SIGNALING STRATEGIC COMMITMENT FOR ORGANIZATIONAL TRANSITION: HOW TO MANAGE POTENTIAL M&A THROUGH VOLUNTARY DISCLOSURES

INTRODUCTION

On December 13th 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 The offer for the LSE was withdrawn on 7th March and the CEO of DB was forced to resign, along with the Chairman of the Board and other board members.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 strategic commitment to the markets after the announcement of a proposed transaction – the hoped for strategic transition to create Europe's largest stock exchange failed.

It is well known that 'involuntary' (those required by law) announcements of M&A bids move stock market prices (Andrade, Mitchell & Stafford, 2001; Goergen & Renneboog, 2003) and 25% increase in target company share price is not uncommon (Baker & Limmack, 2002; Sudarsanam

& Mahate, 2003). However, existing M&A research does not comment on market reactions to 'voluntary' designed communications that occur post-announcement. In this phase, deals can be made or broken by share price adjustments (as in the opening example) as investors react to deal-specific information released during the period. For top management teams to win support for their M&A strategy external communications directed at analysts and investors, on top of financially-orientated events (earnings announcements, more closed meetings), may matter.

This paper contends that 'voluntary' designed communications are indications of strategic commitment, and their production, dissemination and consumption influence investor sentiment. Mergers and Acquisitions (M&A) are a substantial strategic commitment. In the years 2008 – 2010, approximately $5.9 trillion were spent on M&A worldwide. Alongside this substantial financial investment, considerable managerial and organizational resources were also deployed in order to close these deals and integrate the companies. This effort to achieve renewal of the firm is a major strategic commitment as M&A is a substantial investment, generally for long-term benefit and not easily reversed. 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. This information will help to inform investor decisions about the price of protagonist shares during a bid.

The purpose of this paper therefore is to evaluate whether the communication of strategic

commitment affects investors' sentiment towards the protagonists in a specific M&A. Extending Strategy-as-Practice's interest in communicating strategy within the organization, we examine organizational communications outwards to the institutional domain. We intend on shedding light on the practices, practitioners, and praxis of communicating strategic commitment to investors. To do this, we test whether the practice of signaling strategic commitment through voluntary communications during M&A is associated with abnormal returns, and if so, which practitioners and praxis are associated with significant outcomes.

Theoretically, our research draws on the recent Strategy-as-Practice perspective's concern for formal strategy as a phenomenon whose practices, claims, discourse and artefacts need to be taken seriously in their own terms, independent of enacted strategies (Whittington, 2006). Regarding practitioner-based contributions, it will present concrete, practice-related outcomes for senior managers on how to manage their M&A process through external communications.

THEORY AND HYPOTHESES

Strategic Commitment and external communications

Demonstrating strategic commitment matters. Mainstream strategy literature suggests there are significant advantages to strategic commitments (Pacheco-de-Almeida et al, 2008; Dixit and Pindyck, 1994; Ghemawat, 1991; Ghemawat and del Sol, 1998). These include decisions that have long-term impacts and are difficult to reverse. For instance, future market space may be

secured and rivals discouraged from investing (Pacheco-de-Almeida et al, 2008). However, strategic commitments are effective only if they are visible, understandable, credible and irreversible (Besanko et al, 2004). If the commitment is not visible then those who the organization wants to influence will be unaware of the initiative. Similarly if the commitment is not understandable its effect will not be optimal. The commitment also has to be credible to interest groups and should be irreversible, as an action that is costly to stop once in motion demonstrates commitment.

The literature on strategic commitment has focused on the importance of understanding the long-term consequences of business decision-making, and upon the notion that earlier choices constrain later ones (Ghemawat, 1991). An important theme in this literature is the choice that companies face between commitment to competing in a particular way, and the flexibility to compete effectively in a variety of ways (e.g. Ghemawat and del Sol, 1998). It has been argued that "making early irreversible commitments may secure future market space and discourage rivals from investing; the inflexibility of such commitment has value by shaping rivals' future behavior. Given these two opposing views, it is often not obvious which of the two drivers - flexibility or inflexibility - will ultimately prevail in imperfectly competitive and uncertain business situations" (Pacheco-de-Almedia et al, 2008, p.517-8). Interestingly, research into strategic commitment has so far overlooked how investors' perceive the signaling of strategic commitment by subsequent voluntary corporate communications. Having alerted investors to the intention to takeover or merge with another company, this powerful set of stakeholders search for information to help them decide whether to buy, sell, or hold onto stock of the companies

involved. In this process they may look for evidence in corporate communications for signaled commitment to the success of the transaction.

Another possible reason for both acquirer and target firms to show commitment towards an M&A deal may be related to the method of payment. Previous literature suggests that there are a range of factors driving an organisation's choice of method of payment for an M&A deal; for instance, Faccio and Masulis (2005) found that both bidder financial condition and corporate control concerns have a clear influence on European M&A financing choices, while Martin's (1996) findings support the notion that the higher the acquirer's growth opportunities, the more likely the acquirer is to use stock to finance an acquisition. However, if the acquirer is paying with equity, then a higher equity value reduces the number of shares required (and hence the cost of the deal); this may be a less important consideration if the acquirer is paying with cash. There are also benefits for the target firm, as a higher equity price means a greater return.

Taking the above issues into consideration, the following sections explore the practices, practitioners, and praxis of corporate communications that occur during M&A, to understand whether the use of such communications to signal commitment makes a difference in terms of share price reaction and if so, which elements make a difference.

Practices: Corporate communications as a signal of strategic commitment

While strategic commitment is most effective when backed by concrete action, it can also be demonstrated through communicating intention (Besanko et al. 2004), particularly because the firm or management stand to lose something, such as reputation, should the promise not work out (Besanko et al. 2004). In the context of M&As, the literature provides evidence of the importance of corporate communications (e.g. Sirower and Lipin, 2003). There are a number of possible approaches for exploring why this might be the case. The first comes from finance, where strategy communications can be considered under the general rubric of 'voluntary disclosures', phenomena such as earnings forecasts, business segment reporting and new product announcements (Bassen et al, 2010: 63). The second avenue is inspired by signaling theory in the strategy literature (Farrell, 1987). The third approach to explaining strategy communications is institutionalist, taking account of different and changing sociological contexts (e.g. Rao and Sivikumar, 1999).

It is widely accepted that managing third-party perceptions is an important task for both sides in a merger; for instance Trautwein (1991) notes that “mergers need marketing just like products, and effectively addressing the public or regulatory institutions in a merger may be critical to its success’ (p. 293). Management scholars have discussed why some firms engage in more frequent and comprehensive disclosure than others. It has been suggested that large size of firms may reduce disclosure costs, by spreading the cost of information management and, perhaps, by reducing the threat of competitor reaction (Bassen et al, 2010). For complex businesses, voluntary disclosures can help mitigate the agency problem existing between corporate managements and shareholders: the reduction in uncertainty attendant on reducing information

asymmetries increases the willingness of shareholders to pay more for the company's stock (Bassen et al, 2010; Healy and Palepu, 2001).

Interestingly, research into strategic commitment has so far overlooked how investors perceive the signaling of strategic commitment by subsequent voluntary corporate communications. Having alerted investors to the intention to takeover or merge with another company, this powerful set of stakeholders search for information to help them decide whether to buy, sell, or hold onto stock of the companies involved. In this process they may look for evidence in corporate communications for signaled strategic commitment to the success of the transaction.

