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Opening M&A to investors: Transparency through interim news events

Abstract

Increasing the transparency of an organisation's strategy relating to M&A (mergers and acquisitions) by engaging in voluntary communications with investors may provide benefits to both companies and investors. This study theorises and tests two factors that increase the likelihood of organisations engaging in open strategy when considering an M&A deal: strategic variation (departure from the organisation's existing strategy) and strategic deviation (divergence from industry norms). Drawing from the existing literature on information asymmetry, we suggest that financial analysts, who are highly specialised in their own field, are likely to publish negative or incomplete portrayals of organisations that are pursuing strategies that represent departures from their existing strategy or deviations from industry norms. The potential impact of these unfavourable portrayals is likely to be heightened during an M&A deal, when the strategic direction of an organisation may come under particularly close scrutiny. Therefore, organisations that foresee or experience unfavourable forecasts from analysts are likely to engage in voluntary disclosures of information regarding their on-going M&A deals. In a dataset comprising of a sample of 554 M&A deals and 1012 associated voluntary communication events over a five-year period, we find that open strategy is associated with the degree to which an organisation's strategy differs from industry norms; however we also find that it is not associated with the degree to which an organisation's strategy varies from its existing one. These findings contribute to literature on open strategy, information asymmetry, and managing M&A.

Key words: M&A; open strategy; information asymmetry; strategic variation; strategic deviation; voluntary disclosures

Introduction

The strategic direction of an organisation comes under intense scrutiny from outside constituents during mergers and acquisitions (M&A) (Gilson, 2000). Organisations which adopt 'unique' M&A deals or strategies risk being penalised through negative market reactions (Feldman et al., 2014; Litov et al., 2012; Zenger, 2013). Reasons for these negative market reactions include investors' lack of understanding of the value of an acquirer's strategy (Feldman et al., 2014). This phenomenon may be explained by the existence of information asymmetry between managers of the organisations concerned and the organisation's external investors (Gilson, 2000). Highly specialised in their own fields and industries (Zuckerman, 1999), analysts tend to face difficulties in covering diversified firms or firms with unique strategies; this may be reflected in incomplete or poor portrayals of diversified firms by analysts (Feldman et al., 2014; Litov et al., 2012). These inaccurate or incomplete portrayals may explain why investors do not fully understand the strategies that the organisations are pursuing; the stocks of the companies concerned are therefore likely to be undervalued.

Drawing from theory on information asymmetry (Ambarish et al., 1987; Miller and Rock, 1985; Myers and Majluf, 1984), we hypothesise that organisations undertaking M&A in certain circumstances are more likely to engage in open strategy in order to offset existing or anticipated negative market reactions. We suggest that a fundamental difference in the pattern of present and future resource deployments is likely to act as a reason for financial analysts to publish unfavourable earnings forecasts or perhaps to fail to provide adequate coverage of the organisation in question. Both of these scenarios are likely to lead to negative share price reactions and these negative

reactions are likely to be heightened while M&A deals are under discussion (Haleblian et al., 2009).

We therefore argue that organisations are more likely to be engaging in forms of open M&A to reduce information asymmetry. We claim that due to information asymmetry and its negative consequences, organisations with strategies characterised by strategic variation and/or strategic deviation are more likely to seek to be externally transparent. They are likely to move away from being relatively opaque about their strategic intentions, in an attempt to avoid the negative portrayals that analysts may develop, or to fill the voids left by analysts that do not issue earnings estimates after an organisation has announced a merger or acquisition deal.

In order to study this example of open strategy, we examine communicated announcements during M&A. These announcements are termed 'interim news events' and come in two types; 'involuntary' and 'voluntary.' There are many studies of the 'involuntary' (those required by law) announcements (Andrade, Mitchell and Stafford, 2001; Goergen and Renneboog, 2003) that are required when a deal is to be launched. In these studies a 25% increase in target company share price is not uncommon (Baker and Limmack, 2002; Sudarsanam and Mahate, 2003). However 'voluntary' announcements (those made when a company decides of its own volition to design and release a communication) have received much less attention; moreover, those announcements that occur post-deal announcement have received no attention. It is these communications, which we term 'voluntary interim news events' and define as public, voluntary corporate communications carried out by organisations involved in M&A after the initial deal announcement and before its closing, which are the subject of this paper. Authors of these announcements can be bidders, targets, or both parties. Between the announcement of the deal and the closing date of the deal, an intended acquisition can be made or broken by share price adjustments as investors react to deal-specific information released during this post-announcement period. Therefore, we test the notion that during M&A, top management teams of firms that are undergoing strategic variation or deviation are likely to try to win support for their strategy through increased transparency and additional voluntary communications directed at analysts and investors.

