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Time your strategies carefully: when to communicate strategic intentions during M&A

Abstract

In competitive strategy, timing advantages are often discussed in relation to first mover and fast follower advantages, innovation cycles, imitation speed, time-based competition and hyper-competition. There is also research on the value of signalling strategic commitment in gaining strategic advantage. However, there has been little discussion about the timing, and relevance, of strategic communications in different institutional contexts. When should strategy be communicated to the wider market, and do different institutional contexts affect the impact of these communications? This discussion paper examines the timing of voluntary communications during mergers and acquisitions (M&A) activity in the US and the UK in order to determine whether there are any differences in competitive advantage to communications timing in these contexts and whether modifiers, including actors in organisational fields, can make a difference.

Introduction

Timing is an important dimension of competitive strategy. Advantages associated with firms that reap timing benefits have in the past been studied in the context of first-mover and fast follower advantages (Geroski and Markides, 2005), innovation cycles, imitation speed, time-based competition (Stalk, Evans and Shulman, 1992), and hyper-competition (D'Aveni, 1994). In addition, there is evidence to support the importance of signalling strategic intentions to competitors (Yakis-Douglas, Angwin and Meadows, 2012), but little has been said about external strategy communications in institutional contexts, how they differ, and whether or not the timing of these communications matters.

Strategy communications may matter as there are advantages associated with firms being perceived as legitimate in their institutional context. This may enable them to secure resources, and enhance organizational survival (Meyer and Rowan 1977). The timing of those communications may also be important in terms of appropriate behaviour for the context in which the firm is operating. How and when firms communicate strategy is particularly important during mergers and acquisitions (M&A), as the M&A process is all about securing resources and very often firm survival. Where firms are publically quoted, they need to communicate to markets to persuade investors of the legitimacy of their intentions, as this could make the difference between winning and losing in a contested bid through securing or failing to secure shareholder approval. In a hostile bid situation, where winners and losers are clearly defined, the investors' decision processes could be conceived as communications contests between adversaries, with the winner better able to communicate the message investors wish to hear. For example, the failed bid for the London Stock Exchange was blamed upon top management inability to communicate its strategy to key investors. On December 13th, 2004, Deutsche Boerse AG (DB), the owner of 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. The LSE was valued at £1.3bn, representing a 23% premium on the LSE share price two days earlier.

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DB shareholders were concerned by 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 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. However, this communication came 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. Researchers have overlooked the nature and effect of post-announcement voluntary (as opposed to communications demanded by legislation) communications and the extent to which different aspects of communication affect share prices and deal outcomes.

Some studies have suggested that organisational goals may be achieved through manipulating legitimacy (Suchman, 1995: p.571-610), through the tactical use of strategic communications. Recent research by Vaara and Monin (2010), taking a recursive perspective on discourse, argues that firms may use specific messages to facilitate stakeholder buy-in to a transaction, even though those messages may subsequently come to constrain the acquirer in how mergers are managed post-deal – a problem if the original message was not an entirely accurate representation of the purpose and strategy of the deal. Although this research focuses on the content of pre-merger communication, such tactical actions may also be apparent in the timing of those messages.

Mergers and acquisitions are a global activity, and yet the geographic contexts in which transactions take place can vary substantially on many dimensions including culture, politics and economics. International Business scholars have conceptualised these differences as types of 'distance' and carried out many studies, focusing on MNEs, to show that these businesses often have to operate differently in different institutional contexts. For this reason, communications practices may vary by geographic context. Also within each context, the Comparative Capitalism literature suggests that the configurations of national business systems can make a difference to corporate behaviour. Specifically institutional actors, such as lawyers, accountants and bankers may make a difference to corporate behaviour within a broad framework of national markets and administration.

As well as the geographic context(s), mergers and acquisitions are known to occur in waves. This temporal context can see marked changes in levels of activity, with 2007 seeing record levels of M&A transactions globally and 2009 – 2012 being a lull in activity. To some extent there are links between M&A activity and general economic health in economies (although this relationship is very complex) and it is likely that perceptions of M&A may change over time – with markets favouring M&A more at some times relative to others. This may mean that the timing and content of M&A communications need to vary, with firms having to work much harder to persuade investors when they are risk averse as opposed to when they are feeling optimistic. For this reason, temporal context(s) may be just as important as geographic contexts.

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In order to research the timing of strategic communications in different contexts, our research question is three-fold. First, are there significant differences in the practice of voluntary communications across geographic contexts? Second, do these differences in practice make a difference to investors? And finally, are there any aspects of communications that are useful to firms regardless of context (geography and time)?

Theory and Hypotheses

We hypothesize that there will be differences in firms' communication practices with respect to distance, timing, and the type of information. We then discuss share price reaction to communications in the context of these dimensions (distance, timing, and type of information) as well as the possible impact of a number of moderating variables.

Distance

Institutions define the 'rule of the game' (North, 1990), and from an International Business perspective they are perceived as constraining or incentivising strategic choice (Ingram and Clay, 2000). For instance, legal restrictions on foreign equity ownership may affect entry modes as well as timing of entry. In these terms, businesses need to adapt their strategy to the institutional environment in which they operate (Wan, 2005). For this reason, some institutional contexts are perceived as more responsive than others, or more demanding of companies with more rigorous enforced regulation i.e. quarterly reporting. Therefore it is likely that voluntary communication patterns may differ by institutional context, and institutionally-sensitive research into patterns of international voluntary disclosure may be informative.

One of the criticisms of International Business theory is that it tends to be rather thin, perceiving institutional contexts as producing a generic set of constraints related to broad constructs such as 'distance' which may include geographic, cultural (Hofstede 1980), political, judicial and fiscal distances. Ghemawat (2001) has proposed an integrative perspective in these terms, with difference based upon cultural, administrative, political, geographic and economic distances. The underlying logic is based on transaction cost theory, that an increase in institutional distance is a cost for firms seeking to internationalise. In order to address the 'thin' perceptions of International Business, Comparative Capitalism research, using case studies, has enabled a richer understanding of institutional systems, such as Whitley's (1999) national business systems. This has led to typologies seeking to identify ideal types, and subsequent research has endeavoured to support these classifications through cross case comparisons. From this perspective, institutions are once again seen as shaping actors capacity for action and their capabilities. However, the research from both perspectives has tended to examine cases where 'distance' between institutions is significant, assuming that firms' strategies will be largely the same and consistent if the institutional contexts are similar. Recent calls for more sensitive investigation of institutional structures and linkages – a more nuanced view of diversity in country specific institutional configurations (Jackson and Deeg 2008) - suggest that even in countries which are viewed as being of very low 'distance', there could be significant implications for how firms enact their strategies. In other words, we may well expect to find variation in how firms act voluntarily in their strategic communications even if the countries being compared are very close in nature. If

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differences are found, this would provide evidence that researchers need be more sensitive to the connectivity between institutions within each national context.