From a practice perspective, we suggest that managing third-party perceptions is an important task for both sides in a merger; “mergers need marketing just like products, and effectively addressing the public or regulatory institutions in a merger may be critical to its success’ (Trautwein, 1991: 293). We therefore suggest:

> ***Hypothesis 1: External communications during M&A will have a significant impact on stock prices, in either a positive or a negative direction***

Practitioners: M&A protagonists

Communications do not stand ‘on their own’, but are weighed up alongside the credibility of the protagonists. This credibility, or reputation, is something gained over time, through repeated actions, and can mean the difference between a message being accepted at face value or simply ignored. At the organizational level, M&A protagonists such as M&A team members or the

M&A director may have built up significant experience in M&A over time and the markets may have sight of how these deals have performed. If this has been good, there is likely to be a positive reputational effect upon subsequent M&A communications. Hence:

> ***Hypothesis 2: External communications carried out by organizations which have M&A specialists will have a significant positive impact on stock prices***

The credibility of M&A communication may also be influenced by high-reputation intermediaries. These high status firms may include investment banks, lawyers, accountants, consultants and other professional advisors. For instance, the use of an advisor with a distinguished reputation in transacting M&A may influence the credibility of the M&A communication even if the protagonists themselves have little M&A experience. The types of advisors available and their status in assisting companies engaged in M&A varies across the world as societal institutions pre-structure the M&A 'game'. This 'structural power' (Clegg, 1989) reflected in 'varieties of capitalism' (Whitley, 1999) determines which individual firms and actors play and their status. For instance there are differences in the role of actors such as shareholders, managers and employees in co-ordinated market economies, such as Germany and France, and Anglo-American economies (Morgan, 2007). Even within Anglo-American economics there are important structural variations concerning M&A with the role of investment banks in the UK dominating the voluntary regulatory institutions which manage the M&A process. In the UK, regulation is not imposed from the outside by a detached governmental body (as in the US), but rather by "a group that has strong connections to the interests of shareholders" (Bebchuk and Ferrell, 1999, p.1192). The different role of advisors in M&A communications has

received little research attention to date, and variations in national context for advisors may play an important role. Therefore:

Hypothesis 3a External communications involving legal advisors in the magic circle will have a significant positive impact on stock prices

Hypothesis 3b External communications involving financial advisors in the bulge bracket will have a significant positive impact on stock prices

Hypothesis 3c External communications involving white shoe consultants will have a significant positive impact on stock prices

Praxis: What they say

Companies that are transparent and comprehensive in their communication of corporate plans are more likely to gather the consensus of the financial community around bold strategic plans (Mazzola et al, 2006). Martens et al (2007) suggest that firms should adopt narratives that convey a comprehensible identity, "elaborating the logic behind proposed means of exploiting opportunities and embedding entrepreneurial endeavors within broader discourses" (p. 1107). Media coverage of acquisitions also illustrates that the same actors can draw on different (even contradictory) discourses at different points in time, and that different actors may draw on the same discourse to support their opposing objectives (Tienari et al, 2003).

Hypothesis 4a External communications comprising of qualitative information will have no significant impact on stock prices

Hypothesis 4b External communications comprising of quantitative information will have a significant impact on stock prices, in either a positive or negative direction

Hypothesis 5a External communications that include integration plans will have a significant impact on stock prices, in either a positive or negative direction

Hypothesis 5b External communications that include plans regarding synergy gains will have a significant impact on stock prices, in either a positive or negative direction

Hypothesis 5c External communications that include investment information will have a significant impact on stock prices, in either a positive or negative direction

Hypothesis 5d External communications that include retention information will have a significant impact on stock prices, in either a positive or negative direction

In summary, M&A communications may move share prices, but little consideration has been given to *what elements* of corporate communications make a difference to markets. It is argued here that firm strategic commitment can be detected in communications and this can positively influence investors' perceptions of M&A. This signaled commitment may be visible in the nature of the communications themselves, the volume and timing of communications and their content. Communications may also be interpreted more favorably if protagonists have reputation relevant to M&A, through prior M&A history for instance. The reputational aspect of communication may also be augmented through the use of professional intermediaries who bring their own professional status to the deal process. National context may make a difference in terms of the value intermediaries may bring to M&A communications and may also affect the nature of communications and the perceptions of investors. Nevertheless strategic commitment through communications patterns, content and associations may be important in explaining positive or negative share price performance between the announcement and completion of M&A and may even influence deal outcome.

DATA AND METHODS

Dataset

Our dataset comprises of all M&A deals involving target UK and US publicly owned 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 12269 deals and 47678 communications. For the US market, there are 36376 deals, and 163023 external communications. We limit our research findings to public organizations that trade in NYSE and NASDAQ.

Dependent variable: Cumulative abnormal returns associated with strategic plan presentations

The objective of our study is to analyse the stock price responses to interim news events carried out during M&A deals. We treat these as events liable to generate cumulative abnormal returns in the financial market (McWilliams and Siegel, 1997). We test for Cumulative Abnormal Returns (CAR) to interim news events during M&A deals. These news events are not the actual announcements of the M&A, nor are they are announcements of the closing of the deal. They are external communications associated with the deal throughout the course of the M&A, undistinguished between the authors (the bidder or target). Our approach is in line with Mazzola et al's (2007) unpublished study of strategy announcements on the Milan stock exchange, in which cumulative abnormal returns were averaged together. Mazzola et al (2007) found significant impacts on average cumulative abnormal returns only for small companies uncovered by analysts, in other words companies with a substantial information deficit.

We calculated abnormal returns using a market model for each firm with an estimation window. The deviation was calculated using expected returns and actual returns for every firm[1]. The model to capture CAR was:

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it} \qquad E[\varepsilon_{it}] = 0 \text{ and } Var[\varepsilon_{it}] = \sigma^2_{\varepsilon_{it}} \tag{1}$$

We used the S&P 500 as the index of market portfolio which is a weighted index that 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). The length of the period used in our study was consistent with prior studies in management literature (McWilliams and Siegel, 1997)**.** To calculate CAR, a 3-day event window (t= -1 to +1) was used[2]. The short window is used because long windows may lead to false inferences about the significance of an event (McWilliams and Siegel, 1997). Similar studies to ours published recently in the *Strategic Management Journal* have also used a 3-day window (see for example Johnson et al., 2005; Park and Mezias, 2005; Shen and Cannela, 2003; Tian et al., 2011; Zhang and Wiersema, 2009). In order to calculate the expected return over the t= [-1, +1] event window, we used the coefficient found from regression (1). Inferences about the cumulative abnormal returns were drawn using the formula below to test the null hypothesis that the abnormal returns are zero:

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[1] Source: Datastream

[2] 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.

$$\overline{\mathbf{CAR}}(\tau_1, \tau_2) \sim N\left[0, \mathrm{var}\left(\overline{\mathbf{CAR}}(\tau_1, \tau_2)\right)\right] \quad (2)$$

For our estimation model, we used a static linear panel data model where *CARij* is the cumulative abnormal return for firm *i* for event *j*.

In our regression model, our dependent variable is the cumulative abnormal returns associated with a given communication and our analysis is divided into two main categories: namely practitioners and praxis. In terms of practitioners, we coded our variables as binary: If the organization under question had an M&A team or an M&A director, we coded these as '1' and '0' if otherwise. Regarding high-reputation intermediaries, we used binary codes to distinguish organizations that employed legal advisors in the magic circle[3], financial advisors in the bulge bracket[4], and white shoe consultants[5].

