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When Is Strategy: Does Timing Matter?

Introduction

Strategy researchers have long recognised advantages accruing to firms in the timing of their strategic moves. Advantages include being a first-mover or a fast follower (Geroski and Markides, 2005), leading in innovation, imitation speed, time-based competition (Stalk, Evans and Shulman, 1992), and hyper-competition (D'Aveni, 1994). In addition to these concrete actions, there is also evidence to support the importance of signalling strategic intentions externally to competitors (Yakis-Douglas, Angwin and Meadows, 2012), but to date, little has been said about external strategy communications in institutional contexts, how they differ, and whether or not the timing of these strategy communications matters.

Strategy communications are a mechanism for addressing information asymmetry, where external parties are less well informed about a firm and particularly its management's strategy intentions for the future. Strategy communications are a form of strategy practice that can be deployed by management in order to reduce information asymmetry in order to gain benefits for the firm. These sorts of communications may be mandatory, required by legislation (such as disclosure rules) but also voluntary – provided by management in order to reduce information asymmetry. Using voluntary communications, which may be quantitative and/or qualitative in nature, firms are better able to better secure resources and so may be perceived as a useful form of strategic practice by management teams. Although the influencing value of qualitative, 'soft', talk has been somewhat dismissed in the literature, all communications are likely to be valued by investors, particularly if timely, if it enables more accurate assessment of the risk and potential of their investments upon which decisions about buying, holding or selling may be made.

The effect of voluntary strategic communications may have different levels of significance depending on contexts. For instance, there are advantages associated with firms being perceived as legitimate in their institutional context as this may better enable them to secure resources, and enhance organizational survival (Meyer and Rowan 1977). The timing of those communications may also be important in terms of what is appropriate behaviour for different contexts such as specific strategic events, different geographic and institutional environments and various temporal periods.

A specific strategic event context is Mergers and Acquisitions (M&A) - a pervasive strategic activity of firms often resulting in perpetuating the sustainability of an acquirer's competitive advantage. How and when organizations communicate strategy is particularly important in this context, in order to persuade investors of the acquirer's need to secure critical resources, or the target firm's need to remain independent, in the future. In this context information asymmetry is between the firms engaged in M&A and investors who determine which side to support through share purchase or sale. How organizations manage the strategy communications process after the initial announcement of the deal, to its closing date, can determine this outcome. If a firm is unable to persuade its shareholders to back the management team, the bid may fail and the firm suffer significant post deal difficulties. For example the failed bid in 2004, by Deutsche Boerse AG's (DB) for the London Stock Exchange was widely blamed on poor strategy communications. DBs management's lack of timely and effective strategy communication to its key investors resulted in shareholders refusing to support the bid and subsequently voting for the removal of DB's management team. This shows that the absence of voluntary strategy communications to investors after the announcement of a proposed transaction may affect negatively the outcome for an acquirer. However, to date researchers have overlooked post-announcement voluntary communications and deal outcomes.

Differences in geographic context may also affect the timing and effect of voluntary strategic communications. Institutions define the 'rule of the game' (North, 1990), and from an International Business perspective are perceived as constraining or incentivising strategic choice (Ingram and Clay, 2000). For instance, legal restrictions on foreign equity ownership may affect entry modes as well as timing of entry. In these terms, businesses need to adapt their strategy to the institutional environment in which they operate (Wan, 2005). For instance it has been found that companies based in common-law countries (such as the United Kingdom, Australia and the United States) are generally more likely to voluntarily disclose (Hope, 2003), and the same might be expected of strategy communications in particular. Whilst international business research has tended to evaluate firm differences where 'distance' between institutions is significant, assuming that firms' strategies will be largely the same

When Is Strategy: Does Timing Matter?

and consistent if the institutional contexts are similar, recent calls for a more nuanced view of diversity in countries (Jackson and Deeg 2008), suggests that even between countries viewed as low ‘distance’ apart, there could be significant variations in how firms enact their strategies. In other words, voluntary strategic communications to address information asymmetry between M&A protagonists and local institutions may well vary even if the countries being compared are very close in nature.

