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### Citation

Angwin, Duncan; Yakis-Douglas, Basak and Meadows, Maureen (2014). The Communication Advantage: Investigating Impacts of Interim News Events. In: Strategic Management Society Annual Conference 2014, 20-23 Sep 2014, Madrid, Spain.

### URL

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**The Communication Advantage:  
Investigating Impacts of Interim News Events**

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**ABSTRACT** For investors the M&A process is characterised by evaluative uncertainty – where there is an absence of clear indicators of how protagonist firms may perform. This may have negative consequences for those firms’ abilities to enact intended strategies. It is widely reported that the financial media provides information that affects share prices, but there are few studies that examine how firms actively manage their communications in order to achieve their strategic ends. This study focuses on how organizations manage investment analysts’ evaluative uncertainty during M&A through a specific form of impression management, namely, interim news events. We focus on investment analysts as legitimate third-party evaluators of organizations, and providers of certification as to a firm’s ability (or lack of ability) to pursue strategic decisions such as M&A. In a dataset comprising of a sample of 36,376 deals and 163,023 associated interim news events over a ten year period, we suggest that voluntary disclosures are key in managing analysts’ evaluative uncertainty during M&A. Our research contributes to literature on M&A, voluntary disclosures, evaluative uncertainty and impression management.

**Key words: M&A; voluntary disclosures; evaluative uncertainty, impression management**

## INTRODUCTION

Investors determine the price of a company share and in situations where there is significant information asymmetry between outside investors and inside managers (Miller and Rock, 1985; Myers and Majluf, 1984), investor judgment about a firm's strategy is uncertain. Their 'evaluative uncertainty' (Fiske and Taylor, 2008; Moskowitz, 2005), defined as the absence of clear and unambiguous indicators or benchmarks of performance (Graffin and Ward, 2010), may lead to unfavorable consequences for firms including adverse selection (Akerlof, 1970), negative impact on stock price (Copeland and Galai, 1983; Glosten and Milgrom, 1985) and undesirable effects on the cost of capital (Baiman and Verrecchia, 1995; Leuz and Verrecchia, 2000). To avoid these negative consequences, firms may seek to influence an audience's perception of the organization through impression management (Elsbach, Sutton, and Principe, 1998) in which organizational leaders try to gain and maintain support from external constituents by engaging in communications or public actions (Bowles, 1987; Edelman, 1977; Pfeffer, 1981) in order to influence their stakeholders' impressions positively (Elsbach et al., 1998). This paper therefore contends that in situations of 'evaluative uncertainty', managing stakeholder impressions through 'voluntary disclosures', defined as deliberate and discretionary communications, is influential in shaping their sentiment and moving share prices in order to help firms pursue their strategic interests.

A critical situation in which stakeholders are likely to face high levels of evaluative uncertainty is merger and acquisition (M&A) deals. This is because secrecy is an important aspect of any M&A process, as market sensitive information is involved. These contexts are therefore associated with high information asymmetry (Reuer, Tong, and Wu, 2012; Boeh, 2011). M&A can play a vital role in the success and failure of firms, so investors' and analysts' ability to evaluate the strategic effect of these deals is of great importance. Once an M&A deal is announced to the market through 'involuntary' communication (those required by law), the subsequent period to deal completion exhibits high levels of information asymmetry. During this period deals may close but at prices and conditions different to the announced terms and in some cases deals may fail to complete. Estimates suggest 21% of deals do not complete and explanations include adverse rulings by regulatory agencies (Hotchkiss, Qian, and Song, 2005), breach of contract (Luo, 2005) and lack of shareholder support. Although in some instances M&A termination may be more beneficial than proceeding with a transaction that could result in subsequent losses, most firms aim to complete deals.

In contexts associated with evaluative uncertainty, certifications and endorsements from reputable third parties act as means of assessing capabilities of organizational actors (Rao, 1994; Scott, 1994; Wade, Porac, Pollock, and Graffin, 2006). Existing research focuses on the role of various outside constituents' endorsements and associated favourable organizational outcomes, such as public accreditation, enhanced access to resources (Wiley and Zald, 1968), certifications from high-reputation financial auditors and reduced cost of capital (Wilson, 1985), being listed in community directories and increased legitimacy for social service organizations (Singh, Tucker, House, 1986). Therefore, when decisions based on qualitative judgments need to be made under contexts characterised with evaluative uncertainty, certification of actors by legitimate third parties is an influential decision criterion (Wiersema and Zhang, 2011).

In the context of M&A, in which there are many qualitative judgments to be made on behalf of investors, gaining endorsements of investment analysts is likely to be key in helping firms pursue their strategic interests. Investment analysts are legitimate third-party evaluators of the firm (Wiersema and Zhang, 2011). Their recommendations provide valuable new information to investors, and are associated with market reactions (Barber, Lehavy, and Trueman, 2010; Ho, 1995; Ryan and Taffler, 2000; Womack, 1996). While investment analysts serve to reduce evaluative uncertainty within the firm i.e. when evaluating a newly appointed CEO (Wiersema and Zhang, 2011), their recommendations can also serve to reduce evaluative uncertainty outside the firm in evaluating the M&A and future strategic outcomes associated with the deal.