In the hypotheses, from here on, 'communications' refers to 'interim news events carried out during M&A' and is calculated as communications per year/deals per year.

Therefore,

Hypothesis 1: There are significant differences in voluntary strategic communications practice in proximate contexts

Timing

International Business theory says little about how institutional contexts change, with institutions reified as unchanging. However, financial markets can change dramatically, forcing firms to adjust their strategies. For instance, in boom times, M&A are often encouraged, and in recession the frequency of M&A is much reduced. Santos and Winton (2008) show that loan spreads rise in recessions, but firms with public debt market access pay less in recessions. So timing matters, as markets may be more receptive to voluntary strategic communications at some times rather than others.

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

Type of information

Stakeholders such as investors construct impressions of a firm's reputation based on a range of information such as observing the firm's position in particular fields, market and accounting signals, and so on (Fombrun and Shanley, 1990). It has also been shown that companies build the trust of financial markets in a range of ways – for instance by demonstrating that they have committed leaders and credible control systems but also by adopting transparent communication (Mazzola, Ravasi and Gabbioneta, 2006). Authors have also explored the use of either, or both, 'hard' quantitative data and 'soft' qualitative data in corporate communications; for instance Narayanan et al (2000) consider the voluntary disclosure of qualitative information, such as governmental approval and management intention, in R&D projects. We therefore hypothesize that the use of different types of information, such as qualitative and quantitative, will differ with respect to other factors such as geography and timing.

Hypothesis 3: There are significant differences in use of quantitative and qualitative information in boom and bust periods across geographies

Share price reaction to communications

Firms are responsible to their stakeholders such as investors, and they can respond to pressures to conform to norms. It can be argued that voluntary communications are likely to have a positive effect, as they reduce information asymmetry with between firms and the market. Therefore

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existing theory suggests that voluntary communications may be positively related to share price reaction.

Hypothesis 4: Interim news events are significantly associated with cumulative abnormal returns (CAR), in a positive and negative direction

Share price reaction to communications in different times

Firms will aim to 'fit' their institutional and contextual (boom and bust) environments for greater success – so more frequent communications will be associated with better performance in boom periods as investors are more positively disposed towards communications. There may also be better performance in bust periods where investor anxiety will fuel information seeking behaviour.

Hypothesis 5: Shareholders' reactions to interim news events vary significantly in boom and bust periods across geographies

Share price reaction to different types of information

An institutional view of the 'legitimacy' or 'credibility' of a message that is being communicated by a firm may also change over time. It is also possible that returns (CAR) will be influenced by the content of communication, such as qualitative and quantitative data, in different amounts, for instance preferring 'hard data' during times of poor economic performance.

Hypothesis 6: Shareholders' reactions to interim news events vary significantly regarding the types of information they are presented in boom and bust periods, across geographies

Moderators: Reputation and Strategy

Although there are various contextual differences and investors react differently to these, we expect investors' reactions to communications involving high reputation intermediaries and strategy content will be the same throughout geographic contexts and boom and bust periods. The markets may view communications more positively if those communications are associated with high reputation intermediaries. Even when the protagonists have little M&A experience, the use of these intermediaries may give the markets greater confidence in the commitment of the protagonists.

Hypothesis 7: Communications have a greater positive effect upon share price performance regardless of geography when high reputation intermediaries are deployed

Hypothesis 8: Communications that contain strategic content have a positive effect upon share price performance regardless of geography

Data and Methods

There are three main purposes to our study. First, we explore differences in institutional contexts regarding voluntary communications; second, we analyse the stock price responses to these communications through calculating cumulative abnormal returns (CAR) associated with these

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events; and finally we explore potential moderators for share price reactions. We treat interim news events during M&A as events liable to generate cumulative abnormal returns in the financial market (McWilliams and Siegel, 1997).

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

To test Hypothesis 1, we carried out a t-test to identify potential geographic differences regarding the way firms carry out interim news events during M&A. To calculate interim news announcement frequencies, we divided communications per year by deals per year and tested whether there were any significant differences between these in UK and USA.

To test Hypotheses 2 and 3, we ran a regression where our dependent variable is interim news announcement frequencies (communications per year/deals per year) and our independent variables are the Global M&A boom and bust cycles (measured by global aggregate deal value (mil USD)); qualitative (soft) information communicated during boom and bust periods; and quantitative (financial) data communicated during boom and bust periods. We used three control variables: namely, time, global M&A trend (see Figure 1) and cross-border deals.

In Hypothesis 4, we analyse the stock price responses to interim news events during M&A through employing an event study methodology (Brown and Warner, 1985; McWilliams and Siegel, 1997). Event studies are employed widely in strategic management research (see for example Arthur, 2003; Shen and Cannella, 2003; Johnson, Ellstrand, Dalton, and Dalton, 2005; Park and Mezas, 2005; Uhlenbruck, Hitt, and Semadeni, 2006; Tian, Haleblan, and Rajagopalan, 2011; Zhang and Wiersema, 2009). Event studies are very common in the voluntary disclosure literature (see MacKinlay, 1997 for a review) and 'in the CEO succession literature, abnormal stock returns are an appropriate firm performance measure because they represent an unbiased estimate of investors' expectations and allow the isolation of reaction to a specific event' (Tian et al., 2011 p.732).

We treat interim news events as events liable to generate cumulative abnormal returns in the financial market (McWilliams and Siegel, 1997). In order to allow for the market's above average, below average, and indifferent reactions, we follow MacKinlay (1997) in discriminating between positive, negative, and neutral returns to individual events. Like the majority of event studies published in the *Strategic Management Journal* in recent years (see for example Uhlenbruck, Hitt, and Semadeni, 2006; Park and Menzias, 2005), we follow MacKinlay (1997) in categorizing abnormal returns into positive/negative/neutral. While MacKinlay does not give reasons why he chooses a cut-off point of 2%, we differentiate using significance tests at the 0.05 level to add more sensitivity to our analysis.

