PhD THESIS DECLARATION

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di BETTINAZZI EMANUELE LUCA MARIA
discussa presso Università Commerciale Luigi Bocconi-Milano nell'anno 2016
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PREFACE

It is not easy to take stock of the last 170.000.000 seconds (approx.) of my life. So, let me skip all the possible streams of consciousness on how enriching, insightful, rewarding, dense, complicate, fatiguing, frustrating, irritating and physically destroying is the PhD period and let me focus on what is most important for this short preface: share my gratitude with all the people that made it possible.

First of all, I'm honored and proud to have been part of the Management Department at Bocconi University. Bocconi has been a second home to me and one that I really hope to be able to visit often in the future years. This wonderful group of scholars, together with their inspiring work, has fostered my interest in management research, shaped my own current research efforts and will obviously influence my future research directions. I feel in great debt of gratitude to all members of the department who encouraged my academic development.

Secondly, it is important for me to point out that my experience as a Ph.D. student wouldn't have been the same without the Ph.D. students that shared the path (or at least part of it) with me. Alessandro, Alessio, Diego, Fra, Hakan, Kubra, Manuel, Nico and Senem: you have been a great support and a great companion along this long (an hard) process. Thank you folks!

Turning to my doctoral committee, it is a great honor for me to have such an excellent panel of established scholars to evaluate my dissertation and preside over my defense. Maurizio, you have no idea how profound your influence on me has been during my PhD path. You spend a lot of time in trying to covey to me your incredible creativity in framing papers and your theoretical thoroughness. I'm proud and honored to have had the opportunity to learn from you and begin my academic career under your guidance. Our innumerable

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discussions about our research and teaching activities will always be among the best memories of my Ph.D.. I owe to you a lot! Carmelo and Jeff, your work has been a great inspiration to me, and your contribution has been more than essential in shaping my dissertation. Thank you!

Dulcis in fundo, my warmest thankfulness goes to my family. My parents, Elisabetta e Tullio, have devoted all their efforts and encouragements to my whole education. I would like to share my deepest gratitude to my mom that protected and helped me in the brightest as well as the darkest moments and to my dad that transferred his love for knowledge and his interior peace to me. I am immensely grateful to my wife, Cristina, which has been the best companion for this journey. If it weren't for her unconditional support, her contagious happiness and her Tibetan patience, my sanity and happiness would have likely been threatened long ago. It is to her and to my whole family that I am happy to dedicate this dissertation.

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ABSTRACT

This dissertation adopts a stakeholder based view of the firm to study corporate acquisitions. In particular the aim of this study is to analyze how stakeholder based relational resources developed by a firm may influence the performance of its acquisitions, and the development of M&A capabilities from experience accumulation. Moreover, it studies how relational resources developed by a target firm before the acquisition may be affected by the decisions that follow the closing of the deal (i.e. post-merger integration). The hypotheses presented are tested using an original dataset that combines different sources including manually coded information.

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CHAPTER 1

GENERAL INTRODUCTION

Strategic management scholars have studied performances of mergers and acquisitions since the inception of the field (Carper, 1990). Typical findings from early studies point out that acquisitions do not enhance the performance of the acquiring firm, as measured by short-term (Jarrell and Poulsen, 1989) or long-term performance measures (Agrawal, Jaffe and Mandelker, 1992; Loderer and Martin, 1992). Indeed, most of studies from strategic, financial, and accounting literatures (together with practitioner literature), found that acquisitions tend to erode acquiring firm's value (Chatterjee, 1992) rather than increasing it.

As the number of the M&A activities do not seem to diminish overtime despite the performance issues they may generate, researchers devoted extensive efforts to understand the motivations which may lead an acquisition to fail and how firms' different forms of heterogeneity increase the likelihood of a success or a failure (Hayward, 2002). Most prominently, firm's heterogeneity has been studied by adopting a resource based view (RBV) of the firm (Barney, 1991) to test the impact of diversity in resources controlled (being them tangible or intangible) on performance outcomes (Singh and Montgomery, 1987; Lubatkin, 1987; Chatterjee et al., 1992). Research in this framework, however, has commonly (and implicitly) adopted a theory of the firm that assigns complete primacy to the interests of shareholders over those of other stakeholders in the managerial attention focus (e.g. Singh and Montgomery, 1987; Seth, 1990; Jensen and Ruback, 1983). This may be problematic for understanding the drivers of acquisition performance, because there is a significant amount of heterogeneity in how different firms consider non-shareholding stakeholders' relationships in