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[3] 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.

[4]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

[5] White shoe consultants: Bain & Company; Boston Consulting Group; McKinsey & Company; A.T. Kearney; Booz & Company; Arthur D. Little; Monitor Group

In terms of praxis, we identified communications that presented qualitative (soft information) and quantitative (financial) data, and those that included both simultaneously. For each variable in hypotheses 5a-5d, we identified relevant words. For integration, for instance, we searched for the words integrat*, put together, add, mix, incorporate, join together, amalgamate, combine, assimilate, sell off, harvest, divest. Similarly, we coded for synergy, investment, and retention. In addition to forming a variable comprised of communications that involved a commitment for integration, we formed two further variables: those that in addition to signaling commitment, also included a timetable and those that shared explicit restructuring plans with their investors.

We introduced a variety 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 that would leave investors hungry for information. To take into account changes in the market, we controlled for market volatility. We further controlled for shareprice shock as a proxy for a drastic event that may taken place within the past six months regarding the organization (i.e. CEO change, product recalls, environmental disasters etc.). 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 communications affects 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 high-reputation intermediaries such as whether or not an organization has a reputation for being a serial acquirer and whether the organization is listed on the Fortune Global 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 announcements than those that are inexperienced.

Before carrying on with the rest of the study, we assessed carefully the issue of potential multicolinearity between the variables (Aiken and West, 1991). We inspected the values of

variance inflation factors (VIF) to assess our data for multicolinearity. The VIF values ranged between 1.12 and 3.39 for the variables in our regression models, which is much lower than the commonly accepted threshold value of 10 (Hair et al., 1998) and demonstrates that multicolinearity is not a problem in our data.

RESULTS

Our purpose is two-fold: first to establish whether strategic commitment (signalled through external communications during M&As) has any impact on the market; second, to find out aspects of strategic commitment markets are more sensitive to. Our analysis therefore proceeds in two steps. In step one, we test whether signals of strategic commitment are associated with shareprice reaction. In order to test this, we test for Cumulative Abnormal Returns (CAR) to interim news events during M&A deals. Figure 1 illustrates the distribution of these news events throughout the dataset, plotted against the M&A trend.

Insert Figure 1

Figure 1, a descriptive figure of the interim news events over time demonstrates several things: Communication practices vary greatly over time and across UK and US firms. 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 firms are exactly the opposite: US firms become significantly more communicative in optimistic times and very silent during times characterized with pessimism.

Insert Figure 2

In stage two of our analysis, we carry out a regression to identify what aspects are associated with share price reaction. Table 1 below includes the correlations and Table 2 includes our regression.

Insert Table 1

Insert Table 2

Our regression comprises of four models and four subsections for each model. We distinguish between CAR for UK and USA and then further for target and bidder organizations. In Model 1, we test for practitioners; in Model 2, we test for praxis; in Model 3, we add the control variables; in Model 4 we bring all the variables together to form the model which has the highest explanatory power. In each model, the independent variables are accompanied by relevant control variables. Our final model is significant at $p<0.005$ with Adj R-sq. = 0.33 and a relatively low RMSE at 0.14.

Our first set of independent variables involve in-house M&A specialists and high-reputation intermediaries and the interaction effects for legal, financial, and consultancy firms. For these variables, we found that M&A specialists and financial advisors are associated with significant positive responses for both UK and US investors. We did not find any significant outcomes for legal advisors or consultants. In terms of the interaction effects, we found significant positive results regarding all interaction effects that included financial advisors. Therefore, we conclude that we find support only for hypotheses 2 and 3b but not for 3a and 3c.

In terms of praxis, regarding the type of information provided (qualitative versus quantitative), we found positive significant results ($p<0.01$) with regards to qualitative data for UK bidder organizations, and positive significant results in all four categories regarding quantitative data (significance levels varied between 0.05 and 0.005) and qualitative and quantitative data (p-values varied between $p<0.05$ and $p<0.01$). We find that while overall significance levels are higher regarding reactions to financial data (mostly due to US investors), overall, there is a significant decrease in the standard errors associated with hybrid data compared to pure forms of information. We therefore find partial support for hypothesis 4a (for UK bidders only) and complete support for 4b. For the rest of the variables in this category, we found positive and significant results for communications that include information regarding integration, integration timetables, and integration with restructuring plans. All correlation coefficients were positive and significance levels varied between $p<0.05$ and $p<0.01$ across the two country categories. However, these significant results were only associated with bidders, and not target organizations. We therefore conclude that we find support for hypotheses 5a only for bidder organizations. Regarding more general information that signals strategic commitment, we found that investors only react significantly to information regarding synergy and investment, but not to retention. Our significant findings are only valid for investors of US bidder organizations. While the regression coefficients for UK bidders is close to the figure we see in US bidders (for synergy: UK=0.00; US=0.01; for investment: UK=0.02; US=0.06), the regression coefficients for UK are not significant because of the high standard errors associated with these coefficients compared to that of US (for synergy: UK=0.17 compared to US=0.03; for investment UK=0.21 compared to US=0.02). We therefore find support for hypotheses 5b but due to high standard errors, do not include investment and retention in our final model.

Regarding the relevant control variables, we found significant results varying between $p<0.1$ and $p<0.01$ for market volatility, share price shock, after 2008, and time. Again, the higher significance levels were associated with the US market, and US bidders in particular for these variables. The control variables we use to accompany these variables are mostly significant as well. We found that hostile deals, deals involving organizations in unrelated industries, cross border acquisitions, and stock financing attract significant and negative reactions across all four categories. On the other hand, deals involving organizations within the related industries, domestic acquirers, and complex deals are associated with significant and positive investor reactions. From the two control variables that we employ to test along these variables, we found positive and highly significant results ($p<0.001$) for serial acquirers in the UK and US. Whether or not organizations were on the FG Most Admired list did not seem to make a difference to the investors of either nationality.

DISCUSSION

This research demonstrates that investors care about strategic commitment. We use voluntary external communications as a proxy for testing how investors react to signals of strategic commitment.

We further analyze practitioner aspects associated with M&As that are likely to be associated with share price reaction. Regarding communication characteristics, we found that investors are in favor of communications drafted with the help of M&A specialists and high-reputation

financial intermediaries. The reason why we did not find any share price reaction associated with magic circle lawyers or white shoe consultants may be due to the fact that investors already expect all organizations to employ lawyers or consultants to go through with M&A deals. The positive reaction associated with high-reputation intermediaries, however, is highly associated with having a good reputation of being a serial acquirer as well.

Regarding praxis, we found that while investors react positively to information regarding integration, they tend to react more favorably towards integration information accompanied by more detailed plans such as a timetable regarding when these integration plans will be conceived or detailed discussion of restructuring plans. Commitment becomes more convincing when presented with detailed plans and a deadline. These reactions, however, are restricted to investors of the bidder organizations. This makes sense, as the investors of bidder organizations are more likely to be nervous about how the organization will now manage a large investment.

Investors also react very strongly to different types of information, with varying national differences: For instance, while investors based in the UK are sensitive towards qualitative information, US investors favor financial data. When presented with both types of data, however, both parties show a significant decrease in standard error, signaling greater certainty with which investors assess information.