In this paper, we first talk about open strategy in the context of M&A, emphasising that open strategy can help combat or enhance information asymmetry. We then build our hypotheses using literature on information asymmetry, and we construct predictions on the likelihood of observing organisations with strategic variation and strategic deviation carrying out interim news events. Following our hypotheses, we present our data and methodology, followed by the results. The final section includes our discussion and conclusions in which we address the possible outcomes of open strategy in practice as well as the limitations of the study and possible directions for future research.

Theory and hypotheses

External transparency during M&A
Our research focus is on the external transparency aspect of open strategy. More specifically, our research falls into one of the four broad principles of open strategy identified by Whittington et al. (2011): namely, external transparency (see Figure 1). Traditionally, strategy has been seen to be 'secret' – elitist and opaque, in order to protect the organisation's strategic advantage. However, in certain situations, these characteristics can result in a disadvantage for firms. Our context of mergers and

acquisitions is one such instance where opacity can cause an announced M&A deal to be tied to negative share price reactions or to ultimately fail. Making the acquiring firm's strategy transparent to investors can be important to managing share price reaction and/or to enabling deal completion.

Insert Figure 1

It is widely accepted that managing third-party perceptions is an important task for both sides in a merger or acquisition. For instance Trautwein (1990) notes that "(M&A) need marketing just like products, and effectively addressing the public or regulatory institutions in (an M&A deal) may be critical to its success" (p. 293). In the context of M&A, open strategy can act as a force that both increases and reduces information asymmetry.

The initial announcements of M&A, while forms of external transparency, are events that can introduce information asymmetry to markets. Voluntary interim news events by organisations involved in the announced deal regarding the M&A are disclosures that can reduce information asymmetry. When an M&A deal is announced, there may be share price penalties, especially for highly diversified firms; however there may also be unfavourable outcomes associated with voluntary news events after the announcement of the deal. These unfavourable outcomes may occur for organisations experiencing a shift from their ongoing strategies, or strategies that deviate from those within the industry. In order to mitigate this effect, organisations need to convey credibility to their investors and analysts regarding their M&A plans, as a failure to do so may result in negative share price reactions.

Attempts at reducing information asymmetry may therefore be associated with negative investor reactions, unless those organisations display competence and credibility towards their shareholders. Evaluating an organisation's strategy in the early stages of an M&A deal can be difficult, not only because it involves attributing future organisational activities to possible performance outcomes (Haleblian and Rajagopalan, 2006), but also because strategy involves qualitative judgments which, by their nature, are highly uncertain (i.e. they are characterised by a lack of complete information and future unpredictability). According to Wade et al. (2006), when qualitative judgments need to be made under conditions of uncertainty, certification by credible and legitimate third parties is likely to become an influential decision criterion. Financial analysts are likely to act as third-party certification providers for outside stakeholders; commentary by analysts can serve to reduce the evaluative uncertainty associated with M&A. In the absence of 'standards or yardstick against which (an organisation) is judged' (Graffin and Ward, 2010), analysts are likely to take into account the voluntary disclosures of organisations (i.e. interim news events) as sources of information. Moreover, analysts' recommendations are likely reduce the uncertainty that outside constituents face in evaluating deals. Outside investors are likely to pay attention to analysts' forecasts during M&A due to the important role these actors play as independent and credible information intermediaries (Wiersema and Zhang, 2012).

Interim news events in contexts associated with strategic variation and strategic deviation
Existing research draws attention to the high level of information asymmetry that exists between outside stakeholders and inside managers (Zajac, 1990; Shen and Cannella, 2003; Zhang, 2008; Graffin et al., 2011). M&A deals are associated with information asymmetry because choices regarding the approaching deal are typically opaque to

many stakeholders, and information about M&A choices is rarely shared (Gomes et al. 2012, Gomes et al. 2013). M&A processes often unfold in such a way that the financial press, analysts and investors do not have access to full information surrounding the new deal. Due to these information failures, shareholders who are already highly sensitive to organisational changes are likely to be facing evaluative uncertainty regarding the M&A deal that is in progress. We believe voluntary interim news announcements may help to reduce evaluative uncertainty overall; however they are likely to be most effective in situations where there is a high degree of strategic variation from existing strategy or strategic deviation from industry norms.