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 firm¹. The model to capture CAR was:

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it} \quad E[\varepsilon_{it}] = 0 \text{ and } Var[\varepsilon_{it}] = \sigma_{\varepsilon_{it}}^2 \quad (1)$$

We used the NYSE and NSDQ equally weighted index which indicates the price trend movements based on a broad cross-section of the market. To estimate the market model, we used the 260 trading day period prior to the event window as the estimation window (see MacKinlay, 1997). The length of the period used in our study was consistent with prior studies in the management literature (McWilliams and Siegel, 1997). To calculate CAR, a 3-day event window (t= -1 to +1) was used². 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 Cannella, 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:

$$\overline{CAR}(\tau_1, \tau_2) \sim N[0, \text{var}(\overline{CAR}(\tau_1, \tau_2))] \quad (2)$$

To test Hypotheses 5-8, we created an estimation model which uses a static linear panel data model where CAR_{ij} is the cumulative abnormal return for firm i for event j . In our second regression, our dependent variable is CAR associated with interim news events and our independent variables are boom and bust periods of M&A, the type of information communicated (qualitative and quantitative). We categorised CAR as above or below average. In this regression, we also test whether two additional independent variables can act as moderators - in other words, do share price reactions cease to vary across geographies and time if high reputation intermediaries and strategic content is used in communications. Regarding high-reputation intermediaries, we used binary codes to distinguish firms that employed legal advisors in the magic circle³, financial advisors in the bulge bracket⁴, and white shoe consultants⁵. For

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.

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.

strategic content, we identified words that were associated with these variables. For integration, for instance, we searched for the words *integrat**, *put together*, *add*, *mix*, *incorporate*, *join together*, *amalgamate*, *combine*, *assimilate*, *sell off*, *harvest*, *divest*. We coded for *synergy*, *investment*, *earn-out*, *retention*, and *honour (contracts)* in a similar way. 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 signalling commitment, also included a timetable and those that shared explicit restructuring plans with their investors. Regarding high-reputation intermediaries, we used binary codes to distinguish firms that employed legal advisors in the magic circle, financial advisors in the bulge bracket, and white shoe consultants. 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 and are therefore likely to be associated with above-average CAR. 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 firm (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 distinguished between foreign and domestic acquirers; and 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). 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 a firm has a reputation for being a serial acquirer and whether the firm is listed on the Fortune Global 100 most admired list. The weight placed upon communications by the markets may also be affected

⁴Financial 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

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.

Results

Figure 1 presents the UK and USA interim news events plotted against the global M&A trend. To follow Global M&A boom/bust periods, we use the global aggregate deal value (mil USD) for completed deals (instead of number of deals within that year). The interim news events are referred to as ‘communications’ for convenience and they represent the interim news events that take place within M&A deals with US and UK targets. The bidders can be domestic or foreign. These communications do not include the announcement of the M&A itself. The communications are associated with the M&A deal so the authors of communications can be the Target, the Bidder, or the Broker.

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 firms tend to act in opposition within boom and bust periods (defined here as relatively lower global aggregate deal value (in mil \$)): UK firms 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.

In order to address our first hypothesis, we test whether there are any geographic differences associated with interim news events. To do this, we classified the deals in two groups: group 0 denotes UK-based target companies in which the target or the bidder carried out an interim news event; group 1 represents US-based target companies in which the target or the bidder carried out an interim news event. Therefore, while we test for differences in geographies, we take the ‘M&A deal’ as the unit of analysis and include the interim news events that take place throughout the deal. The results of our two-sample t-tests are shown in Table 1. Using the descriptive data in Figure 1 we conclude that communication patterns of UK and US firms vary greatly: UK firms communicate during bust periods and US firms communicate during boom periods. This does not change over time. The results in Table 1 illustrate that there are significant differences between the two groups. We therefore find support for Hypothesis 1 which states that there are geographic differences in the way firms communicate – even when the countries in question have traditionally been perceived in international business literature as similar on many dimensions.

Insert Table 1

To test Hypotheses 2 and 3, we run a regression (see Table 2). Our regression results confirm that firms’ communication patterns vary in boom and bust periods across geographies and that the information that firms disclose during these periods also varies across geographies. Our

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regression results show that in the UK, communications are negatively associated with M&A boom periods (in boom periods, UK firms communicate less), however, in the US, communications are positively associated with M&A boom periods (in boom periods, US firms communicate more). In the UK, communications are positively associated with M&A bust periods (in bust periods, UK firms communicate more). In the US, communications are negatively associated with M&A bust periods (in bust periods, US firms communicate less). Regarding the type of information firms communicate, our regression results show that in boom periods, UK and US firms communicate less qualitative information. In bust periods, UK and US firms communicate more qualitative information. In bust periods, both UK and US companies communicate less quantitative data. In boom periods, both UK and US companies communicate more quantitative data.

Regarding our control variables, we found significant results for global M&A trend and cross-border deals, but not for time. We found that communications are associated positively with time; however, neither regression coefficient was significant. The trend we see in the communication patterns is associated closely with M&A trends, not time. In UK, communications are **negatively** associated with Global M&A trends. In USA, communications are **positively** associated with Global M&A trends. Communications are positively associated with cross-border deals (firms communicate more while undertaking cross-border deals). We therefore find support for Hypotheses 2 and 3.

Insert Table 2

To test Hypothesis 4, which states that interim news events are significantly associated with CAR in a positive and negative direction, we calculate cumulative abnormal returns associated with interim news events. We used a standard event study methodology (Fama et al., 1969) to estimate the stock market reaction to interim news events. In deciding on the appropriate data set, it is crucial to control for confounding events around these events, since they may impact the share price and therefore obscure the relationship between our event of interest and shareholder reaction (Arthur, 2003; McWilliams and Siegel, 1997). In selecting the events to be included in our data set, we follow McWilliams and Siegel (1997) to make sure our data is free of confounding effects such as declarations of dividends, unexpected earnings or losses, major contract awards, new product announcements, and significant liability suits during a 21-day window (from day -10 to day +10) around the interim news events. Our source for these events was StreetEvents.