Furthermore, regarding the content of communications, we found that information regarding synergy and investments tend to be associated with positive reactions from investors, but not other types of information such as retention. These reactions tend to be restricted to US investors. While it seems that investors in the UK market react just as strongly, they are uncertain about their reaction whereas the investors in the US market are far more confident. One important point to raise here is that the reactions investors give to what they hear in communications is not independent from various other factors surrounding the deal. For instance, investors have very strong considerations regarding whether the deal is a hostile takeover, the industry that the newly acquired business belongs to, the nationality of the acquirer, type of financing, and complexity of the deal.

It also seems that investors have become more susceptible to communications not only over time, but even more so after the financial crisis. Our findings were consistent across the UK and US markets. When we compare the outcomes between bidders and targets, however, we find that investors react more strongly (but nonetheless in the same direction) towards communications carried out by targets.

More generally, stronger reactions were associated with the US market in particular, and with investors of bidder organizations. This may be due to several reasons: organizations operating in the US market may have a more established practice of external communications, and therefore are more likely to have mastered the skill of communicating to their investors. Alternatively, the

investors of US markets may simply be more savvy, paying more attention to the M&A process more so than UK investors.

CONCLUSION

Incumbents trying to defend their position in an industry can signal commitment in order to deter new entry, for example by announcing ambitions with regard to market share or future capacity increments or by affirming the importance of that industry with regard to the strategy of the firm as a whole (Porter, 1985). In industries where there are large sunk costs (because of R&D or initial capital investments), there are incentives to signal commitment clearly to competitors in order to discourage new entrants (Farrell, 1987). Similarly, in capital intensive industries such as paper and pulp, announcements of plans for new capacity help to manage aggregate investment in the industry, holding back more marginal projects, especially in competitive sub-sectors (Christensen and Caves, 1997). Signaling strategic commitment can thus work to reduce competitive rivalry in an industry, and is particularly likely where large investments are required. On the other hand, there are insights from the institutionalist literature on why firms might choose to signal commitment. Thus the institutional context in which at least American large firms have evolved in the last decade has seen a growing emphasis on shareholder value as the guiding norm of business, associated with the rise of large institutional shareholders such as mutual funds and an accompanying increase in the numbers of financial analysts hungry for information (Fligstein, 2001; Davis, 2009). In this institutional environment, there are substantial penalties to corporations that are unable to 'sell' strategic visions that fit the preconceptions of the analyst and shareholder community, the discount suffered by conglomerates being a case in point

(Zuckerman, 2000). The result has been a parallel rise within large corporations of investor relations professionals, responsible for supplying information to shareholders and analysts (Kelly et al, 2010; Sandhu, 2009). Taking an institutionalist perspective, Rao and Sivikumar (1999) find that the creation of investor relations departments by Fortune 500 firms is significantly associated with the number of financial analysis following the company, as well as the existence of board interlocks with other companies that had already instituted investor relations departments. Similar institutional factors may be at play in the decision to signal strategic commitment.

Our research has several practice-related outcomes: First. the results of our regression analysis (Table 3) demonstrate that managers can accrue great benefits by signaling strategic commitment through voluntary communications during M&A. Significant abnormal returns associated with these communications show that investors place great emphasis on strategic commitment. Furthermore, by communicating, managers can ensure that their investors can act in unison, with small margins of deviation between their reactions.

Second, organizations engaging in M&A should be extra cautious about what they say now (as opposed to the past) because investors seem to have become more perceptive towards communications over time, especially after the financial crisis. This may be due to increasing hypercompetition, coined with increasing anxiety about financial survival of organizations. While our findings show that investors of both UK and US markets act alike (in terms of which aspects they react to, and the direction of reactions), investors of bidder firms react more strongly

towards communications compared to those of target firms. This means that managers of bidder firms should pay extra attention to their voluntary communications.

Third, managers should accompany their promises with solid, detailed plans on how to materialize these promises. Our results show that while investors react positively to information regarding integration and synergy, they tend to react more favorably towards integration information accompanied by time tables or restructuring plans. These reactions, however, are restricted to investors of the bidder organizations. Again, managers of bidder organizations are advised to be more careful in terms of how they construct their communications.

Another important point for managers of organizations based in UK and the US is to keep in mind that while investors based in the UK are sensitive towards qualitative information, US investors favor financial data.

Fourth, investors care a great deal about whether organizations employ high-reputation financial intermediaries, but are indifferent towards organizations' choices regarding magic circle lawyers or white shoe consultants. This may be due to financial intermediaries charging a success fee – a sign of commitment, unlike their counterparts. The positive reaction associated with high-reputation intermediaries, is also highly associated with having a reputation of being a serial acquirer as well which means that investors are keen followers of organizations' M&A history, and evaluate previous acquisitions as a signal for future success.

Finally, managers of US bidder companies will have to tread more carefully when constructing communications because their investors react far more strongly to what they hear. Overall, stronger reactions were associated with the US market in particular, and with investors of bidder organizations. This may be due to several reasons: organizations operating in the US market may have a more established practice of external communications, and therefore are more likely to have mastered the skill of communicating to their investors. Alternatively, the investors of US markets may simply be more 'savvy', paying more attention to the M&A process than UK investors. And finally, reactions associated with communications may be due to differences in analyst following.

In terms of future research, our article reveals that interim news events offer a fertile new source of data on how to manage M&A. This paper has suggested that these communications are not empty talk, but can have substantive effects, as measured by cumulative abnormal returns. The issue for the future should be not whether or not companies communicate during M&A, but what makes makes their communication better or worse.

In sum, this paper has offered one way of taking a new approach to strategic commitment research. It has identified a new source of data on M&As in the form of voluntary communications. These communications are in the public domain and easily captured. We have also applied an event methodology that discriminates between bidders, targets, and takes national differences into account. Contrary to the sceptical finance and accounting literature on cheap and soft talk, these communications do seem to matter. We suggest that investors care a great deal

about strategic commitment. This finding is not geographically restricted but valid for both UK and US investors. We offer various suggestions regarding the practice, practitioners, and praxis regarding voluntary communications during M&A.

Our research has its limitations: First of all, our dataset only involves two markets and excludes Asian and South American markets. Second, the number of observations in two datasets are quite different in size. Finally, despite having cross-checked a sample of data among two sources, we collected data using only one source.