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pursuing firm's objectives. I refer to this phenomenon as heterogeneity in stakeholder orientation, broadly defined as the degree to which a firm's management focus its attention on stakeholders, and integrate their interests and knowledge in its decision making process (Harrison, Bosse and Phillips, 2010; Tantalo and Priem, 2014). To study how this specific form of firm's heterogeneity affects corporate acquisition performance I adopt a stakeholder-based view of the firm (SBV), and relax the M&A literature's implicit assumption about the homogeneity of stakeholder orientations across firms.

Previous SBV literature points out that the level of stakeholder orientation represents a strategic decision managers make about how to conduct business (Sachs and Ruhli, 2011). Stakeholder orientation is one of the fundamental constructs in the stakeholder based view of the firm, and has been used in several studies to predict strategic outcomes such as economic performances (e.g. Greenley and Foxall, 1997; Hillman and Keim, 2001; Choi and Wang, 2009; Eccles, Ioannou and Serafeim, 2014) or technological innovation (Flammer and Kacperczyk, 2015). In this dissertation, however, I will focus on the difference across firms in stakeholder orientation to explain the variance in M&A performance.

Overview of the chapters

The central idea of the Stakeholder Based View (SBV) is that the firm is at the center of a network of stakeholders (Rowley, 1997), which interact as a complex system for exchanging goods, services, information, technology, knowledge, money, and other resources (Harrison et al., 2010; Freeman, 1984). I define stakeholders as the "individuals and constituencies that contribute, either voluntarily or involuntarily, to the wealth of the firm […] and who are therefore potential beneficiaries and/or risk bearers" (Post et al., 2002; p.8). Acquisitions, when interpreted through the lenses of the stakeholder based view, can be

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conceived as the joining of two nexus of relationships with different sets of stakeholders. This consideration triggers, in my opinion, an important overarching question: how these relationships, and the way the two firms decided to manage them, influence the economic outcome of this "joining" process? My dissertation unpacks this overarching research question by developing three essays (chapters), which focus on three different (although connected) sub-research questions:

- How does the approach that a firm adopts to manage the relationships with its stakeholders influence the performance of its acquisitions? (Chapter 2)
- How can stakeholder relationships affect the evolution of firms' capabilities to tackle M&As? (Chapter 3)
- What are the performance consequences of acquiring and integrating a target firm that developed strong relationships with its stakeholders? (Chapter 4)

