01 (0.02; -0.30)	-0.02 (0.02; -1.07)
Integration → Acquirer performance	0.11*** (0.02; 6.07)	0.10*** (0.02; 5.28)
Retention → Acquirer performance	0.16*** (0.02; 8.93)	0.17*** (0.02; 9.23)

Non-hypothesized relationships

Target relative size → Integration	0.02 (0.02; 1.07)	0.02 (0.02; 1.06)
Target relative size → Retention	-0.02 (0.02; -1.14)	-0.02 (0.02; -0.82)
Target prior performance → Integration	0.04 [†] (0.02; 1.93)	0.04* (0.02; 2.09)
Target prior performance → Retention	0.11*** (0.02; 6.02)	0.11*** (0.02; 5.79)
Diversifying acquisitions → Integration	-0.14*** (0.02; -7.51)	-0.14*** (0.02; -7.61)
Diversifying acquisitions → Retention	0.00 (0.02; 0.10)	0.02 (0.02; 0.94)
Integration → Retention	-0.13*** (0.02; -6.84)	-0.12*** (0.02; -6.69)
RMSEA	0.03	0.03
χ^2	9.12	9.44
CFI	0.98	0.98
GFI	1.00	1.00
RMR	0.01	0.01

*** – 0.001, ** – 0.01, * – 0.05, † – 0.10. First number within parentheses – standard error, second number – t-value.

Appendix C. List of coded studies

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Titre : Chemins et modèles de réussite des acquéreurs dans les fusions et les acquisitions

Mots clés : fusions et acquisitions, gouvernance d'entreprise, institutions, signalisation, méta-analyse, fs / QCA.

Résumé : Les implications financières pour les acheteurs dans les fusions et acquisitions (F & A) ont été un sujet de fascination pour les chercheurs et les praticiens pendant des décennies. Malgré des recherches académique et commerciales approfondies visant à déterminer si et comment les acquéreurs obtiennent des résultats financiers à court et à long terme à la suite des fusions et acquisitions, la clarté de notre compréhension de ces questions demeure difficile à déterminer. Cette thèse de doctorat cherche à apporter plus de clarté à ces questions en examinant les interactions complexes entre plusieurs aspects clés des fusions et acquisitions. Le chapitre 1 examine comment l'expérience des acquéreurs influe sur le rendement à long terme au moyen de décisions clés avant et

après la transaction et comment cette influence indirecte diffère dans les contextes nationaux et transfrontaliers. Le chapitre 2 explore les configurations des caractéristiques des transactions et des acquéreurs ainsi que les mécanismes de gouvernance d'entreprise des acquéreurs correspondant aux rendements anormaux cumulés des acquéreurs positifs (CAR). Le chapitre 3 étudie les effets interactifs entre les institutions formelles des pays d'accueil, les caractéristiques des acquéreurs et les mécanismes de gouvernance d'entreprise de l'acquéreur CAR. Enfin, le chapitre 4 examine l'influence des reportages d'affaires sur l'acquéreur CAR.

Title: Paths and Patterns toward Acquirer Success in Mergers and Acquisitions

Keywords: mergers and acquisitions, corporate governance, institutions, signaling, meta-analysis, fs/QCA.

Abstract: Financial implications for buyers in mergers and acquisitions (M&A) have been a topic of fascination with academics and practitioners for decades. Despite extensive business research dedicated toward investigating whether and how acquirers perform financially in the short and long terms following M&A, so far, the clarity of our understanding about these issues remains elusive. This doctoral thesis seeks to bring more clarity to these questions by examining complex interactions among several key aspects of M&A. Chapter 1 investigates how acquirer experience influences long-term performance through key

pre- and post-transaction decisions and how such indirect influence differs in domestic and cross-border contexts. Chapter 2 explores the configurations of deal and acquirer characteristics as well as acquirer corporate governance mechanisms corresponding to positive acquirer cumulative abnormal returns (CAR). Chapter 3 investigates the interactive effects among host countries' formal institutions, acquirer characteristics and corporate governance mechanisms on acquirer CAR. Finally, Chapter 4 examines the influence of business news reports on acquirer CAR.