Figure 1. UK and USA interim news events plotted against global M&A trend

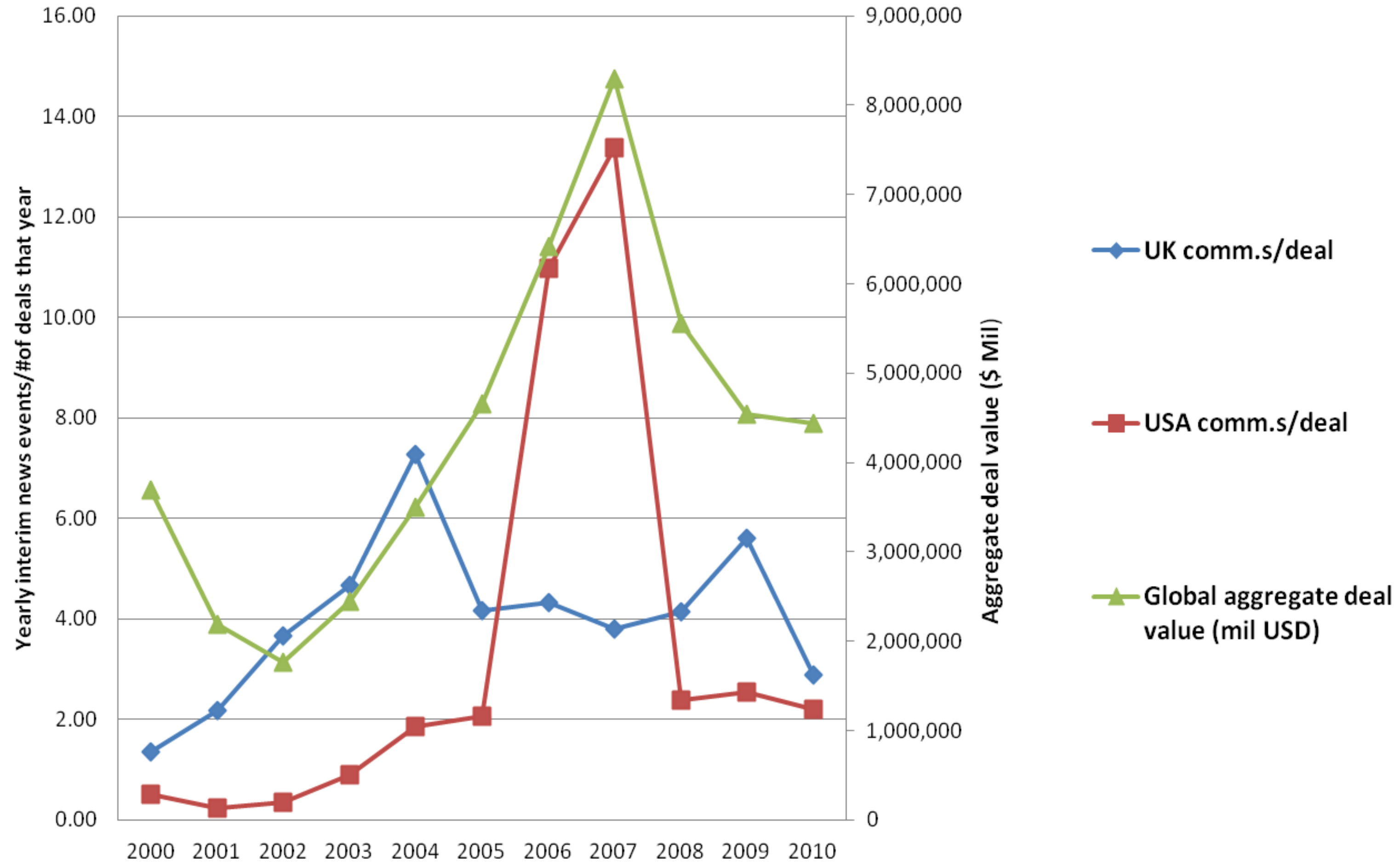

Figure 2. Cumulative abnormal returns associated with interim news events

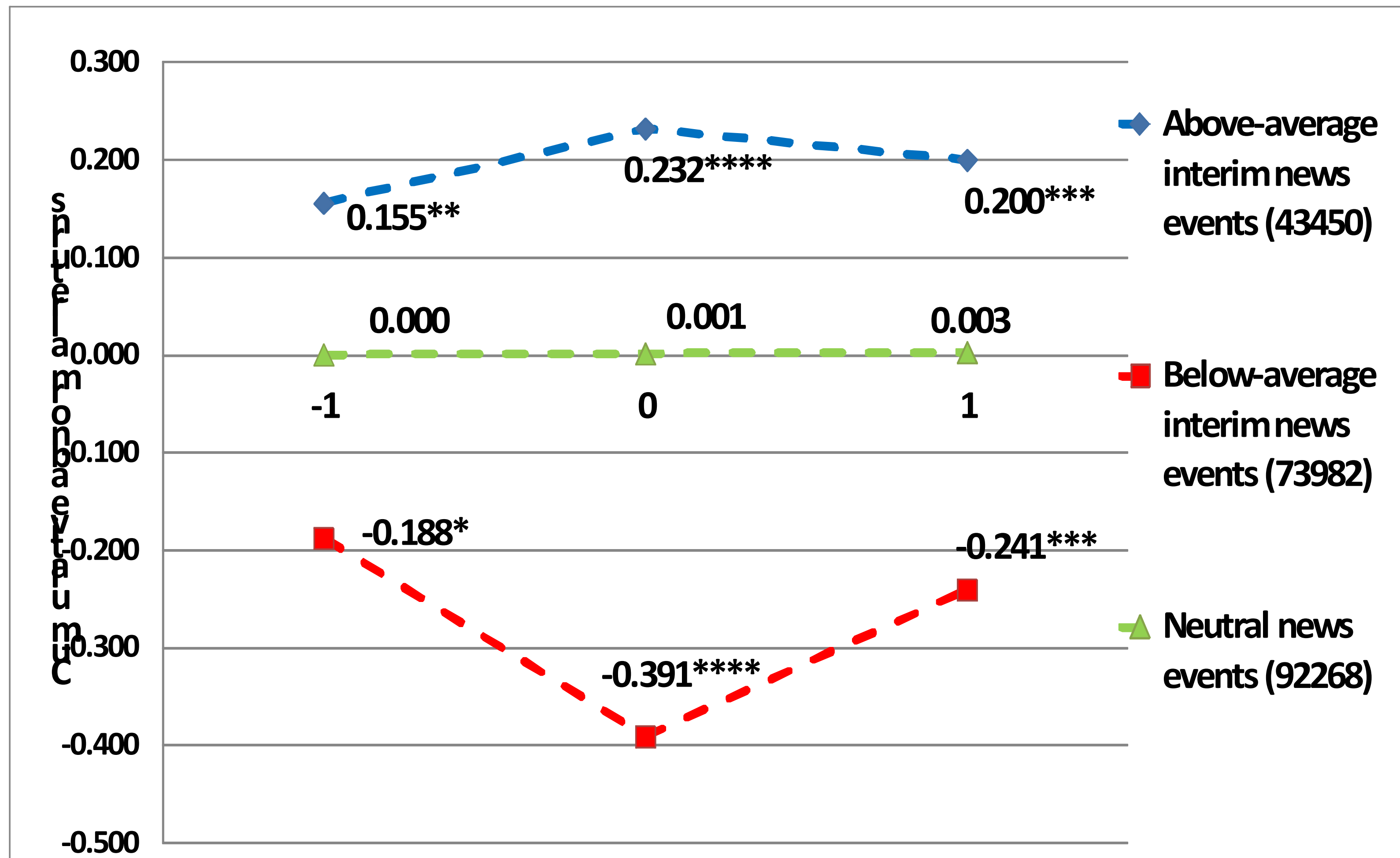

Table 1. Correlations

	Variables	Mean	St. Dev.	1	2	3	4	5	6	7	8	9	10	11	12
1	M&A specialists	0.63	0.48	1.00											
2	Legal advisors in the magic circle	0.96	0.18	-0.05	1.00										
3	Financial advisors in the bulge bracket	0.98	0.15	0.00	-0.06	1.00									
4	Consultants – white shoe	0.94	0.23	0.01	-0.02	0.02	1.00								
5	Qualitative data	0.43	0.13	0.02	0.00	-0.42	-0.01	1.00							
6	Quantitative (financial) data	0.57	0.20	-0.01	0.03	-0.14	0.00	0.00	1.00						
7	Integration	0.21	0.41	-0.01	0.06	-0.89	-0.02	-0.01	0.00	1.00					
8	Integration (timetable)	0.14	0.35	-0.01	-0.02	0.02	-0.01	-0.01	0.00	-0.01	1.00				
9	Integration (restructuring plans)	0.08	0.27	0.04	0.00	0.03	0.01	-0.02	0.01	-0.03	0.00	1.00			
10	Synergy	0.19	0.39	0.00	0.02	-0.03	0.00	0.01	0.00	0.03	0.01	0.05	1.00		
11	Investment	0.05	0.23	0.01	-0.03	0.02	0.04	-0.01	0.00	-0.02	-0.01	-0.01	0.02	1.00	
12	Retention	0.09	0.29	0.06	-0.01	0.00	-0.02	0.01	0.07	-0.02	-0.02	-0.03	0.03	0.04	1.00
13	Market volatility	0.43	0.42	-0.05	0.02	-0.02	0.03	0.01	-0.01	0.02	-0.03	-0.11	0.03	0.01	-0.03
14	Share price shock	0.21	0.41	0.06	-0.06	-0.04	0.03	0.02	0.01	0.03	0.02	0.03	-0.02	-0.01	0.00
15	After 2008	0.14	0.20	-0.09	0.02	-0.01	0.01	0.02	-0.01	0.01	0.01	-0.06	0.03	0.01	-0.02
16	Time (continuous)	NA	NA	-0.07	-0.01	0.06	0.00	-0.02	-0.01	-0.05	-0.03	0.07	0.01	0.02	0.20
17	Recommended deal	0.19	0.39	0.03	-0.02	0.03	-0.03	-0.01	0.01	-0.03	0.01	0.10	-0.04	-0.01	0.03
18	Contested, Hostile deal	0.14	0.35	-0.05	0.01	0.02	0.02	-0.01	0.00	-0.02	-0.01	-0.04	-0.01	0.22	0.04
19	Related	0.63	0.34	0.03	-0.03	0.05	0.01	-0.02	-0.01	-0.05	0.00	-0.04	0.06	0.06	0.08
20	Unrelated	0.37	0.44	-0.05	-0.02	0.02	0.00	-0.02	-0.01	-0.02	0.01	-0.08	0.04	0.03	0.01
21	Domestic acquirer	0.66	0.41	0.08	-0.08	0.03	0.03	-0.01	-0.01	-0.03	0.01	-0.02	0.06	0.07	0.09
22	Cross border acquirer	0.22	0.19	0.01	-0.01	0.01	0.00	0.00	0.00	-0.01	0.00	-0.02	0.01	0.00	-0.01
23	Stock	0.11	0.10	0.04	-0.02	0.02	-0.01	-0.01	0.00	-0.02	-0.01	0.02	0.02	0.04	0.54