This paper therefore contends that during M&A, managing analysts' impressions through voluntary disclosures -deliberate and discretionary communications- is influential in shaping their sentiment to reduce evaluative uncertainty. Voluntary disclosures impact investors' and investment analysts' decisions about the value of the firm (Narayanan, Pinches, Kelm, and Lander, 2000). In the years 2008 – 2010, approximately \$5.9 trillion were spent on M&A worldwide<sup>1</sup>. Alongside this substantial financial investment, considerable managerial and organizational resources were deployed to close these deals and integrate the companies. This effort is a major strategic move as M&A is a substantial investment, generally for long-term benefit and not easily reversed. A vital aspect of the process is to persuade investors and analysts to back the deal, as negative investor and analyst reaction can prevent the transaction from being consummated. In order to persuade investors of the wisdom of the M&A, protagonists communicate information to the markets during the M&A process, starting after the deal is announced and until the deal officially takes place. This information will inform investor decisions about the price of protagonist shares during a bid. Although these actions that involve attempting to influence perceptions of outside audiences are studied widely in various contexts (see for example Zajac and Westphal (1995), Gioia and Chittipeddi (1991), Graffin et al, (2011)), a specific form of impression management, namely interim news events, may be particularly important in the context of M&A as they have the potential to influence the outcome of the transaction.

Interim news events are voluntary communications targeted at financial analysts, prominent institutional shareholders, and specialist media. They take place between the initial announcement of an M&A deal and the closing of the deal. 'Involuntary' announcements (those required by law) of M&A bids move stock market prices (Andrade, Mitchell and Stafford, 2001) and 25% increase in target company share price is not uncommon (Sudarsanam and Mahate, 2003). However, existing M&A research does not comment on market reactions to voluntary communications that occur post-announcement. We contend that voluntary communications, i.e. interim news events, are influential in shaping analysts' sentiment and reducing evaluative uncertainty.

The purpose of our research is to investigate how organizational leaders, through a specific form of impression management -namely, interim news events- attempt to reduce evaluative uncertainty associated with M&A. As a measure of evaluative uncertainty, we use consensus of investment analysts' recommendations. Our paper makes several contributions. In

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<sup>1</sup> Source: Zephyr

the first place, our study contributes to the literature on evaluative uncertainty by developing and testing predictions regarding a specific type of event that guides investors' assessments of M&A. We find that interim news events are associated with higher levels consensus among analysts' recommendations. Second, our research extends the literature on impression management by presenting findings on how target or bidder firms can make use of interim news events in ways to minimize evaluative uncertainty during M&A. The practical implications of our findings involve raising organizational leader awareness that managing deals is just as important as announcing them, and more importantly, from analysts' point of view, interim news events are key to evaluating M&A. Third, we identify a new way to manage analysts' reactions throughout M&A. We emphasize the fact that M&A involve organizational transitions and analysts' evaluations of these strategic transitions are not confined to the initial announcement of the M&A, but rather the informative, voluntary corporate communications that take place until the deals reach their closing date. Finally, our research draws on the recent Strategy-as-Practice perspective's concern for formal strategy as a phenomenon whose claims, practices, discourse and artefacts need to be taken seriously in their own terms, independent of enacted strategies (Whittington, 2006).

## **THEORY AND HYPOTHESES**

### **Interim news events: Why do they matter?**

On December 13<sup>th</sup> 2004, Deutsche Boerse AG (DB), which owned the German stock exchange in Frankfurt, announced a 530p per share bid for the London Stock Exchange (LSE) – both exchanges are amongst the largest in the world. This valued the LSE at £1.3bn and represented a 23% premium on the LSE share price two days earlier. DB shareholders were concerned about the announcement, believing the deal would be value destroying. The lack of timely and effective communication after the announcement, and the seeming indifference of DB management, led to dissatisfaction regarding the deal and growing concern about the governance of the company. It was not until March 2005 that the Chairman finally attempted to communicate with shareholders to allay their concerns about the proposed takeover, but the effort was too little too late. The offer for the LSE was withdrawn on 7<sup>th</sup> March and the CEO of DB was forced to resign, along with the Chairman of the Board and other board members. This example illustrates the importance of communicating to the markets after the announcement of a proposed transaction as a lack of voluntary communications caused the hoped-for strategic transition to create Europe's largest stock exchange to fail. In different circumstances, during the hostile bid for Blue Circle PLC, a large British cement company, by the French giant, Lafarge, the world's largest cement company, the Blue Circle management issued several voluntary communications about their intentions for investments and disposals in the future, as well as comments about the quality of Lafarge's offer. These voluntary announcements can be linked to falls in Lafarge's share price that caused the transaction to fail (Angwin et al. 2006). This was the first all cash hostile takeover to fail in the UK for 10 years. In this instance the use of voluntary communications decided the outcome of the takeover bid.

It is plain that in the Blue Circle case investors believed that interim news events conveyed significant information. These news events are informative announcements regarding the progress of the deal and typically include information on restructuring and integration plans or implementation of these plans. Their deliberate and discretionary nature makes them an

important form of impression management in which bidder or target companies can try to influence stakeholder perceptions during M&A.

Existing M&A research, while focusing on how investors and analysts react to deal announcements, does not comment on how stakeholders respond to the corporate voluntary communications that take place after the deal is announced. However, announcing an intention to purchase a specific firm is not the same as closing a deal as many things may go wrong. A vital aspect of the process is to persuade investors to back the deal, as negative investor reaction can prevent the transaction from being consummated. In order to persuade investors of the wisdom of the M&A, protagonists communicate information to the markets during the M&A process, starting after the deal is announced and until the deal officially takes place. This information will help to inform investor decisions about the price of protagonist shares during a bid or, at the very least, help combat evaluative uncertainty that may impact negatively on the company's stock.

### **Evaluative uncertainty**

Investment analysts and their evaluations are important for organizations because analysts are considered prominent information intermediaries in the financial markets (Jensen and Meckling, 1976) and their recommendations have significant impact on investors' decisions, and thus on the firm's stock price (Wiersema and Zhang, 2011). Analysts are recognized as parties that can assess the firm (Wiensfeld, Wurthmann, and Hambrick, 2008) and therefore their assessments of M&A are likely to have a great deal of bearing on how investors view any strategic move. Analysts' evaluations are key to investor behavior because they act as interpreters and disseminators of information about organizational performance, strategic moves, and industry analyses (Hayward and Boeker, 1998; Jensen, 2004; Rao, Greve, and Davis, 2001; Zuckerman, 2000; Westphal and Clement, 2008). They can impact the future capacity to raise capital, as well as the general reputation of the firm and individual reputations of top executives within the firm (Fombrun, 1996; Hayward and Boeker, 1998; Kuperman, 2003). In sum, investment analysts are a key external constituent to any organization (Westphal and Clement, 2008).