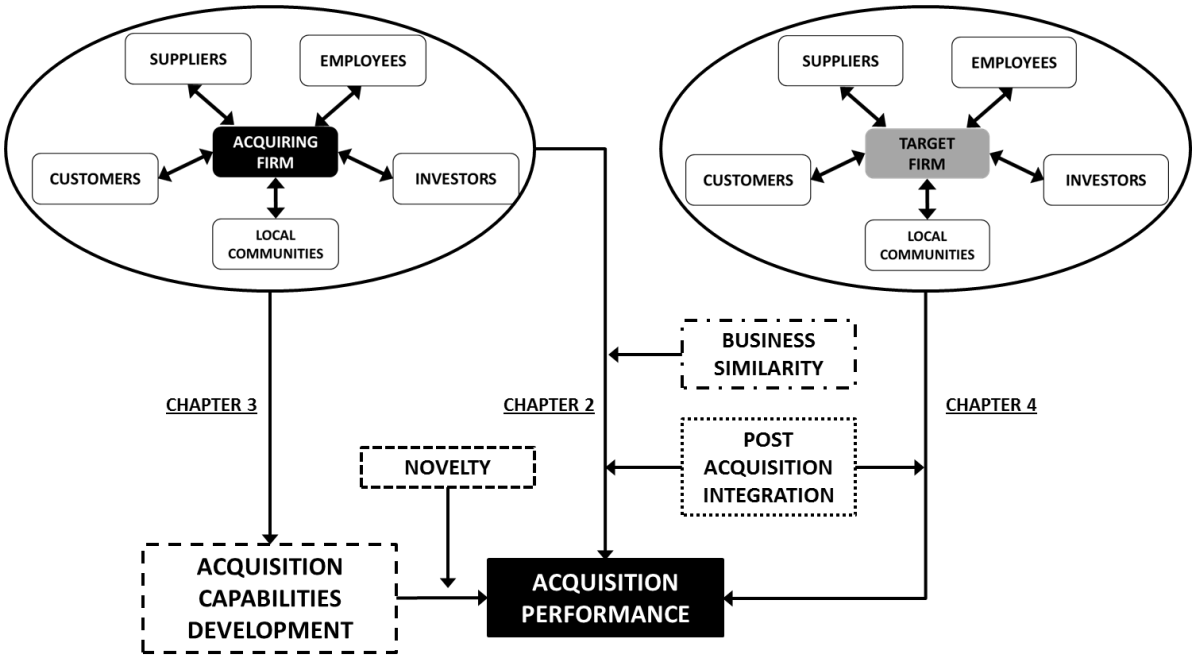


Figure 1.1 – A schematic overview of this dissertation

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Figure 1.1 provides a schematic representation of the structure of this dissertation.

The first essay (Chapter 2), studies how an acquiring firm's orientation towards stakeholders affects the long term performance of its corporate acquisitions. To do that, I depart from extant literature and distinguish stakeholder orientation across different categories of non-shareholding stakeholders (employees, customers, suppliers and local communities). Empirical analyses on 1,827 acquisitions provide evidence that an acquiring firm's orientation towards its different categories of stakeholders can explain heterogeneity of acquisition performance. However the magnitude and sign of their influence vary across the categories of stakeholders. The study of two contingencies (namely business similarity and level of post-acquisition integration between acquiring and acquired firm) allowed me to deepen the analysis of these effects. Results suggest that business similarity reduces the complexity of knowledge transfer not only between the two companies involved in the acquisition, but also between the two networks of stakeholders. Finally, data show that the inclusion of stakeholders' interests and knowledge in managerial decision making processes partially reduce the negative consequences of post-acquisition integration.

While Chapter 2 focuses on the direct influence of stakeholder based relational resources on acquisition performance, Chapter 3 analyzes how these resources influence the development of capabilities to undertake acquisitions. I argue that stakeholder orientation can have both positive and negative effects on a firm's ability to extrapolate knowledge from previous acquisitive experiences and apply it to the focal acquisition. To model stakeholder orientation's influence, I suggest a direct effect on the capability to make inference from previous experience and an indirect effect on the application of accumulated knowledge to the focal acquisition. Data from a sample of 1,718 corporate acquisitions by US listed firms shows that, on average, stakeholder orientation practices worsen experiential learning

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processes by increasing, rather than decreasing causal ambiguity associated to knowledge extrapolation from experience. Moreover, results suggest that stakeholder orientation increases the likelihood of erroneous generalization and the application of previously developed lessons to the context at hand even when it is sub-optimal.

In the fourth chapter I move the focus of the analysis to the acquired firm's side. Specifically, I analyze the effects that post-acquisition integration decisions may have on the stakeholder-based relational resources of the acquired firm. I suggest that relationships with stakeholders can be valuable resources to be leveraged by acquiring firms, but the organizational consequences that post-acquisition integration has on these relational resources can severely endanger the economic performance of the acquisition. In particular, relational resources may be difficult to be transferred from one organization to another, as they are often built on non-formalized (relational) contracts between the two parts. Data from a sample of 170 acquisitions indicates that acquiring a target firm that has developed strong stakeholder relationships will, on average, lead to higher performance (of the acquisition). Results show also that post acquisition integration processes, dissolve the positive effect of the target firm's stakeholder-based relational resources on the acquisition performance.

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CHAPTER 2[1]

STAKEHOLDER ORIENTATION AND ACQUISITION PERFORMANCE

ABSTRACT

In this paper, we study how a firm's stakeholder orientation affects the performance of its corporate acquisitions. We depart from prior literature by distinguishing between different stakeholder categories, and suggest that its orientations towards employees, customers, suppliers and local communities will affect an acquiring firm's behavior during the acquisition process and, in turn, the long term acquisition performance. Analyses of data on a sample of 1,827 acquisitions show support for most of the hypotheses developed. In addition, data shows strong sensitivity to specific boundary conditions such as business similarity and structural integration in terms of the effects of stakeholder orientation on acquisition performance.

[1] This chapter is the result of joint work with Maurizio Zollo. Earlier version of this project have been nominated for the Best Paper Award at Strategic Management Society in 2014 (Madrid).