24	No stock	0.43	0.27	0.02	0.03	0.04	-0.01	-0.02	0.00	-0.03	0.00	-0.05	0.03	-0.01	0.04
25	Simple	0.12	0.03	0.01	-0.03	0.01	-0.01	0.00	0.00	-0.01	0.00	-0.03	0.01	-0.01	0.03
26	Complex	0.45	0.16	-0.05	0.01	0.01	-0.01	-0.01	0.00	-0.01	-0.01	0.01	0.01	0.04	-0.01
27	Relative size of bidder vs. target (small to large)	NA	NA	0.13	-0.06	0.00	0.06	0.00	-0.01	0.00	0.00	0.03	0.05	0.07	0.08
28	Relative size of bidder vs. deal (same as above)	NA	NA	-0.05	-0.02	-0.01	-0.01	-0.01	0.00	0.01	-0.01	-0.05	0.01	-0.01	0.03
29	Serial M&A	0.18	0.66	0.49	0.47	0.59	0.01	0.82	0.94	0.63	0.81	0.72	0.00	0.73	0.60
30	On FG 100 most admired list	0.22	0.11	0.28	0.65	0.55	0.64	0.75	0.92	0.40	0.73	0.93	0.53	0.10	0.46

Table 1 continued

	Variables	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
13	Market volatility	1.00																	
14	Share price shock	-0.07	1.00																
15	After 2008	0.73	-0.05	1.00															
16	Time (continuous)	0.04	-0.01	0.06	1.00														
17	Recommended deal	-0.97	0.07	-0.77	-0.04	1.00													
18	Contested, Hostile deal	-0.03	-0.22	-0.02	0.00	0.03	1.00												
19	Related	-0.04	-0.51	-0.05	-0.02	0.05	0.12	1.00											
20	Unrelated	-0.07	0.04	-0.07	-0.03	0.08	-0.02	0.42	1.00										
21	Domestic acquirer	-0.10	0.10	-0.10	-0.03	0.10	-0.01	0.81	0.51	1.00									
22	Cross border acquirer	-0.02	0.01	-0.01	-0.01	0.02	0.00	0.08	0.15	0.09	1.00								
23	Stock	-0.02	-0.03	-0.01	0.34	0.02	0.02	0.17	0.08	0.18	0.00	1.00							
24	No stock	-0.01	-0.21	-0.03	-0.02	0.01	0.07	0.16	-0.05	0.05	-0.01	0.09	1.00						
25	Simple	-0.02	-0.02	-0.02	-0.01	0.03	0.00	0.08	-0.01	0.08	0.00	0.00	-0.01	1.00					
26	Complex	0.07	-0.11	0.08	-0.02	-0.06	-0.01	0.06	-0.02	-0.01	0.00	-0.01	0.07	0.00	1.00				
27	Relative size of bidder vs. target (small to large)	-0.08	0.06	-0.07	-0.02	0.09	0.05	0.52	-0.08	0.65	-0.01	0.17	-0.06	-0.02	0.00	1.00			
28	Relative size of bidder vs. deal (same as above)	0.00	-0.01	-0.01	-0.01	0.00	-0.01	-0.01	0.00	-0.02	0.00	-0.01	-0.02	0.00	-0.01	-0.03	1.00		
29	Serial M&A	0.04	0.48	0.00	0.41	0.01	0.78	0.67	0.38	0.33	0.92	0.78	0.59	0.89	0.85	0.73	0.82	1.00	
30	On FG 100 most admired list	0.00	0.32	0.00	0.50	0.00	0.69	0.97	0.89	0.53	0.88	0.69	0.44	0.85	0.00	0.63	0.01	0.90	1.00