Drawing on existing research which suggests that analysts' judgments have wide-ranging organizational impacts and combining the notion that "being certified in an uncertain environment (serves) as a signal that an (organization is) of high quality and likely to survive in the long run" (Wade et al., 2006: p.645), we suggest that managing impressions of investment analysts is key to reducing evaluative uncertainty surrounding a deal. Financial analysts highly value non-financial strategic (soft) information about organizations' future strategic plans while evaluating their performance (Ernst and Young Report, 1994; Leung, 2011). Effective corporate voluntary disclosures benefit organizations by increasing management credibility and analysts' understanding of the firm, reducing the cost of capital and improving valuation (Lev, 1992).

Interim news events, as a form of voluntary communication, are likely to result in a convergence of analysts' opinions regarding the deal, signaling strongly whether there is support for the plans on how to proceed with the deal and whether investors find these plans realistic and credible. Our first set of hypotheses takes into account the evaluative uncertainty associated with interim news events. Thus:

*Hypothesis 1a: Interim news events are associated with lower levels of evaluative uncertainty for organizations involved in M&A*

*Hypothesis 1b: The lack of interim news events are associated with higher levels of evaluative uncertainty for organizations involved in M&A*

### **Information asymmetry**

Contexts characterized with information asymmetry are likely to be important in contributing to evaluative uncertainty. During M&A, three contexts are particularly likely to be important in shaping investors' evaluative uncertainty: unstable industries, strategic instability within one or more of the firms involved in the deal, and share price volatility in one or more of the deal participants.

We believe that investors are likely to be nervous about M&A if the industry is relatively unstable for two main reasons: one, changing industry conditions render the terms of a deal as less clear and this lack of clarity about an environment in constant flux may cause investors to have a wide array of non-uniform expectations from a deal. Second, organizations that operate in an unstable industry tend to wait to communicate further information in order to increase the time available to learn about the changing industry conditions (Finkelstein and Hambrick, 1996). This waiting, and the possible associated silence on behalf of the target or bidder organizations in the meantime, is likely to cause investors to experience evaluative uncertainty. Therefore, firms that operate in unstable industries are likely to be able to influence investors' evaluative uncertainty through releasing information about their ongoing M&A deal. Consequently:

*Hypothesis 2a: Interim news events are associated with lower levels of evaluative uncertainty for organizations involved in M&A in contexts characterized with industry instability*

In addition to industry instability, we believe that another context that is associated with information asymmetry is strategic instability. Firm strategic instability is the extent to which a firm's strategy has changed over time (Zhang, 2004). There are several reasons why we think that strategic instability will be associated with information asymmetries and therefore tied to evaluative uncertainty that can be managed through interim news events: First, when strategic instability is high, the cause-effect relationship between an M&A deal and the future performance of the two organizations (or single joint organization) is difficult to evaluate. Second, because of instability in strategy, investors' prior experiences may not provide reliable information, and analysts may be too cautious to issue guidance. Therefore, in contexts characterized with strategic instability, evaluative uncertainty is likely to be high, and organizations that carry out interim news events in these contexts are likely to reduce this evaluative uncertainty by releasing new information to the market. Therefore:

*Hypothesis 2b: Interim news events are associated with lower levels of evaluative uncertainty for organizations involved in M&A in contexts characterized with strategic instability*

Finally, we believe that a third context that is associated with information asymmetry, which is likely to have a bearing on how analysts assess an M&A deal is share-price volatility. Regarding voluntary disclosures similar to those that we focus on in this study, Kothari, Loutschina, and Nikolaev (2006) state that ‘firms with high stock volatilities are less transparent and face greater uncertainty, which create higher information asymmetry’ (p. 256). This implies that there is likely to be high uncertainty in evaluating organizations that are experiencing share price volatility. We therefore hypothesize that organizations that voluntarily disclose information during M&A are likely to be able to manage evaluative uncertainty favourably. Hence:

*Hypothesis 2c: Interim news events are associated with lower levels of evaluative uncertainty for organizations involved in M&A in contexts characterized with share-price volatility*

## METHODS

Our dataset comprises of all M&A deals involving target and bidder United States (US) publicly owned organizations within the period 01/01/2000-31/12/2010. We collected data using MergerMarket regarding all relevant target and bidder organizations, along with related voluntary communications associated with the deal. Our dataset covers 36,376 deals, and 163,023 interim news events for public organizations that trade on NYSE and NSDQ. Figure 1 shows our data with respect to Global M&A trends.

### Insert Figure 1

Our analysis involves testing whether interim news events are associated with reduced evaluative uncertainty. These news events are not the actual announcements of the M&A, nor are they announcements of the closing of the deal. They are external, voluntary communications associated with the deal throughout the course of the M&A, undistinguished between the authors (the bidder or target firm).