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INTRODUCTION

As suggested in the introductory chapter (Chapter 1), most of the extent literature in corporate strategy studied acquisitions implicitly assuming homogeneity in how firms manage the relationships with stakeholders. Increasing studies, in the last decade, suggest instead that firms are heterogeneous in the degree to which the management decides to focus its attention on stakeholders, and integrate their interests and knowledge in its decision making (Harrison, Bosse and Phillips, 2010; Tantalo and Priem, 2014). This is particularly compelling when associated to the evidence from business cases and practitioner literature, which provide extensive support to the importance of stakeholder management during acquisition processes (e.g. Ferrer, Uhlaner and West, 2013; PwC Report, 2014; Kato and Schoenberg, 2014; Anderson, Havila, and Nilsson, 2012; Melkonian, Monin, and Noorderhaven, 2011).

In this paper we adopt a stakeholder-based view of the firm (SBV), and relax the M&A literature's implicit assumption about the homogeneity of stakeholder orientations across firms. In particular, our study advances the theory on two fronts. The first relates to the role of firms' heterogeneity in the extent to which, in general, non-shareholding stakeholders' relationships are taken account of in their decision making processes. The second concerns the heterogeneity between different classes of a firm's non-shareholding stakeholders. Given the fact that firms are heterogeneous in the extent to which they are oriented towards their non-shareholding stakeholders, we propose that they will also differ in the relative attention they pay to different categories of their non-shareholding stakeholders. Most of the received literature considers stakeholder orientation as an aggregated construct, implicitly arguing that firms will either be oriented towards all their non-shareholding stakeholders (i.e. be highly stakeholder orientated), or will mostly ignore their interests and focus primarily on those of their shareholders (e.g. Berman et al., 1999). This assumption, however, ignores the notion

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that some firms may be sensitive towards the interests of some non-shareholding stakeholder groups, but not to those of others. In this study, we disentangle the concept of stakeholder orientation across four different categories of such non-shareholding stakeholders: employees, customers, suppliers, and local communities.

One of this paper's central claims is that this heterogeneity is likely to be reflected in how firms manage their acquisition processes. In particular, there might be considerable variation among acquirers in the attention they give to their relationships with different stakeholder categories , and the extent to which their capabilities and relationships are leveraged during the acquisition processes, in both the pre- and post-acquisition phases (Haspeslagh and Jemison, 1991; Pablo, Sitkin, and Jemison, 1996). For example, companies may select target firms on the basis of their relationships with certain types of stakeholders (e.g. customers), and devote less attention to their relationships with other types (e.g. suppliers). Similarly, some acquirers might pay particular attention to the voices of employees and suppliers during the post-acquisition phase, whereas others may be orientated mainly towards preserving the relational contracts that have already been developed with customers. To date, the M&A literature has not focused on the effects of this particular dimension of firm heterogeneity to explain variance in acquisition performance. The main goal of this study is to develop and test a theory about the effects of an acquiring firm's orientations towards its employees, customers, suppliers and local communities on its M&A performance.

It is worth noting that this paper does not start from the assumption that the acquirer's stakeholder orientations will have only positive consequences for M&A performance. For instance, the positive implications of integrating the interests and knowledge of a specific category of stakeholders (e.g. employees) may be outweighed by the costs associated with the allocation of managerial attention and resources to the relationships with that category. We

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emphasize both the costs and benefits of acquirers' orientations towards different stakeholder categories, and develop arguments about the predominance of one over the other.

We test our hypotheses using a unique sample of 1,827 acquisitions undertaken by large US-based listed firms across several industries between 2002 and 2010. Our data shows that orientations towards different categories of stakeholders yield heterogeneous effects on acquisitions' performances, depending (especially) on the characteristics of the acquisition (i.e. business similarity and structural integration).

The rest of the paper is structured as follows. In the next section we build on the SBV to define the concept of stakeholder orientation and to identify how orientations concretize in firm behaviors. The third section presents the methods and the data used to test the hypotheses, and the fourth presents the results of our statistical analyses. The paper concludes with a discussion of our results, and some suggestions for future research developments.