Table 1 continued

	p-values	1	2	3	4	5	6	7	8	9	10	11	12	13
1	M&A specialists	NA												
2	Legal advisors in the magic circle	0.03	NA											
3	Financial advisors in the bulge bracket	0.00	0.24	NA										
4	Consultants – white shoe	0.35	0.88	0.74	NA									
5	Qualitative data	0.65	0.38	0.48	0.00	NA								
6	Quantitative (financial) data	0.56	0.81	0.66	0.00	0.37	NA							
7	Integration	0.12	0.83	0.88	0.00	0.77	0.86	NA						
8	Integration (timetable)	0.18	0.52	0.47	0.00	0.14	0.38	0.77	NA					
9	Integration (restructuring plans)	0.65	0.59	0.69	0.00	0.41	0.62	0.87	0.42	NA				
10	Synergy	0.06	0.41	0.90	0.15	0.65	0.20	0.47	0.06	0.08	NA			
11	Investment	0.98	0.88	0.63	0.31	0.94	0.55	0.84	0.33	0.59	0.81	NA		
12	Retention	0.54	0.65	0.80	0.38	0.61	0.76	0.92	0.61	0.78	0.28	0.73	NA	
13	Market volatility	0.11	0.59	0.58	0.67	0.83	0.49	0.82	0.08	0.53	0.66	0.54	0.03	NA
14	Share price shock	0.00	0.99	0.97	0.45	0.96	0.21	0.09	0.85	0.92	0.00	0.03	0.70	0.12
15	After 2008	0.57	0.12	0.00	0.00	0.16	0.24	0.70	0.05	0.28	0.10	0.64	0.36	0.97
16	Time (continuous)	0.01	0.70	0.41	0.42	0.85	0.94	0.00	0.47	0.68	0.06	0.11	0.30	0.01
17	Recommended deal	0.00	0.98	0.53	0.27	0.66	0.44	0.80	0.21	0.42	0.59	0.40	0.06	0.92
18	Contested, Hostile deal	0.00	0.95	0.99	0.39	0.85	0.22	0.09	0.89	0.90	0.00	0.02	0.68	0.13
19	Related	0.55	0.01	0.79	0.34	0.58	0.74	0.91	0.59	0.76	0.24	0.00	0.00	0.67
20	Unrelated	0.03	0.29	0.00	0.01	0.69	0.06	0.42	0.03	0.11	0.00	0.03	0.60	1.00
21	Domestic acquirer	0.00	0.80	0.68	0.01	1.00	0.11	0.60	0.03	0.15	0.00	0.08	0.74	0.14
22	Cross border acquirer	0.02	0.17	0.09	1.00	0.18	0.14	0.49	0.71	0.93	0.00	0.02	0.88	0.80
23	Stock	0.25	0.06	0.82	0.42	0.64	0.78	0.93	0.65	0.80	0.32	0.76	0.87	0.72
24	No stock	0.00	0.08	0.73	0.82	0.42	0.68	0.89	0.49	0.70	0.80	0.64	0.81	0.59
25	Simple	0.03	0.53	0.21	0.72	0.80	0.43	0.82	0.46	0.53	0.49	0.44	0.69	0.01
26	Complex	0.94	0.36	0.76	0.30	0.30	0.71	0.90	0.28	0.73	0.49	0.68	0.83	0.10
27	Relative size of bidder vs. target (small to large)	0.00	0.31	0.00	0.92	0.55	0.72	0.91	0.23	0.75	0.66	0.69	0.84	0.65
28	Relative size of bidder vs. deal (same as above)	0.25	0.07	0.36	0.37	0.10	0.86	0.71	0.96	0.99	0.02	0.21	0.52	0.41
29	Serial M&A	0.30	0.02	0.62	0.02	0.98	0.54	0.84	0.03	0.00	0.25	0.50	0.73	0.44
30	On FG 100 most admired list	0.28	0.89	0.92	0.72	0.83	0.90	0.97	0.84	0.91	0.66	0.89	0.94	0.87

Table 1 continued

	p-values	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
14	Share price shock	NA																
15	After 2008	0.15	NA															
16	Time (continuous)	0.00	0.20	NA														
17	Recommended deal	0.46	0.34	0.01	NA													
18	Contested, Hostile deal	0.00	0.17	0.00	0.30	NA												
19	Related	0.50	0.00	0.83	0.63	0.49	NA											
20	Unrelated	0.00	0.00	0.05	0.01	0.00	0.04	NA										
21	Domestic acquirer	0.00	0.00	0.00	0.83	0.00	0.32	0.00	NA									
22	Cross border acquirer	0.00	0.00	0.06	0.08	0.00	0.75	0.00	0.00	NA								
23	Stock	0.34	0.54	0.88	0.03	0.33	0.86	0.00	0.00	0.00	NA							
24	No stock	0.12	0.36	0.94	0.00	0.34	0.80	0.00	0.01	0.00	0.00	NA						
25	Simple	0.03	0.00	0.70	0.94	0.04	0.67	0.00	0.04	0.00	0.72	0.17	NA					
26	Complex	0.63	0.64	0.70	0.17	0.62	0.81	0.00	0.26	0.00	0.84	0.00	0.62	NA				
27	Relative size of bidder vs. target (small to large)	0.61	0.00	0.72	0.61	0.63	0.83	0.00	0.29	0.63	0.85	0.78	0.64	0.80	NA			
28	Relative size of bidder vs. deal (same as above)	0.87	0.04	0.13	0.07	0.56	0.41	0.00	0.00	0.00	0.55	0.00	0.14	0.43	0.50	NA		
29	Serial M&A	0.02	0.61	0.10	0.39	0.02	0.71	0.02	0.24	0.00	0.75	0.64	0.43	0.05	0.69	0.67	NA	
30	On FG 100 most admired list	0.23	0.78	0.65	0.86	0.24	0.94	0.57	0.71	0.63	0.95	0.92	0.87	0.93	0.93	0.79	0.89	NA

TABLE 3: Regression

	Model 1*				Model 2**				Model 3†				Model 4***			
	UK		USA		UK		USA		UK		USA		UK		USA	
	Target	Bidder	Target	Bidder	Target	Bidder	Target	Bidder	Target	Bidder	Target	Bidder	Target	Bidder	Target	Bidder
Intercept	0.14 (0.94)	0.44 (0.52)	0.05 (0.27)	0.54 (0.65)	0.34 (0.62)	0.23 (0.23)	0.73 (0.56)	0.25 (0.23)	0.34 (0.23)	0.37 (0.72)	0.81 (0.25)	0.23 (0.92)	0.23 (0.73)	0.34 (0.26)	0.78 (0.63)	0.37 (0.23)
Main effects (hypotheses)																
Practitioners																
M&A specialists	0.01† (0.16)	0.05** (0.13)	0.03† (0.05)	0.06** (0.03)					0.00 (0.37)	0.04** (0.17)	0.01† (0.08)	0.05** (0.06)	0.01† (0.16)	0.05** (0.13)	0.03† (0.05)	0.06** (0.03)
High-reputation intermediaries																
Legal advisors in the magic circle	-0.03 (-0.76)	0.01 (0.16)	-0.01 (-0.43)	0.02 (0.13)					-0.01 (-0.78)	0.00 (0.21)	-0.00 (-0.51)	0.01 (0.18)				
Financial advisors in the bulge bracket	0.01 (0.25)	0.03*** (0.13)	0.02 (0.06	0.03*** (0.09)					0.00 (0.28)	0.02** (0.17)	0.01 (0.09)	0.03** (0.08)	0.01 (0.23)	0.04*** (0.10)	0.03 (0.04)	0.05*** (0.08)
Consultants – white shoe	0.03 (0.76)	0.04 (0.51)	0.08 (0.32)	0.05 (0.54)					0.02 (0.78)	0.03 (0.61)	0.06 (0.41)	0.04 (0.60)				
Legal*Financial	0.02 (0.29)	0.01** (0.10)	0.01 (0.05)	0.02** (0.07)					0.01 (0.32)	0.01* (0.19)	0.00 (0.09)	0.01* (0.11)				
Legal*Consultants	0.04 (0.43)	0.05 (0.28)	0.11 (0.46)	0.12 (0.33)					0.02 (0.51)	0.04 (0.33)	0.09 (0.49)	0.10 (0.38)				
Financial*Consultants	0.01 (0.20)	0.02** (0.12)	0.00 (0.03)	0.03** (0.05)					0.00 (0.26)	0.01* (0.20)	0.00 (0.03)	0.01* (0.17)				
Legal*Financial*Consultants	0.00 (0.27)	0.01** (0.11)	0.00 (0.03)	0.02** (0.07)					0.00 (0.45)	0.01* (0.33)	0.00 (0.12)	0.01* (0.11)				
Praxis																
Qualitative data					0.03 (0.41)	0.05** (0.04)	0.01 (0.04)	0.02 (0.12)	0.02 (0.47)	0.03* (0.24)	0.00 (0.09)	0.01 (0.32)	0.04 (0.41)	0.05** (0.04)	0.01 (0.03)	0.02 (0.12)
Quantitative (financial) data					0.16* (0.19)	0.19** (0.14)	0.18** (0.13)	0.22*** (0.05)	0.10* (0.23)	0.13* (0.22)	0.11* (0.24)	0.15** (0.14)	0.17* (0.18)	0.19** (0.13)	0.19** (0.12)	0.24*** (0.06)
Qualitative & quantitative data					0.17* (0.07)	0.19** (0.13)	0.17* (0.10)	0.23** (0.00)	0.10 (0.18)	0.12* (0.15)	0.15* (0.14)	0.17* (0.11)	0.18* (0.07)	0.21** (0.12)	0.18* (0.09)	0.24** (0.02)
Integration					0.00 (0.05)	0.01* (0.01)	0.00 (0.08)	0.01* (0.04)	0.00 (0.17)	0.00 (0.21)	0.00 (0.27)	0.01* (0.09)	0.00 (0.09)	0.01* (0.03)	0.00 (0.08)	0.02* (0.05)
Integration (timetable)					0.01 (0.03)	0.02* (0.01)	0.01 (0.04)	0.03* (0.02)	0.00 (0.23)	0.01 (0.10)	0.00 (0.08)	0.01 (0.12)	0.01 (0.04)	0.01* (0.01)	0.01 (0.04)	0.03* (0.03)
Integration (restructuring plans)					0.01 (0.29)	0.02** (0.03)	0.01 (0.04)	0.03* (0.01)	0.00 (0.35)	0.01* (0.13)	0.01 (0.10)	0.02 (0.09)	0.00 (0.28)	0.01** (0.04)	0.01* (0.05)	0.02* (0.01)
Synergy					0.00 (0.43)	0.01 (0.17)	0.01 (0.03)	0.02** (0.03)	0.00 (0.51)	0.00 (0.23)	0.01 (0.13)	0.01* (0.09)	0.01 (0.47)	0.02 (0.20)	0.01 (0.03)	0.02** (0.01)
Investment					0.02 (0.42)	0.05 (0.21)	0.01 (0.42)	0.06* (0.02)	0.02 (0.52)	0.03 (0.28)	0.00 (0.48)	0.05* (0.10)				
Retention					0.04 (0.31)	0.01 (0.09)	0.05 (0.24)	0.13 (0.42)	0.02 (0.35)	0.00 (0.12)	0.03 (0.30)	0.10 (0.48)				