Following earlier research (see for example, Finkelstein and Hambrick, 1990; Geletkanycz and Hambrick, 1997; Haynes and Hillman, 2010), we use the patterns of strategic resource allocation as an indicator of strategic persistence of firm strategies over time as well as conformity to industry norms. Finkelstein and Hambrick (1990), building on Mintzberg's (1978) definition of strategy as a pattern of managerial decisions, constructed a strategic resource allocation profile. Their measure consists of six dimensions that represent the firm's strategic decision pattern over time. Carpenter (2000) and, more recently, Haynes and Hillman (2010) further develop these six measures to account for two aspects: strategic variation, a change 'in the pattern of a firm's resource commitments over time, relative to its past pattern,' and strategic deviation, a shift in the 'firm's resource commitments from industry norms of competition' (Carpenter, 2000: 1182; also in Haynes and Hillman, 2010).

We suggest that while M&A deals are contexts associated with high information asymmetry, both strategic variation and strategic deviation are circumstances that add to the ambiguity of an organisation's future strategic direction. Leaders of organisations that are showing a high degree of strategic variation from their existing strategy are more likely to engage in interim news events in an attempt to manage the evaluative uncertainty of their shareholders. Communicating a shift in current strategy is likely to be important for managers because interim news events can help reassure the investors regarding the future plans associated with the forthcoming M&A deal, help investors evaluate the organisation's strategic prowess in handling issues such as intended integration, restructuring, reorganisation and so on, and allow investors to get hold of substantive new information such as employee retention intentions or promises etc. We therefore put forward our first hypothesis:

> ***Hypothesis 1:*** *The probability of observing interim news events during M&A is higher for organisations that display greater strategic variation compared to organisations that display lower strategic variation.*

Similarly, strategic deviation from other organisations within the industry is likely to discourage analysts from issuing positive earnings announcements or optimistic purchasing advice. As visible and high-reputation third parties, analysts have a very significant role to play in the evaluation of M&A deals by external stakeholders, by providing these stakeholders with independent assessments. However, analysts may have narrow areas of expertise, mainly focused on a single industry or few industries. This narrow expertise can mean that analysts will have difficulty translating organisational strategies that do not comply with industry norms. Therefore, in an attempt to shield themselves from unfavourable forecasts, organisations that have strategies that fall outside of industry norms are more likely to engage in open strategy by crafting and releasing voluntary communications to their stakeholders. Hence we propose the following:

Hypothesis 2: *The probability of observing interim news events during M&A is higher for organisations that display greater strategic deviation compared to organisations that display lower strategic deviation.*

Methods

Data
Our dataset consists of M&A deals involving U.S. target and U.S. bidder organisations within the period 01/01/2005-31/12/2010. Because we are interested in the voluntary communications that take place after the announcement of an M&A deal and before the closing of the deal, we eliminated all deals in which the announcement and the closing of the deal were simultaneous (there were 276 in total). In addition, we included deals that met the following criteria: (1) a deal value of $50 million or above; (2) the deals were completed by the end of our sample (31/12/2010); (3) the transaction is for a majority of shares of the target firm (above 50%); (4) we exclude leverage buyouts, spin-offs, recapitalisations, self-tender offers, exchange offers, repurchases, minority stake purchases, and privatisations; (5) the firms involved were not financial organisations (SIC codes outside of 6000-6799); (6) both target and bidder organisations traded in the NYSE or NASDAQ; (7) to asses a relationship between likelihood of disclosure and strategic variation or strategic deviation, we follow McWilliams and Siegel (1997) to make sure that our data is free of confounding events 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 interim news events. Our source for these events was StreetEvents. We collected deal-related data using MergerMarket regarding all relevant target and bidder data along with all related external communications associated with the deal. In total, there were 586 deals and 1048 external communications.

Dependent variable
We carried out a logistic regression analysis where the dependent variable is the probability of observing a given organisation carrying out an interim news event. We carried out binary coding for interim news events, coding '1' for deals in which either of the parties (separately or jointly) carried out a voluntary disclosure regarding the deal. Our observations comprise of 'the deal' rather than a given organisation.