THEORETICAL DEVELOPMENT

Stakeholder orientation

The stakeholder based view of the firm (SBV) holds that an organization can be seen as a set of interdependent relationships between its stakeholders (Freeman et al., 2010; Blair and Stout, 1999), who are jointly committed to its success, and who contribute specific forms of capital, including financial, human, and social capital (Kochan and Rubinstein, 2000) to that end. Several definitions of stakeholders have been used in the literature. In this study, we adopt Post, Preston and Sachs' (2002: 8) definition, which sees firm stakeholders as those "individuals and constituencies that contribute, either voluntarily or involuntarily, to its wealth creating capacity and activities". In line with this definition, this paper focuses on those stakeholder groups "the firm needs in order to exist" (Dunham, Freeman and Liedtka, 2006:

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25): employees, customers, suppliers, and local communities[2].

Received literature suggests these stakeholders can be more or less involved in scanning the environment, in making decisions about prioritizing issues the firm needs to attend to, in generating alternative responses to these issues, in selecting the most appropriate of them, and finally in how such initiatives are executed. From a practical standpoint, a higher level of orientation towards a stakeholder category translates into a set of routinized behaviors aimed at assessing the quality of the relationship with these stakeholders (Mitchell, Agle and Wood, 1997), at exchanging information with them and at incorporating their interests and knowledge into the company's decisions (Tantalo and Priem, 2014; Bridoux and Stoelhorst, 2014; Harrison, Bosse and Phillips, 2010; Rousseau and Wade-Benzoni, 1994).

In terms of outcomes, an orientation towards certain groups of stakeholders (e.g. employees, suppliers) has been seen as fostering the development, selection, and deployment of internal change initiatives (Sachs and Rühli, 2011), or the emergence of dynamic capabilities related to organizational innovation (Aragón-Correa and Sharma, 2003). Higher levels of orientation towards some stakeholder categories (e.g. local communities, customers) are found to increase perceptions of the legitimacy of firms' choices (Cennamo et al., 2012).

Does this mean that all firms need to be oriented towards all their stakeholders (or even towards some of them) in order to be successful? Recent developments in instrumental stakeholder theory suggest that orientation towards stakeholders is not a panacea for all problems (Bridoux and Stoelhorst, 2014), and does not come without associated increases in costs. These costs can include direct allocation of economic resources (e.g. increases in the

[2] Logically, shareholders would be encompassed in this definition: however we consider this category of stakeholder as residual and focus on non-shareholding stakeholders. This does not mean that we neglect this category of stakeholders altogether but, for the sake of this paper, we see limited value in analyzing the heterogeneity of firms' shareholder orientations. Several previous studies in finance literature have already focused on the extent to which orientations towards shareholders (as evaluated through dividend payments or minority shareholder protection) may impact acquisition performance (e.g. Bigelli and Mengoli, 2004; Bruner, 2002).

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costs associated with lower aggressiveness in bargaining with some stakeholders – Coff, 1999) as well as in managerial time required to interact, understand and prioritize stakeholders - Reynolds, Schultz and Hekman, 2006). These may represent a form of value over-allocation which may, in turn, hamper the performance of a firm's activities (Harrison et al., 2010).

Stakeholder orientation and the acquisition process

Having introduced the notion of stakeholder orientation, we now move to examine the impact of an acquiring firm's orientation towards different categories of stakeholders on the acquisition process. To analyze the acquisition process, we distinguish between two phases: pre- and post- acquisition (Haspeslagh and Jemison, 1991; Pablo et al., 1996). We claim that, all else being equal, stakeholder oriented firms may benefit from the routines that they develop to evaluate the relational resources of the stakeholder network in which the target firm is embedded (Rowley, 1997), as well as from the informational richness that arises from the inclusion of different stakeholders' viewpoints (Harrison et al. 2010). At the same time, we argue that there are costs attached to leveraging stakeholder relationships during the acquisition process which could offset these benefits. Table 2.1 provides a short overview of these effects in terms of expected behaviors, benefits and drawbacks, which we delineate below.

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Table 2.1. Orientation towards the different categories of stakeholders and expected behavior during the acquisition process.