To test our first hypothesis, we used the standard deviation of analyst estimates for a given firm in the one-month period following an interim news event (Wiersema and Zhang, 2011) as a measure of evaluative uncertainty. Following Wiersema and Zhang (2011), we collected data regarding analysts’ estimates using the Institutional Brokers Estimate System (I/B/E/S) database. Analysts’ estimates are issued monthly in I/B/E/S which uses a five-point recommendation scale, with a recommendation of 1 meaning ‘strong buy’, 2 meaning ‘buy’, 3 meaning ‘hold’, 4 meaning ‘underperform’ and 5 meaning ‘sell’. We used a one-month lag period for the analyst recommendation measures in a given year for an interim news event that has taken place for both bidder and target companies. We weight this measure by the number of analysts who provide firm coverage for each month. Our model to measure evaluative uncertainty was the following:

$$Y_t = \alpha + \sum_{i=1}^p \beta_i X_{i,t} + \sum_{j=1}^q \gamma_j C_{j,t} + \varepsilon_t \quad (1)$$

Where  $Y_t$  is evaluative uncertainty at time  $t$ ;  $X_{1,t}$  is the interim news event at time  $t$ ; and  $C_{j,t}$  is the control variables at time  $t$ .

## **Independent variables**

***Interim news events.*** We categorize interim news events as any external voluntary communication carried out regarding the M&A by the parties involved in the deal, regardless of the author (i.e. target, bidder, advisors of companies etc.). In our panel of data, we coded the independent variable as “1” if there was an interim news event associated with the deal and “0” otherwise. Our source was MergerMarket.

***Industry instability.*** We follow a frequently used definition of industry instability as the level of the unpredictability of changes in industry-specific factors over time (Dess and Beard, 1984; Sharfman and Dean, 1991; Zhang, 2004). We followed Dess and Beard (1984) and Zhang (2004) in measuring industry instability as a composite of instability in sales growth and employment growth in an industry at the four-digit Standard Industrial Classification (SIC) level. Following Zhang (2004), we calculated instability in industry sales as the standard error of the regression slope coefficient [Sbl] divided by the mean value of sales in the three years prior to the initial announcement of the M&A from year  $t-3$  to  $t-1$ ). Then we calculated instability in industry employment following the same procedure. These two dimensions were standardized within the sample, and their average was used for industry instability (Zhang, 2004). Our data was gathered from COMPUSTAT.

***Strategic instability.*** We follow Zhang’s (2004) measure which uses six strategic dimensions: (1) advertising intensity (advertising/sales), (2) research and development intensity (R&D/sales), (3) plant and equipment newness (net P&E/gross P&E), (4) nonproduction overhead (selling, general, and administrative [SGA] expenses/sales), (5) inventory levels (inventories/sales), and (6) financial leverage (debt/equity). We first computed a firm’s pre-presentation three-year variance ( $\sum [ti - T/n - 1]$ , where  $ti$  is the ratio at year  $i$ ,  $T$  is the average of the ratio in the three years, and  $n$  is the number of years) for each strategic dimension. Next, we standardized variance scores for each dimension within the sample, and the average of the six standardized dimensions yielded a composite measure of pre-presentation strategic instability. Data for these was collected from COMPUSTAT.

***Share price volatility.*** We calculate share price volatility as ‘the standard deviation of daily stock returns’ in a six-month period prior to our main events (Kothari et al., 2006). We downloaded share price data using DataStream.

## **Control variables**

We introduced a number of control variables for factors that were likely to impact on market reactions. All of the control variables are used as proxies for contexts/events associated with a vacuum of information. To take into account changes in the market, we controlled for *market volatility*. To take into account any possible effects of the *financial crisis*, we coded communications after 24 October 2008 as ‘1’ for ‘after the crisis’. The nature of the deal may also affect the role and impact of communications. If the deal is hostile, then the protagonists

will both be fighting hard to persuade shareholders of the correctness of their strategies as in this instance there will be winners and losers. We therefore distinguished between deal types by controlling for *recommended* and *hostile* deals. We also controlled for acquirers by distinguishing between *domestic* and *overseas bidders*. The method of payments may also make a difference as the issuance of debt may be regarded as more risky to the business, due to long-term obligations, rather than the use of equity. To take this into account, we introduced controls for type of financing (*stock or no stock*). We further took into account the *complexity of the deals*. Finance theory suggests that market reactions are likely to be larger for companies subject to greater information failures, e.g. small companies, small deals (Mazzola et al, 2006; Griffin, 2003). The extent to which interim news events influence investors is likely to be affected by the *relative size* of the protagonists. If the M&A is small relative to the acquirer, in turnover terms, then there may be less need for protagonists to communicate to the markets as the effect of the deal on the acquirer will be limited. To calculate relative size, we used Marketcap, and for the relative size of the deal, we took a ratio of deal versus firm size. Finally, we accounted for factors that may act as confounding effects for our variables associated with reputation for M&A such as involving *high-reputation intermediaries* (regarding high-reputation intermediaries, we used binary codes to distinguish organizations that employed legal advisors in the magic circle<sup>2</sup>, financial advisors in the bulge bracket<sup>3</sup>, and white shoe consultants<sup>4</sup>), and whether the organization is *listed on the Fortune 100 most admired list*. The weight placed upon communications by the markets may also be affected by the reputations of the protagonists in terms of M&A experience. Recent research into *serial acquirers* suggests that firms with a history of M&A tend to perform better than those with little M&A experience (Laamanen and Keil, 2008). Firms with significant prior M&A experience are more likely to be trusted in terms of their interim news events than those that are inexperienced.

## RESULTS

For our first hypothesis, we employ the standard deviation of analysts' estimates as our dependent variable. Our main effects hypothesis, i.e. interim news events, is both significant and negatively associated with the standard deviation of analysts' estimates. In other words, interim

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<sup>2</sup> Legal advisors in the magic circle for the UK: Allen & Ovary, Freshfields Bruckhaus Deringer, Linklaters, Slaughter and May; For USA: Arnold & Porter; Cadwalader, Wickersham & Taft; Cravath, Swaine & Moore; Covington & Burling; Davis Polk & Wardwell; Debevoise & Plimpton; Dewey & LeBoeuf; Hogan & Hartson; Latham & Watkins; Milbank, Tweed, Hadley & McCloy; Ropes & Gray; Shearman & Sterling; Sidley Austin; Simpson, Thacher & Bartlett; Sullivan & Cromwell; White & Case; Willkie Farr & Gallagher; WilmerHale.