Figure 2 illustrates CAR associated with interim news events and Table 3 includes the number and percentages of interim news events that generate above-average and below-average share price reaction.

Insert Figure 2

Insert Table 3

Our categorization of stock price responses into positive, neutral or negative returns (McKinlay, 1997) allows us to explore not simply whether interim news events in general impact on anticipated performance, but whether good plans or bad communications make any difference. We identify a substantial number of communications that have significant effects over the three days, and these may be in both directions. Thus 20978 (44%) of UK targets, 19548 (41%) of UK bidders, 85872 (53%) of USA targets, and 61569 (38%) of USA bidders have a significant positive effect of 3.8% on the day of the communication, diminishing slightly over the next day. At the same time, 11919 (25%) of UK targets, 17164 (36%) of UK bidders, 32405 (20%) of USA targets, and 77771 (48%) of the communications have negative effects, reaching -4.2% on the event day and enduring at around that level for the following day. The significant effects in the day leading up to the simultaneous presentations suggest that there is possible leakage and market sensitivity to these communications.

In sum, Figure 2 shows that a substantial percentage of interim news events have significant effects on stock-prices. Moreover, not all communications are evaluated in the same way by the market: some are clearly perceived as attractive and some as unattractive by investors. There are slightly more communications that are received positively than negatively, but negative evaluations are on average slightly more harsh than positive ones (-4.2% on communication day against +3.8% on communication day). The overall conclusion is that interim news events do bring new information, with a potential impact. Contrary to the low expectations from proponents of 'cheap' and 'soft talk' perspectives, we find support for Hypothesis 4.

To test Hypotheses 5-8, we run a second regression. We distinguish between CAR for UK and USA and then further for target and bidder firms. Table 4 shows the regression results (a table of correlation coefficients is available from the authors on request). Our final model is significant at $p < 0.005$ with Adjusted R-sq. varying between 0.19 and 0.35 with relatively low RMSE levels (highest: 0.20; lowest: 0.12) for different categories.

Insert Table 4

Table 4 shows that investors react stronger to interim news events in bust periods than any other period. Bust periods are times that investors will be hungry for information (mainly because US firms communicate very little during these periods, and although UK firms communicate more during bust periods, overall, firms in both countries communicate very little quantitative information during these periods). Therefore, communications taking place in these periods are characterized with highly significant reactions. In M&A boom periods, CAR associated with M&A is highly significant for both UK and USA, target and bidder, above-average and below-average news events. If, however, if investors do not like what they hear, they react more severely than the way they react to good news. In M&A bust periods, CAR associated with bust periods is more significant than CAR associated with boom periods. Investors tend to be more sensitive to announcements during bust periods. They react equally to positive and negative news, and across different geographies. Overall, in bust periods, they are more sensitive towards negative news, but only marginally. This implies that investors tend to be more sensitive generally, rather than being more sensitive to various types of news. Regarding qualitative information in boom

periods, our results show that firm 'can't go wrong' with communicating qualitative data during boom periods. Investors react significantly and positively to good news but do not punish firms for not communicating very well. However, our regression results indicate that firms do just the opposite: both UK and US firms communicate less qualitative information during boom periods. Regarding qualitative information in bust periods, investors are slightly more sensitive to bad news, but not to the extent that they evaluate good news. With regards to quantitative information in boom and bust periods, investors are extremely sensitive to such information during both boom and bust periods. They are most sensitive to negative quantitative data in bust periods, more so than any other situation. This tends to be the case for US and UK investors, across targets and bidders. Overall, reactions towards bidders tend to be more accentuated, and while US firms tend to benefit more in terms of CAR associated with interim news events compared to UK firms, they also suffer comparably more. We therefore find support for Hypotheses 5 and 6 and partial support for Hypotheses 7 and 8.

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

Discussion and Conclusion

The first part of our analysis reveals that there are contextual differences in communication patterns across geographies and throughout boom and bust periods. UK and US firms tend to act in opposition within boom and bust periods: UK firms communicate more when the market is down and they communicate less when the market is up. US firms do exactly the opposite: they become significantly more communicative in optimistic times, and relatively silent during times characterized with pessimism. Although the frequency of communications between the two countries differs drastically, the type of information that they communicate during boom and bust periods is very similar. In boom periods, they both talk about finance, and communicate less qualitative information; in bust periods, they give very little financial information and instead concentrate on qualitative information.

The second part of our analysis suggests that firms should be doing the exact opposite of what they are doing in terms of the type of information they communicate during boom or bust periods, because investors react more strongly to quantitative data during bust periods, and they react more strongly towards qualitative data during boom periods. The reason why firms may be

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reluctant to speak in financial terms during bust periods may be to safeguard their share price, avoid overpromising, and generally be more conservative. Investors, on the other hand, are hungry for financial information in pessimistic times and they are therefore reacting significantly towards any communication that includes financial information. Qualitative data, on the other hand, seems to be in abundance when things are going bad overall, although it seems investors are more interested in hearing qualitative information in boom periods.

This being said, there are aspects of communications that firms can adopt to please their investors regardless of geography and time. The final part of our study reveals that investors react positively to communications that involve high-reputation intermediaries, and they favour hearing strategy content. While investors react more positively to financial advisors in the bulge bracket and to strategy content that includes timetables and concrete plans, they do not punish firms that use other high reputation intermediaries such as magic circle lawyers and white shoe consultants, or those that communicate strategy in the absence of timetables. In other words, regardless of geography and times associated with optimism or pessimism, firms can benefit significantly from employing high-reputation intermediaries and communicating strategy.

Conclusion

This paper set out to examine a little researched area of when strategy communications matter and whether this varies by context. Institutional theory suggests that external strategy communications practices are likely to vary between different geographies. This was the case even when the institutional contexts chosen for this study were very similar. This supports Jackson and Deeg's (2008) call for a more nuanced appreciation of institutional topographies and to move away from monolithic judgements. The findings of this study also suggest that even greater differences may be found between institutional contexts which are much more dissimilar than those in the paper. This difference was also manifest in timing effects, with US companies communicating far more than UK companies in boom times and visa versa. This also means that firms are sensitive to the state of the M&A market and adjust their voluntary communications accordingly. They also make use of financial intermediaries, and that investors react positively, particularly if the financial intermediary is a high reputation financial advisor.