As well as differences across geographic contexts it is also well known that the financial context can, and does, change dramatically, forcing firms to adjust their strategies. For instance in boom times M&A is often encouraged and in recession its frequency is much reduced. Temporal contexts have been shown to affect firm activities and market reactions. For instance Santos and Winton (2008) show that loan spreads rise in recessions, but firms with public debt market access pay lower in recessions. So investors’ attitudes towards information may be different depending on whether the financial markets are in boom or bust. The sensitivity to information asymmetry may vary by temporal context with investors being more receptive to voluntary strategic communications during peaks or troughs.

The M&A process in a specific deal is generally measured in days, as legislation acts to ensure that instability and uncertainty in financial markets is kept to a minimum. In the UK the post announcement window is up to 60 days – a period in which the protagonists can communicate in order to influence investor opinion. This micro-temporal context gives scope to management teams to consider whether to engage in voluntary strategic communications in order to reduce information asymmetry and to gain advantage for their firm. There could be advantage to management to engage early in voluntary strategy communications – to be seen to be willing to work with investors to reduce information asymmetry but there may also be advantage to leaving communication to the last moment. This micro timing may also be affected by the macro contexts of geography and macro timing cycles.

These observations on the timing of strategic communications lead to the following hypotheses:

Investors care about strategy communications

Hypothesis 1: Strategy communications are significantly associated with CAR, in a positive and negative direction

Context matters

Hypothesis 2a: There are significant differences in strategy communications practice in proximate contexts

Hypothesis 2b: There are significant differences in strategy communications in boom and bust periods across geographies

Micro-timing in different contexts: Geography and Boom/Bust periods

Hypothesis 3: Investors’ reactions will be influenced by the micro-timing of strategy communications in different contexts

Hypothesis 4: Investors’ reactions will be influenced by the micro-timing of strategy communications in boom/bust periods across geographies

Data and Methods

Our dataset comprises of all M&A deals involving target UK and US organizations within the period 01/01/2000-31/12/2010. We collected data using MergerMarket regarding all relevant target and bidder data along with all related external communications associated with the deal. Regarding UK targets, there are 13546 deals and 47678 communications. For the US market, we found 42792 deals, and 162023 communications. We limit our research findings to public organizations that trade in NYSE and NASDAQ.

In Hypothesis 1, which states that strategy communications are significantly associated with CAR in a positive and negative direction, we analyse the stock price responses to strategy communications during M&A through employing an event study methodology (Brown and Warner,

1985; McWilliams and Siegel, 1997). We used the NYSE and NSDQ equally weighted index which indicates the price trend movements based on a broad cross-section of the market. To estimate the market model, we used the 260 trading day period prior to the event window as the estimation window (see MacKinlay, 1997). To calculate CAR, a 3-day event window ($t = -1$ to $+1$) was used¹.

To test Hypotheses 2a, which states that there are significant differences in strategy communications practice in proximate contexts, we carried out a t-test to identify potential geographic differences regarding the way organizations carry out strategy communications during M&A. To calculate the communications' frequencies, we divided communications per year by deals per year and tested whether there were any significant differences between these in UK and USA. For Hypothesis 2b, stating that there are significant differences in strategy communications in boom and bust periods across geographies we ran a regression where our dependent variable is interim news announcement frequencies (communications per year/deals per year) and our independent variables are the Global M&A boom and bust cycles (measured by global aggregate deal value (mil USD)).

To test Hypotheses 3 and 4, regarding investors' reactions to the micro-timing of strategy communications in different contexts and in boom and bust periods, we created an estimation model which uses a static linear panel data model where CAR_{ij} is the cumulative abnormal return for organization i for event j . In our regression, for Hypothesis 3, our dependent variable is CAR associated with interim news events and our independent variables are the number of days between the announcement of an M&A and the first strategy communication in two geographies-UK and USA. For Hypothesis 4, micro-timing in boom and bust periods of M&A, we carry out the same test as above, but further dividing geographic contexts into boom and bust periods.

Results

Our purpose is three-fold: first to establish whether and how much strategy communications in an M&A context impact on the market; second, to test whether there are differences across geographies and economic cycles; and finally to test how much the micro-timing of these communications impacts the market across geographic contexts and across boom/bust periods (within different geographies).