Control Variables																
Market-related variables																
Market volatility									0.01†	0.09*	0.02*	0.11**	0.01*	0.09*	0.03*	0.12**
									(0.15)	(0.07)	(0.05)	(0.02)	(0.10)	(0.05)	(0.02)	(0.02)
Share price shock									0.02†	0.04**	0.03*	0.12**	0.03†	0.05**	0.04*	0.17**
									(0.05)	(0.03)	(0.01)	(0.00)	(0.06)	(0.05)	(0.03)	(0.00)
Time-related variables																
After 2008									0.01	0.09*	0.11*	0.12**	0.02	0.09*	0.1149*	0.13**
									(0.33)	(0.16)	(0.08)	(0.05)	(0.33)	(0.15)	(0.0714)	(0.04)
Time (continuous)									0.08	0.10†	0.09	0.13*				
									(0.68)	(0.07)	(0.56)	(0.06)				
Deal type																
Recommended									0.01	0.02	0.04	0.03				
									(0.24)	(0.17)	(0.21)	(0.20)				
Contested, Hostile									-0.31*	-0.32*	-0.29*	-0.36*	-0.28*	-0.31*	-0.27*	-0.39*
									(-0.28)	(-0.19)	(-0.12)	(-0.30)	(-0.19)	(-0.18)	(-0.16)	(-0.23)
Industry relatedness																
Related									0.08*	0.11**	0.11*	0.12**	0.08*	0.11**	0.10*	0.13**
									(0.15)	(0.06)	(0.05)	(0.03)	(0.14)	(0.05)	(0.04)	(0.09)
Unrelated									-0.07**	-0.11	-0.14**	-0.15**	-0.07**	-0.12	-0.13**	-0.16**
									(-0.05)	(-0.07)	(-0.03)	(-0.02)	(-0.04)	(-0.07)	(-0.04)	(-0.02)
Nationality																
Domestic acquirer									0.01*	0.02*	0.01*	0.02*	0.01*	0.02*	0.01*	0.02*
									(0.33)	(0.16)	(0.19)	(0.10)	(0.34)	(0.15)	(0.18)	(0.09)
Cross border acquirer									-0.01**	-0.05**	-0.05**	-0.09**	-0.02**	-0.07**	-0.06**	-0.09**
									(-0.33)	(-0.30)	(-0.21)	(-0.19)	(-0.32)	(-0.22)	(-0.18)	(-0.19)
Type of financing																
Stock									0.17*	-0.03*	0.19*	-0.06*	0.17*	-0.04*	0.20*	-0.08*
									(0.10)	(-0.21)	(0.11)	(-0.28)	(0.09)	(-0.20)	(0.10)	(-0.21)
No stock									0.17*	-0.01*	0.26*	-0.01*	0.18***	-0.01*	0.26***	-0.01*
									(0.19)	(-0.02)	(0.09)	(-0.05)	(0.19)	(-0.02)	(0.09)	(-0.03)
Complexity of the deal																
Simple									0.01	0.05	0.04	0.07				
									(0.02)	(0.0)	(0.10)	(0.11)				
Complex									0.10†	0.12*	0.11*	0.13**	0.11†	0.13**	0.12*	0.15**
									(0.01)	(0.00)	(0.08)	(0.04)	(0.09)	(0.00)	(0.07)	(0.03)
Size																
Relative size of bidder vs. target									0.09*	0.00	0.03	0.10				
(small to large)									(0.13)	(0.19)	(0.04)	(0.18)				
Relative size of bidder vs. deal									0.02	0.13***	0.00	0.28***	0.02†	0.24***	0.01†	0.31***
(same as above)									(0.04)	(0.00)	(0.05)	(0.01)	(0.06)	(0.00)	(0.04)	(0.01)
Reputation-related																
Serial M&A									0.00	0.02****	0.01	0.05****	0.01	0.02****	0.01	0.06****
									(0.31)	(0.41)	(0.37)	(0.17)	(0.29)	(0.3141)	(0.23)	(0.11)
On FG 100 most admired list									0.02	0.06	0.08	0.08				
									(0.52)	(0.30)	(0.31)	(0.18)				
R-sq.	0.13	0.14	0.13	0.15	0.25	0.26	0.25	0.27	0.11	0.13	0.12	0.14	0.19	0.27	0.23	0.34
Adj. R-sq.	0.11	0.13	0.12	0.14	0.24	0.25	0.24	0.26	0.10	0.12	0.11	0.13	0.18	0.26	0.22	0.33
RMSE	0.33	0.27	0.28	0.30	0.17	0.15	0.16	0.14	0.34	0.30	0.31	0.29	0.18	0.15	0.17	0.14

†p<0.1; *p<0.05; **p<0.01; ***p<0.005; p<0.001. Standard errors in parentheses. All models include year fixed effects

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