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Tables and figures

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

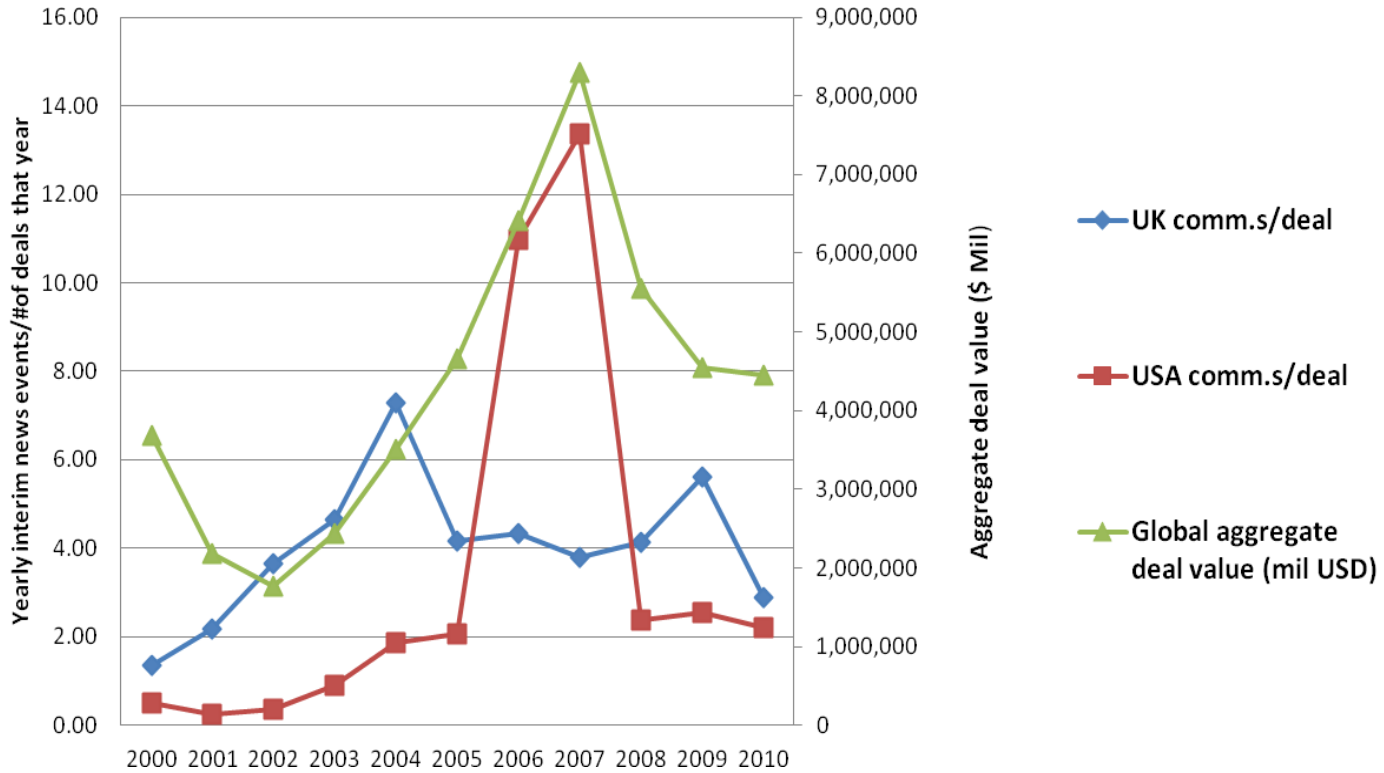


Table 1. Two-sample t-test

Group	[0,1]
t-stat	0.2168
p-value	0.0131

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Table 2. Regression regarding contextual differences

	UK	USA
Intercept	0.1814 (0.6341)	0.3606 (0.7316)
IV		
M&A boom	-0.3375** (-0.2013)	0.4427** (0.0901)
M&A bust	0.3913*** (0.1099)	-0.5714*** (-0.1302)
Qualitative data (in boom)	-0.1156* (-0.0943)	-0.1322** (0.2056)
Qualitative data (in bust)	0.1813** (0.0815)	0.1961** (0.1411)
Quantitative data (in boom)	0.1341** (0.0514)	0.1466** (0.1022)
Quantitative data (in bust)	-0.0342* (-0.1198)	-0.1455** (-0.0835)
CV		
Time	0.0497 (0.6621)	0.1471 (0.4116)
Global M&A trend	-0.2942** (-0.1714)	0.3612*** (0.2218)
Cross-border deals	0.1764** (0.2873)	0.2349** (0.1978)
R-sq	0.3621	0.4367
Adj. R-sq.	0.3599	0.4312
p-value	0.0091	0.0078
RMSE	0.0537	0.0492

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

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Figure 2. Cumulative abnormal returns associated with interim news events