<sup>3</sup> Financial advisors in the bulge bracket: Dillon, Read & Co.; Swiss Bank Corporation; UBS; First Boston; Credit Suisse; Kuhn, Loeb & Co.; Lehman Brothers; Merrill Lynch; Bank of America; Salomon Brothers; Travelers Group; Bank of America Merrill Lynch; Barclays Capital; Citigroup; Deutsche Bank; Goldman Sachs; JPMorgan Chase; Morgan Stanley; Lazard Freres & Co.; Goldman, Sachs & Co.; N M Rothschild & Sons

<sup>4</sup> White shoe consultants: Bain & Company; Boston Consulting Group; McKinsey & Company; A.T. Kearney; Booz & Company; Arthur D. Little; Monitor Group

news events are associated with lower levels of evaluative uncertainty. The lack of voluntary communications, on the other hand, is associated significantly and positively with the standard deviation of analysts' estimates. In each of our models, we test for the target and bidder companies separately. In doing so, we attempt to bring a more nuanced understanding of how analysts evaluate the two corporations involved in the deal. In models 1-5, we enter our main effect variables individually. The standard deviation of analysts' estimates for our main effects hypotheses vary between -0.17 and -0.10 with  $p < 0.05$  and  $p < 0.1$  across models 1, 3, 4, and 5 (corresponding to hypotheses 1a, 2a, 2b, and 2c) for target and bidder organizations that do carry out interim news events versus 0.31 and 0.36 with  $p < 0.01$  for model 2 (corresponding to hypothesis 1b) for target and bidder organizations that do not communicate after the initial M&A announcement. Our final regression model has Adj. R-sq = 0.25 and RMSE = 0.07 for target companies and Adj. R-sq = 0.28 and RMSE = 0.06 for bidder companies.

### **Insert Table 1**

### **Insert Table 2**

We therefore find support for our hypotheses 1a, 1b, 2a, 2b, and 2c with varying degrees of significance. Our results across all models show higher significance levels for bidder organizations (compared to target firms) and share price volatility tends to be the most impactful variable. Our final overall model is significant at  $p < 0.01$  for both target and bidder organizations with Adj. R-sq = 0.32 (target) and Adj. R-sq = 0.35 (bidder) with RMSE = 0.13 (target) and RMSE = 0.09 (bidder).

We find that less than half of our control variables contribute to the overall explanatory power of our models. Control variables that were associated with significant coefficient variables were market volatility, after 2008 (the financial crisis), contested/hostile deal, cross border acquirer, complex deal, financial advisors in the bulge bracket, and serial M&A. We did not find significant outcomes associated with recommended deals, domestic acquirers, stock or no stock purchases, small target size (versus the deal), small target size (versus the bidder), legal advisors in the magic circle, white shoe consultants, and being on the Fortune 100 most admired list.

### **Endogeneity**

To account for possible sources of selection bias and endogeneity, we carried out further tests. We approach these potential problems with our data by accounting for motivators of voluntary disclosures. By controlling for these motivators, we are aiming to eliminate possible biases towards accounting for organizations that carry out voluntary disclosures only because they are likely to gain the approval of the analyst and investor communities. We identified several variables that are likely to be associated with organizations that disclose voluntarily. Increased voluntary disclosure will be associated with lower information asymmetry and may therefore have a bearing on how analysts evaluate these firms. For instance, because investors demand more information about high-risk firms in general, these organizations are more likely to engage in voluntary disclosures (Lev and Penman, 1990; Lang and Lundholm, 1993). Also, high-debt firms are likely to disclose more information to keep their lenders and investors informed of the firm's prospects (Kross Lewellen, Ro, 1994). Furthermore, firm growth is likely to be associated

with voluntary corporate disclosures because firms 'like to blow their trumpet about achievements' (Waymire, 1985; Healy and Palepu, 2001). Finally, there may be institutional effects associated with disclosure policies within different industries, so it is important to take into account industry effects of disclosure (Leung, 2001). We therefore ran our regression once again including the following control variables: firm risk, leverage, firm growth, 2-digit SIC codes for industry effects.

Our results reveal that the final model, even when we include all of the above variables, is still significant at  $p < 0.05$  for both target and bidder organizations. However, due to possible high correlations between firm risk and share price volatility, we found that the regression coefficients for both target and bidder organizations were lower than our previous model, but still significant at  $p < 0.1$  (compared to  $p < 0.05$ ).

## DISCUSSION

Our results show that interim news events help to reduce evaluative uncertainty. Lower levels of evaluative uncertainty may occur for several reasons: First, investors may be relieved to hear that organizational leaders have clear strategic plans for the M&A deal. These may be in the form of integration plans between the two companies, retention, future management of the organization etc. Therefore, due to the perception that M&A are high profile strategic moves, it may be the case that if delivered concisely, interim announcements may help organizational leaders inject trust and gain credibility regarding their on-going M&A. Second, public announcements of M&A are very often confounded as investors and investment analysts are bombarded by various items of news. This may cause share price reactions to be very diverse. The events that we include in our research are free of confounding effects so it may be the case that in the absence of efforts that create noise, analysts act in unison (and relatively free of variability) regarding interim announcements.