The results of our tests for addressing hypothesis 1 reveal that there are a substantial number of communications that have significant effects over the three days, and these may be in both directions. Thus 20978 (44%) of UK targets, 19548 (41%) of UK bidders, 85872 (53%) of USA targets, and 61569 (38%) of USA bidders have a significant positive effect of 3.8% on the day of the communication, diminishing slightly over the next day. At the same time, 11919 (25%) of UK targets, 17164 (36%) of UK bidders, 32405 (20%) of USA targets, and 77771 (48%) of the communications have negative effects, reaching -4.2% on the event day and enduring at around that level for the following day. The significant effects in the day leading up to the simultaneous presentations suggest that there is possible leakage and market sensitivity to these communications.

Our results show that a substantial percentage of strategy communications have significant effects on stock-prices. Moreover, not all communications are evaluated in the same way by the market: some are clearly perceived as attractive and some as unattractive by investors. There are slightly more communications that are received positively than negatively, but negative evaluations are on average slightly more harsh than positive ones (-4.2% on communication day against +3.8% on communication day). The overall conclusion is that strategy communications do bring new information, with a potential impact. Contrary to the low expectations from proponents of 'cheap' and 'soft talk' perspectives, we find support for Hypothesis 1.

In order to address Hypotheses 2a and 2b, we test whether there are any geographic differences associated with interim news events. A descriptive figure of strategy communications demonstrates that these events vary greatly over time and across UK and US organizations. UK and US organizations tend to act in opposition within boom and bust periods (defined here as relatively lower global aggregate deal value (in mil \$)): UK organizations communicate more when the market is down and they communicate less when the market is up. The US organizations are exactly the

¹ To further validate our findings, we performed a supplementary analysis. We analyzed the data using alternative stock effect event windows: a five-day window (-2, +2), a seven-day window (-3,+3), an 11-day window (-5,+5), and a 21-day window (-10,+10). The model results become increasingly insignificant with the longer event windows. These analyses are available from the authors.

When Is Strategy: Does Timing Matter?

opposite: US organizations become significantly more communicative in optimistic times and very silent during times characterized with pessimism.

Using the results of a two-sample t-tests and descriptive data, we conclude that communication patterns of UK and US organizations vary greatly: UK organizations communicate during bust periods and US organizations communicate during boom periods. This does not change over time. We therefore find support for Hypothesis 2a which states that there are geographic differences in the way organizations communicate – even when the countries in question have traditionally been perceived in international business literature as similar on many dimensions.

We also find support for Hypothesis 2b: Our regression results confirm that organizations' communication patterns vary in boom and bust periods across geographies and that the information that organizations disclose during these periods also varies across geographies. Our regression results show that in the UK, communications are negatively associated with M&A boom periods (in boom periods, UK organizations communicate less), however, in the US, communications are positively associated with M&A boom periods (in boom periods, US organizations communicate more). In the UK, communications are positively associated with M&A bust periods (in bust periods, UK organizations communicate more). In the US, communications are negatively associated with M&A bust periods (in bust periods, US organizations communicate less). Regarding the type of information organizations communicate, our regression results show that in boom periods, UK and US organizations communicate less qualitative information. In bust periods, UK and US organizations communicate more qualitative information. In bust periods, both UK and US companies communicate less quantitative data. In boom periods, both UK and US companies communicate more quantitative data.

To test Hypothesis 3, we run a regression. We distinguish between CAR for the micro-timing of organizations for UK and USA and then further for target and bidder organizations. Our final model is significant at $p < 0.005$ with Adj R-sq. varying between 0.19 and 0.35 with relatively low RMSE levels (highest: 0.20; lowest: 0.12) for different categories. We found positive CAR for both UK and USA (0.10 and 0.11 respectively), both which are significant at $p < 0.05$.

To test Hypothesis 4, we run a second regression. We repeat the previous regression, further dividing the above-mentioned categories into boom and bust periods. Our results are significant for the above categories at 0.05 for both boom and bust periods across geographies. Our model is significant at $p < 0.005$ with Adj R-sq. varying between 0.10 and 0.29 with low RMSE levels (highest: 0.19; lowest: 0.09) for different categories. We significant CAR for both UK and USA in boom and bust periods with varying significance levels between $p < 0.05$ and $p < 0.1$.

Regarding our control variables, we found significant results for global M&A trend and cross-border deals. We found that communications are associated positively with (calendar) time, however, neither of the regression coefficients were significant. The trend we see in the communication patterns is associated closely with M&A trends, not time. In UK, communications are negatively associated with Global M&A trends. In USA, communications are positively associated with Global M&A trends. Communications are positively associated with cross-border deals (organizations communicate more while undertaking cross-border deals).