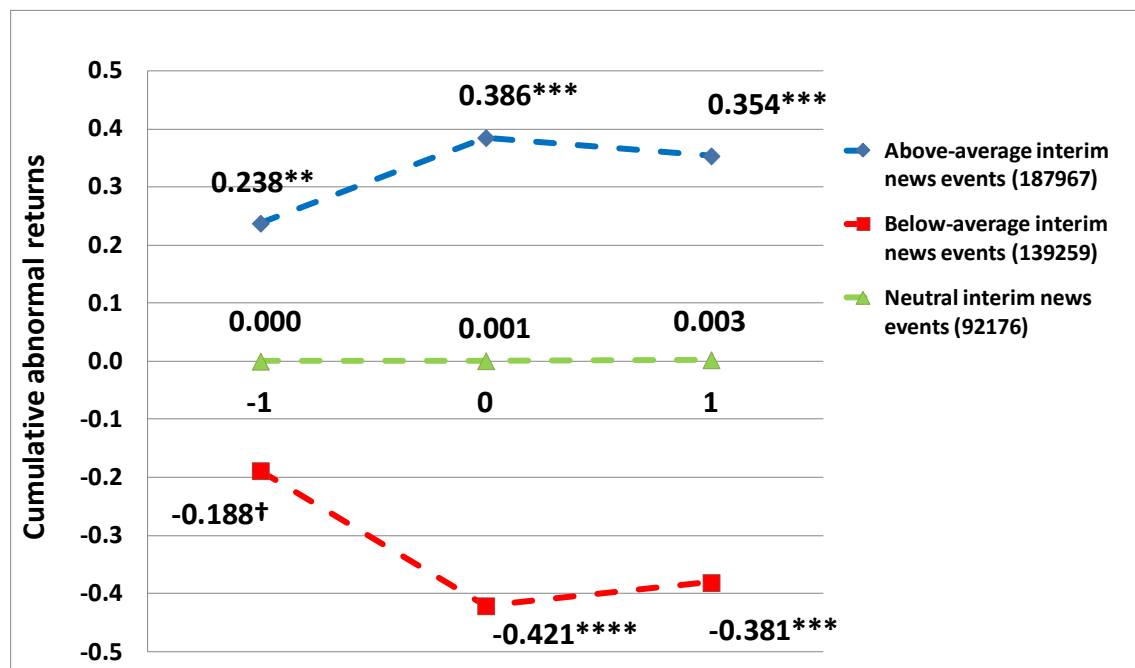


Table 3. Cumulative abnormal returns by country, target/bidder (percentages of category versus totals in parantheses)

	UK		USA	
	Target	Bidder	Target	Bidder
Above-average CAR	20978 (0.44)	19548 (0.41)	85872 (0.53)	61569 (0.38)
Below-average CAR	11919 (0.25)	17164 (0.36)	32405 (0.20)	77771 (0.48)
Neutral CAR	14781 (0.01)	10966 (0.03)	43746 (0.02)	22683 (0.00)
Total no. of comm.	47678		162023	

Table 4. Regression of time your strategies carefully: when to communicate strategic intentions during M&A

	Model 1**								Model 2***							
	UK				USA				UK				USA			
	Target		Bidder		Target		Bidder		Target		Bidder		Target		Bidder	
	Above-average	Below-average	Above-average	Below-average	Above-average	Below-average	Above-average	Below-average	Above-average	Below-average	Above-average	Below-average	Above-average	Below-average	Above-average	Below-average
Intercept	0.33 (0.74)	-0.18 (-0.22)	0.07 (0.16)	-0.60 (-0.70)	0.28 (0.54)	-0.34 (-0.30)	0.54 (0.40)	-0.31 (-0.27)	0.39 (0.59)	-0.41 (-0.69)	0.73 (0.26)	-0.26 (-0.76)	0.19 (0.55)	-0.31 (-0.22)	0.75 (0.50)	-0.32 (-0.15)
Main effects (hypotheses)																
Timing																
Boom	0.04* (0.21)	-0.06* (-0.31)	0.18** (0.29)	-0.19** (-0.20)	0.11* (0.28)	-0.14* (-0.17)	0.18*** (0.23)	-0.22*** (-0.16)	0.04* (0.16)	-0.05* (-0.28)	0.16** (0.21)	-0.19** (-0.17)	0.12* (0.25)	-0.15* (-0.14)	0.18*** (0.16)	-0.22*** (-0.10)
Bust	0.16** (0.10)	-0.20** (-0.07)	0.22*** (0.08)	-0.28*** (-0.06)	0.18** (0.07)	-0.19** (-0.04)	0.24*** (0.04)	-0.32*** (-0.04)	0.17** (0.08)	-0.21** (-0.05)	0.23*** (0.07)	-0.28*** (-0.03)	0.19** (0.04)	-0.20** (-0.03)	0.24*** (0.02)	-0.33*** (-0.02)
Type of information																
Qualitative data (in boom)	0.24** (0.09)	-0.07 (-0.39)	0.28** (0.08)	-0.04 (-0.53)	0.14* (0.10)	-0.11 (-0.31)	0.23** (0.10)	-0.13 (0.46)	0.25** (0.07)	-0.08 (-0.32)	0.29** (0.06)	-0.05 (-0.47)	0.15* (0.06)	-0.12 (-0.30)	0.24** (0.08)	-0.14 (0.40)
Qualitative data (in bust)	0.18* (0.14)	-0.08 (-0.27)	0.20* (0.12)	-0.09† (0.28)	0.10* (0.13)	-0.08 (-0.35)	0.11* (0.18)	-0.06† (-0.44)	0.17* (0.16)	-0.07 (-0.26)	0.21* (0.09)	-0.08† (0.29)	0.11* (0.09)	-0.09 (-0.28)	0.12* (0.19)	-0.05† (-0.38)
Quantitative data (in boom)	0.15** (0.19)	-0.11** (-0.25)	0.16** (0.14)	-0.11** (-0.26)	0.18** (0.11)	-0.14** (-0.11)	0.19** (0.10)	-0.10** (-0.15)	0.16** (0.11)	-0.12** (-0.19)	0.17** (0.09)	-0.12** (-0.20)	0.19** (0.07)	-0.15** (-0.07)	0.20** (0.05)	-0.11** (-0.10)
Quantitative data (in bust)	0.34*** (0.06)	- (-0.05)	0.37*** (0.05)	- (-0.04)	0.42*** (0.035)	- (-0.03)	0.49*** (0.02)	0.52*** (-0.01)	0.35*** (0.05)	- (-0.03)	0.38*** (0.02)	- (-0.01)	0.44*** (0.04)	- (-0.01)	0.49*** (0.01)	0.53*** (-0.01)
High reputation intermediaries																
Legal advisors in the magic circle	0.02 (0.66)	-0.01 (-0.78)	0.00 (0.21)	-0.02 (0.43)	0.03 (0.52)	-0.00 (-0.51)	0.01 (0.18)	-0.02 (-0.41)								
Financial advisors in the bulge bracket	0.01 (0.23)	-0.00 (-0.64)	0.04*** (0.10)	-0.02 (-0.33)	0.03 (0.04)	-0.01 (-0.13)	0.05*** (0.08)	-0.03 (-0.46)	0.02 (0.18)	-0.00 (-0.53)	0.05*** (0.08)	-0.01 (-0.46)	0.03 (0.02)	-0.01 (-0.17)	0.06*** (0.11)	-0.04 (-0.33)
Consultants – white shoe	0.02 (0.78)	-0.04 (-0.36)	0.03 (0.61)	-0.05 (-0.38)	0.06 (0.41)	-0.07 (-0.48)	0.04 (0.60)	-0.08 (-0.39)								
Legal*Financial	0.01 (0.32)	-0.00 (-0.15)	0.01* (0.19)	-0.03 (-0.58)	0.00 (0.09)	-0.02 (-0.47)	0.01* (0.11)	-0.04 (-0.33)								
Legal*Consultants	0.02 (0.51)	-0.00 (0.56)	0.04 (0.33)	-0.01 (-0.42)	0.09 (0.49)	-0.00 (-0.31)	0.10 (0.38)	-0.02 (-0.41)								
Financial*Consultants	0.00 (0.26)	-0.00 (-0.25)	0.01* (0.20)	-0.01 (-0.17)	0.00 (0.03)	-0.02 (-0.29)	0.01* (0.17)	-0.04 (-0.38)								
Legal*Financial*Consultants	0.00 (0.45)	-0.03 (-0.34)	0.01* (0.33)	-0.02 (-0.19)	0.00 (0.12)	-0.04 (-0.22)	0.01* (0.11)	-0.05 (-0.37)								
Strategy content																
Integration	0.00 (0.07)	-0.01 (-0.04)	0.01* (0.02)	-0.02 (-0.36)	0.00 (0.09)	-0.04 (-0.27)	0.01* (0.02)	-0.03 (-0.19)	0.00 (0.09)	-0.00 (-0.72)	0.01* (0.03)	-0.00 (-0.52)	0.00 (0.08)	-0.01 (-0.41)	0.02* (0.05)	-0.02 (-0.47)