Independent variables
Our two independent variables are strategic variation and strategic deviation. Strategic variation is a measure of a departure from prior firm strategies and strategic deviation is a divergence from industry norms. These two continuous, multi-item measures were developed by Finkelstein and Hambrick (1990) and modified by Carpenter (2000) and more recently employed by Haynes and Hillman (2010). We follow Carpenter (2000) and Haynes and Hillman (2010) in using a composite measure of six allocation ratios. These are: (1) advertising intensity (advertising/sales); (2) R&D intensity (R&D/sales); (3) plant and equipment upgrades (new plant and equipment/gross plant and equipment); (4) non-production overhead (SG&A expense/sales); (5) inventory levels (inventory/sales); (6) and financial leverage (debt/equity). We collected data for these measures using COMPUSTAT. Some data for calculating ratios were missing in COMPUSTAT due to a lack of reporting. Thirty-two observations were dropped due

to missing data. We therefore carried out our analysis with 554 observations and 1012 interim news events.

To measure *strategic variation*, we followed Carpenter (2000) and Haynes and Hillman (2010) in creating an index that used a combination of exponential smoothing and Euclidean distance calculations. Different to the two works mentioned above, however, our focal year varied with each organisation. Within observations that included deals which took over a year to complete, we performed our calculations for multiple years for a given organisation, and then took the average. For each deal, we calculated the actual resource allocation figures for bidder organisations and, using exponential smoothing, we then calculated the baseline strategic variation for each bidder organisation for t-4 to t (where t is the year that the M&A deal is taking place). Earlier researchers who have employed the same method of metrication have suggested that a five-year window (t-4 through t) is sufficient to establish a variation pattern and narrow enough to exclude variations in the external environment. To account for major variations that may influence the environment, we control for the 2008 financial crisis. We then added all ratios that had gone through exponential smoothing in order to obtain a composite forecasted strategic variation for the given year. We repeated this exponential smoothing for all years. To calculate the divergence of an organisation's actual resource allocation profile from the forecasted resource allocation profiles (of the previous five years), we took the differences of the exponentially smoothed, forecasted amount and the actual resource allocation ratios. We took the absolute value of these differences and normalised them through taking the natural log. The resulting calculations were the divergence of the firms' actual resource allocation profiles from the forecasted ones.

Strategic deviation (departure from industry norms) was calculated in a similar manner to strategic variation. However, in this instance we calculated the absolute value of industry norm and the firm's actual resource allocation ratios. To establish industry ratios, we used the top four firms in each industry based on the C4 measure of industry concentration (Dobrev et al., 2002). Once again, we follow Carpenter (2000) and Haynes and Hillman (2010) in calculating these ratios, and normalised our variable by taking the natural log of the differences.

Control variables
We introduced a number of control variables to test for factors that were likely to impact on market reactions. All of the control variables are used as proxies for contexts or events associated with a vacuum of information that would leave investors hungry for information. We therefore controlled for high-reputation intermediaries, which we believe may be instrumental in facilitating organisations to communicate. We used binary codes to distinguish organisations that employed legal advisors in the magic

circle[1], financial advisors in the bulge bracket[2], and white shoe consultants[3]. 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 likelihood of communicating. For instance, 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 contested hostile deals. We also suggest that the probability of disclosure is likely to be higher for organisations subject to greater information failures, e.g. if the deal value 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 calculated a ratio of the size of the deal versus the size of the bidder.

Statistical analysis
We used a logistic regression analysis to test the likelihood of organisations carrying out voluntary disclosures regarding M&A after the deal was announced, and before the deal was closed. Before carrying out our study, we inspected the values of variance inflation factors (VIF) to assess our data for multicollinearity. The VIF values ranged between 1.06 and 2.08 for the variables in our regression models, which is lower than the commonly accepted threshold value of 10 (Hair, Anderson, Tatham, and Black, 1998), and this suggests that multicollinearity is not a significant problem in our data.

Results

Our purpose is to test the likelihood of organisations engaging in open strategy through voluntary disclosures targeted at financial analysts and their investors while the organisation is progressing an M&A deal. Our analysis therefore proceeds as follows. Table 1 presents descriptive statistics and correlations. In Table 2 we carry out a logistic regression analysis in which the dependent variable is the probability of a given organisation carrying out interim news events, and our two independent variables are strategic variation and strategic deviation. Our control variables comprise of contexts or circumstances associated with information asymmetry, as outlined above.

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[1] 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.

[2] 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

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

Table 2 shows the results of the stepwise logistic regression analysis. Models 1 and 2 consider the impact of the independent variables on the likelihood of organisations engaging in open strategy individually: only one of the independent variables is associated with the likelihood of disclosure. The subsequent models (3-4) introduce successively the combined effects of independent and control variables. Three control variables (i.e. financial advisors in the bulge bracket, contested hostile deals, and deals involving target firms in unrelated industries) are significant (at least $p<0.10$). Model 5 drops non-significant control variables (i.e. legal advisors in the magic circle, white shoe consultants, 'after the 2008 financial crisis' and relative size of the bidder versus the deal). Our final model is statistically significant at the level $p<0.001$.