Discussion

The first part of our analysis reveals that investors care about, and react to voluntary strategy communications. M&A events are associated with high information asymmetry and therefore publicly available new information markets. These communications may be quantitative and/or qualitative in nature. However, not all reactions are the same direction.

In the second part, we reveal that there are contextual differences in communication patterns across geographies and throughout boom and bust periods. UK and US organizations tend to act in opposition within boom and bust periods: UK organizations communicate more when the market is down and they communicate less when the market is up. The US organizations are exactly the opposite: they become significantly more communicative in optimistic times and very silent during times characterized with pessimism. Although the frequency of communications between the two countries differs drastically, the type of information that they communicate during boom and bust periods is very similar. In boom periods, they both talk finances and communicate less qualitative

When Is Strategy: Does Timing Matter?

information; in bust periods, they give very little financial information and instead concentrate on qualitative information.

We find that investors react stronger to strategy communications in bust periods than any other period. Bust periods are times that investors will be hungry for information (mainly because US organizations communicate very little during these periods, and although UK organizations communicate more during bust periods, overall, organizations in both countries communicate very little quantitative information during these periods). Therefore, communications taking place in these periods are characterized with highly significant reactions. In M&A boom periods, CAR associated with M&A is highly significant for UK and USA, target and bidder, above-average and below-average news events. If, however, investors do not like what they hear, they react more severely than the way they react to good news. In M&A bust periods, CAR is more significant than CAR associated with boom periods. Investors tend to be more sensitive to announcements during bust periods. They react equally to positive and negative news, and across different geographies. Overall, in bust periods, they are more sensitive towards negative news, but only marginally. This implies that investors tend to be more sensitive generally, rather than being more sensitive to various types of news. Regarding *qualitative* information in boom periods, our results show that organizations can't go wrong with communicating qualitative data during boom periods. Investors react significantly and positively to good news but do not punish organizations for not communicating very well. However, our regression results indicate that organizations do just the opposite: both UK and US organizations communicate less qualitative information during boom periods. Regarding qualitative information in bust periods, investors are slightly more sensitive to bad news, but not to the extent that they evaluate good news. With regards to *quantitative* information in boom and bust periods, investors are extremely sensitive boom and bust trends. They are most sensitive towards negative quantitative data in bust periods, more so than any other situation. This tends to be the case for US and UK investors, across targets and bidders. Overall, reactions towards bidders tend to be more accentuated, and while US organizations tend to benefit more in terms of CAR associated with voluntary strategy communications compared to UK organizations, they also suffer comparably more.

In the final part of study, we evaluate the timing of strategy communications between deal announcement and closing. We find early timing influences share price positively in the above-average category but does not influence share price negatively in the below-average category. In other words, early communication helps or at the least, it does not hurt share price. This finding is valid across geographies and across boom/bust periods.

Our control variables also reveal some interesting findings: over time, investors in general have become more sensitive towards hearing additional voluntary announcements on M&A, although they have not become more pessimistic or scrutinizing over time. While investors have not changed the way they evaluate voluntary strategy communications regarding target organizations, they have become more sensitive regarding these news events when it comes to bidders. UK and USA investors are becoming equally sensitive to these communications over time. Regarding the global M&A trend, the reactions of UK and US investors vary greatly. There is no significant CAR associated with trends in the UK but there is significant CAR associated with news events in the US. The reason for this apparent difference may be due to the way the organizations in these countries react to M&A trends. The communication pattern of US organizations, for instance, moves with the market whereas it is the complete opposite in UK organizations. This difference in communication practices may account for the differences in abnormal returns associated with news events in both countries.

In summary, voluntary strategy communications and their timing play an increasingly important role in reducing information asymmetry for investors to influence their decisions in an M&A context. The extent of this influence varies by geographic and temporal contexts, both at macro and micro levels. These findings provide evidence that managerial practices regarding the content and timing of strategy communication may confer advantage to outcomes in an M&A context, such as communicating early in a contested bid, enabling firms to secure resources for sustained success. Specifically, our findings show that managers need to be sensitive to particular institutional demands of different geographies and also the temporal cycles associated with M&A. These are common hazards for instance for cross border acquirers seeking to make acquisitions in other geographies, with different institutional configurations and where the M&A market may be at a different state of change to that of the home country.

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