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Integration (timetable)	0.01 (0.04)	-0.03 (-0.19)	0.02* (0.04)	-0.04 (-0.18)	0.01 (0.03)	-0.05 (-0.18)	0.03* (0.01)	-0.05 (-0.29)	0.01 (0.04)	-0.03 (-0.35)	0.01* (0.01)	-0.04 (-0.31)	0.01 (0.04)	-0.04 (-0.30)	0.03* (0.03)	-0.05 (-0.62)
Integration (restructuring plans)	0.02 (0.24)	-0.00 (-0.62)	0.02** (0.01)	-0.01 (-0.34)	0.01 (0.04)	-0.02 (-0.29)	0.04* (0.02)	-0.03 (0.27)	0.00 (0.28)	-0.01 (-0.29)	0.01** (0.04)	-0.02 (-0.37)	0.01* (0.05)	-0.02 (-0.47)	0.02* (0.01)	-0.03 (-0.31)
Synergy	0.00 (0.43)	-0.00 (0.52)	0.01 (0.17)	-0.03 (-0.31)	0.01 (0.01)	-0.01 (-0.46)	0.02** (0.03)	-0.04 (-0.17)	0.01 (0.47)	-0.02 (-0.40)	0.02 (0.20)	-0.04 (-0.39)	0.01 (0.03)	-0.03 (-0.36)	0.02** (0.01)	-0.05 (0.26)
Investment	0.02 (0.39)	-0.00 (-0.25)	0.05 (0.23)	-0.02 (-0.13)	0.01 (0.42)	-0.02 (-0.29)	0.06* (0.02)	-0.04 (-0.27)								
Retention	0.04 (0.29)	-0.02 (-0.33)	0.01 (0.09)	-0.03 (-0.16)	0.05 (0.21)	-0.07 (-0.19)	0.13 (0.39)	-0.07 (-0.10)								
Control Variables																
Time	0.08 (0.54)	-0.01 (-0.61)	0.10* (0.14)	-0.02 (-0.42)	0.09 (0.21)	-0.04 (-0.24)	0.11* (0.15)	-0.06 (-0.11)	0.07 (0.56)	-0.03 (-0.50)	0.10* (0.08)	-0.01 (-0.44)	0.10 (0.19)	-0.03 (-0.26)	0.12* (0.13)	-0.07 (-0.10)
Global M&A trend	0.09 (0.18)	-0.03 (-0.17)	0.11 (0.12)	-0.09 (-0.16)	0.12* (0.13)	-0.13* (-0.10)	0.13** (0.10)	-0.15*** (-0.09)	0.08 (0.21)	-0.04 (-0.18)	0.13 (0.09)	-0.08 (-0.13)	0.11* (0.15)	-0.14* (-0.09)	0.14** (0.08)	-0.16*** (-0.07)
Market-related variables																
Market volatility	0.01† (0.15)	-0.01 (-0.16)	0.09* (0.07)	-0.05 (0.17)	0.02* (0.05)	-0.03 (-0.22)	0.11** (0.02)	-0.09 (-0.11)	0.01* (0.10)	-0.01 (-0.14)	0.09* (0.05)	-0.04 (0.21)	0.03* (0.02)	-0.02 (-0.20)	0.12** (0.02)	-0.08 (-0.18)
Share price shock	0.02† (0.05)	-0.01 (-0.17)	0.04** (0.03)	-0.02 (-0.26)	0.03* (0.01)	-0.01 (-0.19)	0.12** (0.00)	-0.05 (-0.14)	0.03† (0.06)	-0.00 (-0.20)	0.05** (0.05)	-0.01 (-0.26)	0.04* (0.03)	-0.02 (-0.18)	0.17** (0.00)	-0.06 (-0.13)
Time-related variables																
After 2008	0.01 (0.33)	-0.00 (-0.39)	0.09* (0.16)	-0.05 (-0.38)	0.11* (0.08)	-0.06 (-0.19)	0.12** (0.05)	-0.07 (-0.21)	0.02 (0.33)	-0.01 (-0.31)	0.09* (0.15)	-0.06 (-0.32)	0.12* (0.07)	-0.07 (-0.18)	0.13** (0.04)	-0.08 (-0.19)
Time (continuous)	0.08 (0.68)	-0.06 (-0.52)	0.10† (0.07)	-0.07 (-0.33)	0.09 (0.56)	-0.07 (0.42)	0.13* (0.06)	-0.09 (-0.49)								
Deal type																
Recommended	0.01 (0.24)	-0.02 (0.33)	0.02 (0.17)	-0.04 (-0.18)	0.04 (0.21)	-0.05 (-0.19)	0.03 (0.20)	-0.07 (-0.23)								
Contested, Hostile	0.12 (0.22)	-0.31* (-0.28)	0.10 (0.31)	-0.32* (-0.19)	0.14 (0.27)	-0.29* (-0.12)	0.22 (0.20)	-0.36* (-0.30)	0.14 (0.32)	-0.28* (-0.19)	0.11 (0.26)	-0.31* (-0.18)	0.16 (0.22)	-0.27* (-0.16)	0.20 (0.39)	-0.39* (-0.23)
Industry relatedness																
Related	0.08* (0.15)	-0.03 (-0.16)	0.11** (0.06)	-0.08 (-0.22)	0.11* (0.05)	-0.04 (-0.14)	0.12** (0.03)	-0.11 (-0.19)	0.08* (0.14)	-0.04 (-0.12)	0.11** (0.05)	-0.09 (0.16)	0.10* (0.04)	-0.05 (-0.10)	0.13** (0.09)	-0.09 (-0.21)
Unrelated	0.05 (0.22)	-0.07** (-0.05)	0.08 (0.32)	-0.11 (-0.07)	0.07 (0.13)	-0.14** (-0.03)	0.09 (0.19)	-0.15** (-0.02)	0.06 (0.20)	-0.07** (-0.04)	0.09 (0.28)	-0.12 (-0.07)	0.007 (0.10)	-0.13** (-0.04)	0.08 (0.21)	-0.16** (-0.02)
Nationality																
Domestic acquirer	0.01* (0.33)	-0.00 (-0.12)	0.02* (0.16)	-0.00 (-0.21)	0.01* (0.19)	-0.02 (-0.22)	0.02* (0.10)	-0.03 (0.30)	0.01* (0.34)	-0.01 (0.11)	0.02* (0.15)	-0.01 (-0.20)	0.01* (0.18)	-0.03 (-0.20)	0.02* (0.09)	-0.04 (-0.29)
Cross-border acquirer	0.00 (0.19)	-0.01** (-0.33)	0.03 (-0.17)	-0.05** (-0.30)	0.01 (0.19)	-0.05** (-0.21)	0.05 (0.34)	-0.09** (-0.19)	0.01 (0.18)	-0.02** (-0.32)	0.04 (-0.12)	-0.07** (-0.22)	0.00 (0.21)	-0.06** (-0.18)	0.02 (0.16)	-0.09** (-0.19)
Type of financing																
Stock	0.17* (0.10)	-0.09 (-0.17)	0.05 (0.26)	-0.03* (-0.21)	0.19* (0.11)	-0.05 (-0.14)	0.01 (0.15)	-0.06* (-0.28)	0.16* (0.09)	-0.07 (0.15)	0.04 (0.028)	-0.04* (-0.20)	0.20* (0.10)	-0.05 (-0.13)	0.00 (0.17)	-0.08* (-0.21)