We start with hypothesis 1, which states that the probability of observing interim news events during M&A is higher for organisations that display greater strategic variation compared to organisations that display lower strategic variation. Model 1 in Table 2 indicates that for organisations whose strategy is associated with a shift over time, the likelihood of having an open M&A strategy is no different to those that do not have changes taking place regarding their strategy (coefficient: 0.08; standard error (SE): 0.19). However, having a strategy that is characterised by having a deviation from industry norms increases the likelihood that organisations will engage in external transparency (coefficient: 1.22***; SE: 0.04). This suggests that strategies that vary over time do not encourage organisations to be transparent towards analysts and investors during M&A, but a deviation from industry norms does increase the likelihood that they will engage in interim news events. We turn now to control variables associated with greater information asymmetry.

Regarding the conditions of heightened information asymmetry, we found that the likelihood of organisations engaging in open M&A strategy is greater where organisations have hired financial advisors in the bulge bracket, where they are undertaking contested hostile deals, and where the deals involve an unrelated industry. Logistic regression coefficients for the variables concerned are 0.73†, 0.85*, and 0.97** respectively, with standard errors that vary between 0.06 and 0.10.

Regarding effect sizes, we calculated Cohen's d (the standardised mean difference). Our effect size calculations for our dependent and control variables in model 5 vary between 1.42 and 0.62, and this is an indicator of strong or moderate effects (Cohen, 1988).

Discussion

Mergers and acquisitions 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 organisational resources were deployed in order to close these deals and integrate the companies involved. This effort to achieve renewal of the firm is a major strategic commitment, as an M&A deal is a substantial investment which generally aims to achieve long-term benefit and is not easily reversed. However, announcing an intention to purchase a specific firm may be associated with share price penalties. Furthermore, announcing a deal is not the same as closing a deal, as many things may go wrong in the time period between the deal announcement and the deal closure. A vital aspect of the process of managing an M&A deal, from the perspective of the senior managers who are advocating the deal, is therefore 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 deal, we believe that transparency from protagonists is key. This information will help to inform investor decisions about the price of protagonist shares during a bid.

Interestingly, research into M&A has so far largely overlooked how investors perceive post-announcement 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 to decide whether to buy, sell, or hold onto the stocks of the companies involved. In this process they may look for evidence in corporate communications of credibility or economic viability (Narayanan et al., 2012) associated with the success of the transaction.

Our research reveals that organisations whose strategy is different to that of the industry are more likely to be open about their M&A strategy, engaging in voluntary communications to seek to influence the views that key stakeholders may hold about the deals that are in progress. From this finding, we can suggest that being open about one's M&A strategy is important for organisational leaders, particularly when they fear analyst downgrading or evaluative uncertainty from investors. For a firm engaged in an M&A deal, communicating its intentions can be as important as taking concrete action, and such communications are therefore likely to act as a powerful signal to investors - particularly because the firm or management stand to lose something, such as reputation, should the promised benefits not work out as planned (Besanko et al. 2004). In the context of M&A, the existing literature has already argued that there is evidence of the importance of corporate communications in certain contexts (e.g. Sirower and Lipin, 2003).

Management scholars have discussed why some firms engage in more frequent and comprehensive disclosure than others. It has been suggested that the large size of some 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, disclosure can help mitigate the agency problem existing between corporate management and their shareholders: the reduction in uncertainty attendant on reducing information asymmetries can increase the willingness of shareholders to pay more for the company's stock (Bassen et al, 2010; Healy and Palepu, 2001).

Our research is not without limitations. First, we focus only on the U.S. market, but organisations that undertake cross-border M&A deals are also likely to engage in open strategy; this is an issue that should be explored in the future. Also, the likelihood of disclosure may be higher for organisations that experience negative share price reactions to their acquisition announcements, and therefore these voluntary disclosures may act as attempts to adjust market reactions. Tied to this final point, and regarding future research directions, researchers can investigate the impact of these disclosures in terms of share price reactions or quarterly earnings.