Our research is not without limitations. Recently, the main criticism of studies that focus on investor or analyst reactions regarding organizational events revolve around the assertion that investors or analysts are not rational decision makers and that due to information asymmetry, their initial reactions to M&A announcements may be contradicted by the long-run returns of the deal (Schijven and Hitt, 2011). From the organizational leaders' perspective, the short-term reactions given to high profile strategic moves such as M&A are very important, reinforcing or damaging the legitimacy of top management inside or outside the firm immediately. From the managerial perspective, the short-term matters. In this research, we are not testing for analysts' reactions associated with M&A announcements as an indicator of whether or not the deal will add value to the firm in the long-run. Nor are we trying to establish whether the M&A will have positive returns in the long-run. What we are interested in is a context in which investors have already reacted to the initial announcement event, and the organization is then attempting to manage the process of M&A through communication. We are focusing upon organization communications of plans between announcement date and completion date about how they will manage the deal successfully and all the associated strategic changes, in order to reduce investor evaluative uncertainty.

## CONCLUSION

Impression management occurs in ambiguous organizational situations (Graffin et al., 2011) such as M&A (Reuer, Tong, and Wu, 2012; Boeh, 2011) in which stakeholders face evaluative uncertainty (Graffin et al., 2013). An outcome of this evaluative uncertainty is the potential for investors to act negatively (Elsbach et al., 1998; Pfeffer, 1981) and for firms to be unable to fulfil their strategic intentions. In the present study, we have set out to develop and test predictions on the deliberate and discretionary use of interim news events during M&A that combat such ambiguity and help manage potential scrutiny from shareholders. In the light of our findings, we conclude that interim news events are highly influential in reducing evaluative uncertainty during M&A. Such communications are central to how stakeholders regard the M&A's potential to deliver value. It is therefore worthwhile for organizational leaders to update their investors and analysts following their organization in terms of how they envision undertaking restructuring within the organization - by giving detailed integration plans, clarifying retention plans etc. - after the initial announcement of the M&A. Organizations would benefit from actively managing their voluntary communications through interim news events especially in contexts associated with high levels of information asymmetry when investors are likely to be facing evaluative uncertainty.

In terms of Strategy-as-Practice, our focus is upon practices that relate to strategic outcomes. The literature re-conceptualizes strategy as a social activity (strategy not as something an organization has but something that its members do) (Jarzabkowski 2005; Johnson, Langley et al. 2007). It advocates the need to get closer to the phenomena of interest and to better understand the 'doing' of strategy work (Whittington 2006). It involves multiple levels of action and interaction with multiple actors and situated practices (Johnson, Melin et al. 2003; Jarzabkowski 2005; Johnson, Langley et al. 2007; Whittington 2007; Jarzabkowski 2008; Jarzabkowski and Spee 2009). Jarzabkowski et al. (2007) define strategy as: 'a situated, socially accomplished activity, while strategizing comprises those actions, interactions and negotiations of multiple actors and the situated practices that they draw upon in accomplishing that activity.' Strategizing can be found in the intersection between practitioners (people who do the strategy work), practices (tools used for the strategy work being social, symbolic and material) and praxis (the work of strategy and the flow of activity in which strategy is accomplished) (Johnson, Melin et al. 2003; Whittington 2006; Jarzabkowski and Spee 2009). A fourth 'P' set forth by Whittington is 'Profession' (Whittington 2007), underlining the different professions involved. In our case, we unpack M&A deals in terms of what organizations do to gain support for their announced deals from external constituents, after the deal has been announced up to the closing date. In terms of 'Profession' as the fourth P, we offer insight into the significance of investment analysts as high-reputation constituents that offer certification and endorsement to strategic moves. The Strategy-as-Practice perspective focuses on how people at all levels of the organization do strategy. We argue that this is to under-represent the importance of interaction with context(s) - organizational actors influencing external stakeholders in order to achieve strategic outcomes. In this way, voluntary communications are an integral part of managing important strategic moves such as M&A and also important tools for signaling strategic commitment to shareholders. In terms of practitioners, the paper is able to present concrete, practice-related outcomes for senior managers on how to manage communications during the