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No stock	0.17*	-0.06	0.01	-0.01*	0.26***	-0.07	0.00	-0.01*	0.18***	-0.05	0.00	-0.01*	0.26***	-0.06	0.00	-0.01*
	(0.19)	(-0.21)	(0.29)	(-0.02)	(0.09)	(-0.20)	(0.09)	(-0.05)	(0.19)	(-0.23)	(0.31)	(-0.02)	(0.07)	(-0.18)	(0.08)	(-0.03)
Complexity of the deal																
Simple	0.01	-0.03	0.05	-0.06	0.04	-0.01	0.07	-0.08								
	(0.02)	(-0.17)	(0.07)	(-0.16)	(0.10)	(-0.13)	(0.11)	(-0.19)								
Complex	0.10†	-0.02	0.12*	-0.07	0.11*	-0.04	0.13**	-0.09	0.11†	-0.03	0.13**	-0.07	0.12*	-0.05	0.15**	-0.09
	(0.01)	(-0.09)	(0.00)	(-0.16)	(0.08)	(-0.11)	(0.04)	(-0.14)	(0.09)	(-0.07)	(0.00)	(-0.12)	(0.07)	(-0.09)	(0.03)	(-0.12)
Size																
Relative size of bidder vs. target (small to large)	0.09*	-0.05	0.00	-0.00	0.03	-0.04	0.10	-0.11								
	(0.13)	(-0.10)	(0.19)	(-0.17)	(0.04)	(-0.09)	(0.18)	(-0.21)								
Relative size of bidder vs. deal (same as above)	0.02	-0.00	0.13***	-0.07	0.00	-0.01	0.28***	-0.11	0.02†	-0.00	0.24***	-0.07	0.01†	-0.00	0.31***	-0.10
	(0.04)	(0.14)	(0.00)	(-0.19)	(0.05)	(-0.19)	(0.01)	(-0.21)	(0.06)	(-0.06)	(0.00)	(-0.22)	(0.04)	(-0.21)	(0.01)	(-0.23)
Reputation-related																
Serial M&A	0.00	-0.01	0.02****	-0.01	0.01	-0.00	0.05****	-0.03	0.01	-0.02	0.02****	-0.01	0.01	-0.00	0.06****	-0.04
	(0.31)	(-0.22)	(0.29)	(-0.33)	(0.37)	(-0.29)	(0.17)	(-0.29)	(0.29)	(-0.19)	(0.19)	(-0.29)	(0.23)	(-0.22)	(0.11)	(-0.20)
On FG 100 most admired list	0.02	-0.03	0.06	-0.04	0.08	-0.06	0.08	-0.04								
	(0.52)	(-0.21)	(0.30)	(-0.22)	(0.31)	(-0.29)	(0.18)	(-0.21)								
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R-sq.	0.13	0.11	0.14	0.12	0.15	0.13	0.16	0.18	0.25	0.20	0.27	0.24	0.28	0.23	0.36	0.34
Adj. R-sq.	0.12	0.10	0.13	0.11	0.14	0.12	0.14	0.17	0.24	0.19	0.26	0.23	0.27	0.21	0.35	0.32
RMSE	0.35	0.39	0.27	0.29	0.25	0.34	0.24	0.20	0.20	0.17	0.16	0.18	0.14	0.19	0.12	0.13

†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. For N in each category, see Table 3.