Our research has methodological, conceptual, and practice-related contributions. Methodologically, our quantitative approach employing a large dataset over five years contributes to statistical generalisation regarding the phenomena under study. Conceptually, we study open strategy and more specifically transparency as a motive for organisations undergoing strategic transition in contexts where opacity may pose problems for organisational leaders. In terms of practice-related outcomes, we suggest that the skillful release of timely strategic information, the type of content that is released, and the actors that are involved in carrying out interim news events may provide advantages for organisations.

Conclusion

Our research sheds light on the circumstances in which organisations engage in open strategy during M&A. We show that the likelihood of organisations engaging in external transparency is higher for those that have strategies that depart from industry norms but not for those that have strategies moving away from their own norms. The reasoning behind this is likely to be tied to organisational leaders' efforts to escape potential or existing share price penalties driven by analysts who cannot understand, fail to endorse or seek to question their strategy. It might be argued that analysts can feel relatively comfortable with companies that change their strategies, as long as the 'new' strategy that the firm is pursuing remains within the range of what has been done by other companies within the industry in question in the past. However, analysts may be less comfortable when firms depart from the industry norms. Such departures are more surprising and unusual, and hence the additional communications are more likely to be welcomed by external stakeholders, as the new strategy 'stands out from the crowd' and stakeholders will tend to require more explanation before they can fully understand and support the change. While both strategic variation and strategic deviation are forms of strategic change, clearly one is seen as a circumstance that organisations associate with ambiguity or evaluative uncertainty, while it appears that this is less true for the other circumstance. In that sense, our findings contribute to the idea that strategic openness is 'uneven and incomplete' (Whittington et al., 2011) in different settings. It also provides a more nuanced understanding on how organisations in different strategic settings put the transparency aspect of open strategy into practice.

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Figure 1

Positioning of the present study within the broader principles of open strategy

	Transparency	Inclusion
Internal		
External	*Focus of the present study* **M&A interim news events:** public, voluntary corporate communications carried out by organisations involved in an M&A (bidders, targets, or both) which take place *after* the initial announcement and *before* the closing of the deal	

(Figure adapted from Whittington et al., 2011 p.762)

Table 1
Descriptive statistics and correlations

		Mean	Std.	1	2	3	4	5	6	7	8	9	10
1	**Interim news events**	1.82	0.43	1									
2	**Strategic variation**	-0.97	-0.54	0.13	1								
3	**Strategic deviation**	0.86	0.38	0.37	0.21	1							
4	**Legal advisors in the magic circle**	0.73	0.19	-0.01	0.03	0.08	1						
5	**Financial advisors in the bulge**	0.89	0.23	0.19	0.05	0.09	0.17	1					
6	**Consultants – white shoe**	0.94	0.15	0.04	0.01	0.04	0.13	0.11	1				
7	**After 2008**	0.64	0.27	-0.27	0.09	-0.05	0.02	0.03	0.02	1			
8	**Contested, hostile deal**	0.18	0.05	0.21	0.01	0.10	0.21	0.07	0.05	0.01	1		
9	**Unrelated industry**	0.37	0.11	0.23	0.16	0.19	0.14	0.13	0.09	-0.03	0.17	1	
10	**Relative size of bidder vs. deal ($MM ln)**	7.85	0.44	0.08	0.18	0.21	0.16	0.19	0.15	0.06	0.23	0.27	1

N=554. Correlations above 0.15 are significant at $p<0.05$.

Table 2
Logistic regression: Dependent variable as the probability of observing a given organisation carrying out interim news events

	Model 1	Model 2	Model 3	Model 4	Model 5
Intercept	17.41 (0.43)	87.66 (0.39)	103.17 (0.27)	127.95 (0.21)	307.58 (0.18)
Main effects (hypotheses)					
Strategic variation	0.08 (0.19)		0.06 (0.22)	0.03 (0.26)	0.05 (0.24)
Strategic deviation		1.22*** (0.04)	1.10*** (0.12)	1.03*** (0.10)	1.07*** (0.08)
Control variables					
Legal advisors in the magic circle				0.15 (0.23)	
Financial advisors in the bulge				0.71† (0.18)	0.73† (0.16)
Consultants – white shoe				0.04 (0.37)	
After 2008				-0.18 (-0.21)	
Contested, hostile deal				0.81* (0.10)	0.85* (0.09)
Unrelated industry				0.93** (0.15)	0.97** (0.13)
Relative size of bidder vs. deal				0.05 (0.29)	
Year dummies				Included	Included
Observations	554	554	554	554	554
Chi sq.	5.69	23.48**	27.36**	35.48***	43.88***

†p<0.10; *p<0.05; **p<0.01; ***p<0.005; ****p<0.001