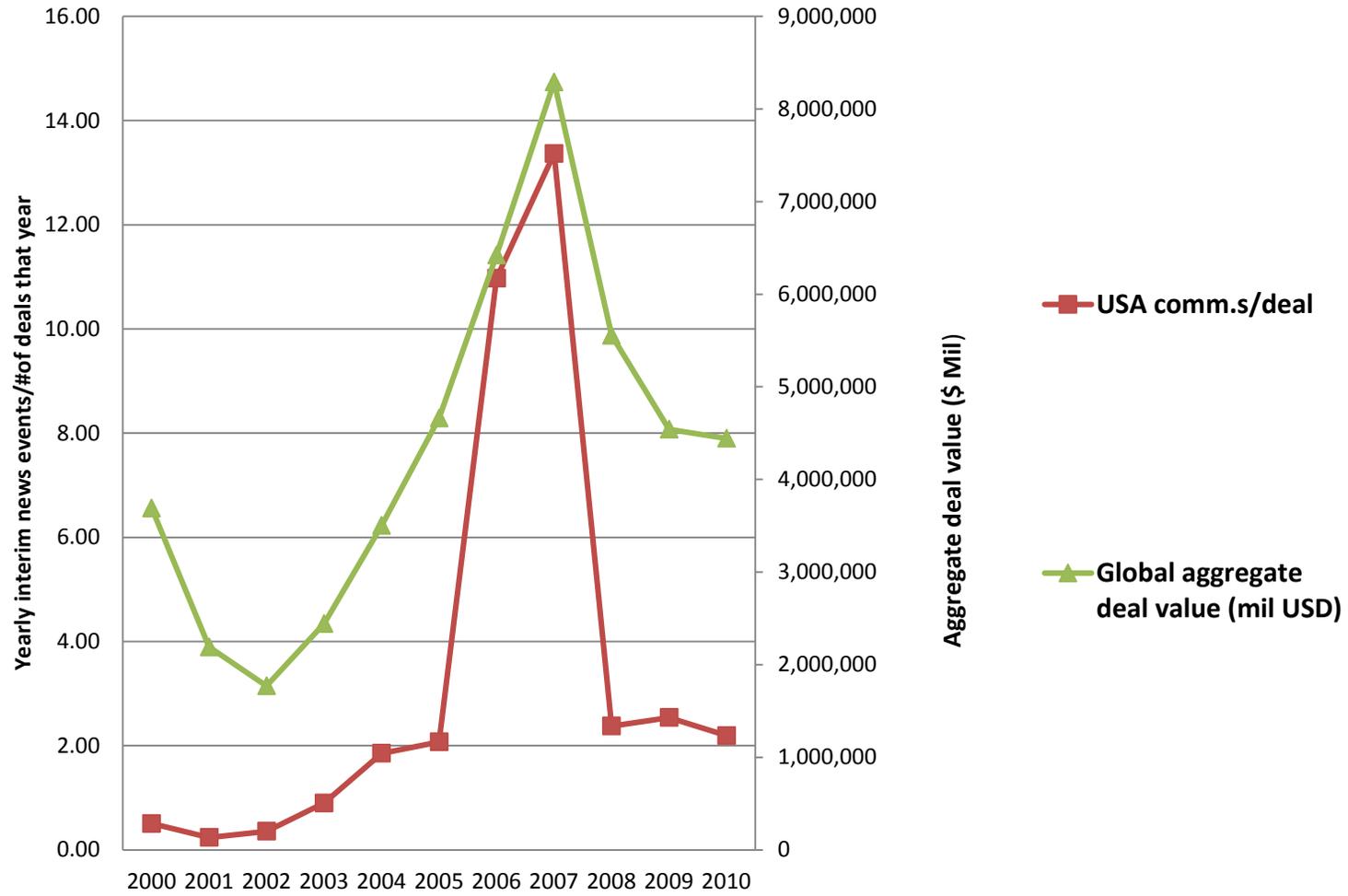
M&A process. While much of the existing research in Strategy-as-Practice has concentrated on the ways in which the culturally standardized discourses of strategy are enacted and contested at the organizational level, or in terms of people's activities or identities within organizations (Knights and Morgan, 1991; Laine and Vaara, 2007; Mantere and Vaara, 2008), we elaborate on the nature of strategy as a signal of commitment external to the organization; to a broader community of interested connected actors.

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**Figure 1. USA interim announcements plotted against global M&A trend**



**Table 1. Correlations for Regression I**

Variables	Mean	St. Dev.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
1 Industry instability	3.41	1.03	1.00																			
2 Strategic instability	0.66	0.24	0.14*	1.00																		
3 Share price volatility	0.32	0.13	0.17*	0.15*	1.00																	
4 Market volatility	0.37	0.12	0.07†	0.09†	0.21**	1.00																
5 After 2008	0.21	0.08	0.31**	0.22**	0.52***	0.73***	1.00															
6 Contested, hostile deal	0.35	0.10	0.11	0.05	0.09	0.12	0.03	1.00														
7 Recommended deal	0.52	0.07	-0.13	-0.07	-0.14	-0.08	-0.12	0.00	1.00													
8 Domestic acquirer	0.66	0.10	-0.06	0.18	0.16	0.20*	0.19*	0.22**	0.31**	1.00												
9 Cross border acquirer	0.41	0.05	0.09	0.21*	0.14	-0.15	-0.08	0.25**	0.28**	0.00	1.00											
10 Stock	0.25	0.11	0.32**	0.17*	0.20*	0.29**	-0.07	0.18†	0.05	0.07	0.12	1.00										
11 No stock	0.39	0.09	-0.20*	-0.13	-0.19*	-0.23**	0.09	0.08	0.04	0.06	0.15†	0.00	1.00									
12 Complex	0.41	0.16	-0.22*	-0.16†	-0.15*	-0.19†	0.05	0.03	0.07	0.11	0.14	0.18*	0.12	1.00								
13 Simple	0.22	0.03	0.13	0.19	0.21*	0.20*	0.18†	0.09	0.04	0.08	0.11	0.17	0.10	0.00	1.00							
14 Relative size of bidder vs. target (small to large)	NA	NA	-0.03	-0.06	-0.07	-0.03	0.14†	0.09	0.03	0.13†	-0.08	0.11	0.25*	0.13	0.23*	1.00						
15 Relative size of bidder vs. deal (small to large)	NA	NA	0.05	0.04	-0.05	0.02	0.09	0.04	0.05	0.30**	0.12	0.08	-0.07	0.13†	0.19	0.00	1.00					
16 Legal advisors in the magic circle	0.90	0.14	0.01	0.02	0.03	0.07	-0.06	-0.02	-0.01	-0.07	0.00	-0.03	0.09	0.03	0.13†	0.07	0.02	1.00				
17 Financial advisors in the bulge bracket	0.89	0.16	0.00	0.03	0.29*	0.10	0.04	-0.05	0.11†	0.02	0.09	-0.08	0.04	0.05	0.30**	0.09	0.21*	0.01	1.00			
18 White shoe consultants	0.81	0.20	0.09	0.11	-0.04	-0.12*	-0.10	-0.01	0.00	-0.01	0.03	-0.02	-0.02	-0.01	-0.07	0.03	-0.07	-0.02	-0.02	1.00		
19 On FG 100 most admired list	0.28	0.12	0.11	0.09	0.19*	-0.12*	-0.10	-0.01	0.00	0.11†	-0.07	0.07	-0.05	0.11†	0.02	-0.02	-0.03	-0.06	-0.05	-0.07	1.00	
20 Serial M&A	0.66	0.14	0.13	0.21*	0.18*	-0.04	-0.01	0.00	0.02	0.05	0.18*	-0.04	-0.01	0.00	-0.01	0.10†	0.19†	0.04	-0.01	-0.03	0.00	1.00

†p<0.1; \*p<0.05; \*\*p<0.01; \*\*\*p<0.005; p<0.001.

**Table 2. Regression with dependent variable: Standard deviation of analysts' estimates**

	<b>Model 1</b>		<b>Model 2</b>		<b>Model 3</b>		<b>Model 4</b>		<b>Model 5</b>		<b>Model 6</b>	
	<b>Target*</b>	<b>Bidder*</b>	<b>Target**</b>	<b>Bidder**</b>	<b>Target†</b>	<b>Bidder*</b>	<b>Target†</b>	<b>Bidder*</b>	<b>Target*</b>	<b>Bidder**</b>	<b>Target**</b>	<b>Bidder**</b>
<b>Intercept</b>	0.20 (0.52)	0.38 (0.32)	0.41 (0.20)	0.55 (0.25)	0.32 (0.51)	0.43 (0.39)	0.29 (0.18)	0.33 (0.14)	0.49 (0.37)	0.51 (0.28)	0.53 (0.31)	0.39 (0.24)
<b>Main effects (hypotheses)</b>												
<b>1. Interim news events</b>	-0.12* (-0.07)	-0.16* (-0.05)									-0.11* (-0.09)	-0.14* (-0.05)
<b>2. No communication</b>			0.31** (0.09)	0.36** (0.08)							0.28** (0.11)	0.30** (0.14)
<b>3. Industry instability</b>					-0.10† (-0.09)	-0.13* (-0.06)					-0.09† (-0.10)	-0.14* (-0.07)
<b>4. Strategic instability</b>							-0.11† (-0.22)	-0.18* (-0.16)			-0.10† (-0.23)	-0.17* (-0.16)
<b>5. Share price volatility</b>									-0.17* (-0.10)	-0.21** (-0.12)	-0.15* (-0.13)	-0.19* (-0.15)
<b>R sq.</b>	0.05	0.09	0.17	0.15	0.06	0.10	0.04	0.08	0.13	0.14	0.12	0.13
<b>Adj. R sq.</b>	0.04	0.08	0.16	0.14	0.05	0.09	0.03	0.07	0.12	0.13	0.11	0.12
<b>RMSE</b>	0.43	0.40	0.27	0.23	0.39	0.38	0.45	0.39	0.29	0.25	0.34	0.37

Table 2 continued

	Model 7		Model 8	
	Target*	Bidder*	Target*	Bidder*
<b>Intercept</b>	0.65* (0.22)	0.43* (0.32)	0.69* (0.20)	0.40* (0.30)
<b>Main effects (hypotheses)</b>				
<b>1.Interim news events</b>	-0.09* (-0.12)	-0.11* (-0.10)	-0.10* (-0.09)	-0.13* (-0.09)
<b>2.No communication</b>	0.19** (0.18)	0.22** (0.16)	0.27** (0.15)	0.29** (0.13)
<b>3.Industry instability</b>	-0.06* (-0.13)	-0.07* (-0.11)	-0.08* (-0.11)	-0.10* (-0.08)
<b>4.Strategic instability</b>	-0.07* (-0.24)	-0.11* (-0.23)	-0.09* (-0.22)	-0.15* (-0.19)
<b>5. Share price volatility</b>	-0.10* (-0.18)	-0.13* (-0.22)	-0.13* (-0.16)	-0.16* (-0.20)
<b>Control Variables</b>				
<b>6.Market volatility</b>	-0.03† (-0.06)	-0.07† (-0.05)	-0.05† (-0.02)	-0.09† (0.01)
<b>7. After 2008</b>	-0.08† (-0.07)	-0.10* (-0.06)	-0.10* (-0.05)	-0.12* (-0.03)
<b>8.Contested, hostile deal</b>	-0.09† (-0.05)	-0.10* (-0.06)	-0.11* (-0.04)	-0.14* (-0.02)
<b>9.Recommended deal</b>	-0.00 (-0.12)	-0.01 (-0.09)		
<b>10.Domestic acquirer</b>	-0.01 (-0.00)	-0.03 (-0.00)		
<b>11.Cross border acquirer</b>	-0.07† (-0.09)	-0.10† (-0.04)	-0.09* (-0.06)	-0.13* (-0.02)
<b>12.Stock</b>	0.00 (0.10)	0.01 (0.07)		
<b>13.No stock</b>	0.05 (0.34)	0.07 (0.29)		
<b>14.Complex deal</b>	-0.04 (-0.09)	-0.06† (-0.03)	-0.07† (-0.05)	-0.08* (-0.01)
<b>15.Simple deal</b>	-0.03 (-0.16)	-0.04 (-0.11)		
<b>16.Relative size of bidder vs. target (small to large)</b>	0.02 (0.14)	0.03 (0.10)		
<b>17.Relatove size of bidder vs. deal (small to large)</b>	0.00 (0.12)	0.03 (0.09)		
<b>18.Legal advisors in the magic circle</b>	0.07 (0.28)	0.08 (0.25)		
<b>19.Financial advisors in the bulge bracket</b>	-0.04† (-0.05)	-0.08* (-0.03)	-0.04† (-0.03)	-0.06* (-0.02)
<b>20.White shoe consultants</b>	-0.06 (0.19)	-0.07 (-0.15)		
<b>21.On Fortune 100 Most Admired list</b>	-0.02 (0.01)	-0.03 (0.00)		
<b>22.Serial M&amp;A</b>	-0.05† (-0.07)	-0.06† (-0.05)	-0.07* (-0.04)	-0.09* (-0.03)
<b>R sq.</b>	0.22	0.29	0.34	0.36
<b>Adj. R sq.</b>	0.21	0.27	0.32	0.35
<b>RMSE</b>	0.19	0.17	0.13	0.09