	Pre – Acquisition phase	Post – Acquisition phase
Employee Orientation	**Expected Behavior:** - Ex-ante analysis of the potential personnel attrition risk **Benefits**: Increased use of informal information gathering mechanisms and reduction of ex-ante leaving **Drawbacks**: Increased costs associated of due diligence and selection *(Schweiger and DeNisi, 1991; Siegel and Simmons, 2010)*	**Expected Behavior:** - Collaborative planning of resource redeployment and routines redesign **Benefits**: Better contextualization of decisions to the situation at hand. Lower levels of unexpected loss of target's high quality employees **Drawbacks**: Increase in coordination costs associated with the increased informational complexity *(Cording et al. 2013; Ranft and Lord, 2002)*
Customer Orientation	**Expected Behavior:** - Redeployment of existing customer assessment routines and increased focus on target existing customer relationships **Benefits**: Increased quality in the evaluation of target's customer relationships. More precise assessment of target's value. **Drawbacks**: Time expenditure in analyzing target's customers relationships *(Capron and Shen, 2007; Reuer, 2003)*	**Expected Behavior:** - Exploitation of existing customer relationships to select products and brands to be preserved or discarded **Benefits**: Higher levels of customer retention, cross-selling of products across customer bases, new customer acquisitions. **Drawbacks**: Increased cost of marketing communication and interaction *(Jaju, Joiner and Reddy, 2006; Payne and Frow, 2005)*
Supplier Orientation	**Expected Behavior:** - In depth evaluation of relational links of the supplier/dealers network **Benefit**: more precise assessment of cost efficiency from rationalization of supply-chain and renegotiation of agreements. **Drawbacks**: Increased costs associated with the preservation of sensitive information *(Dyer and Singh, 1998; Capron and Mitchell, 1998)*	**Expected Behavior:** - Collaborative planning for integrating the supplier base - Increasing levels of suppliers' involvement in acquirer's integration decisions **Benefits**: Better contextualization during routines modification **Drawbacks**: Lower efficiency and impact of negotiations on contracts *(Lee, So and Tang, 2000)*
Local Community Orientation	**Expected Behavior:** - Assessment relational quality with the target's key communities **Benefits**: Identification of potential local criticalities and institutional pressures **Drawbacks**: Increased complexity of the due diligence process *(Marquis and Lounsbury, 2007; Reus and Rottig, 2009)*	**Expected Behavior:** - Community relationship programs, communication, philanthropy **Benefits**: Reduction of legitimacy/reputation associated wars **Drawbacks**: Increased cost of symbolic communication and interaction activities (e.g. philanthropy) *(Marquis and Lounsbury, 2007; Porter and Kramer, 2002)*

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Employee Orientation

Do firms that display higher levels of employee orientation (Robinson, Perryman and Hayday, 2004) behave differently during acquisition processes? And, if so, what type of benefits and drawbacks are associated with these different behaviors?

To answer these questions, we start from observing that the acquisition literature has repeatedly pointed out how acquirers tend to underestimate, before and during the deal-making process, the potential problems that originate from differences between the cultures, attitudes and knowledge bases of the acquirer's and target's workforces (e.g. Schweiger and Denisi, 1991; Greenwood, Hinnings and Brown, 1994). A recent example comes from Big Nerd Ranch's acquisition of Highgroove Studios in 2011[3]. Apparently, the idea that the two firms' computer programmer teams might not get along was not considered before the acquisition – but clashes emerged between the two firms' workforces after the announcement, due to the feeling of dominance that were diffused among the acquiring firm's employees. This resulted in a significant drop in the merged entity's innovation output in the first two years after the acquisition. While some firms may tend to underestimate such sources of complexity, we might expect that firms that have developed routines and tools to evaluate their workforces' characteristics, needs and preferences might be more likely to anticipate these issues, and to manage them appropriately (Siegel and Simmons, 2010).

We might also expect that an acquirer's orientation towards employees would influence its behaviors in the phase after the deal's completion, when managers redesign procedures and routines to (at least partially) reorganize the activities of the two firms. To perform such tasks, acquirers' managers can choose either to rely only on their own knowledge (and information), or to include the contextual knowledge of employees (of both

[3] Source: Inc.com "How to Successfully Manage a Merger" (2013)

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acquired and acquiring firms) into the redesign of their activities (Ellis, Reus and Lamont, 2009). In the first case, managers will tend to rely on coarse cognitive simplifications of reality (Hitt and Tyler, 1991), built on their basic understandings of the processes involved. Such narrow searches allow for economizing on information processing efforts, but increase the probability of making suboptimal decisions about post-acquisition management (Cording et al., 2013). We might expect that firms with higher levels of employee orientation will follow the latter approach (i.e. include employees contextual knowledge in their decision making processes), since they possess both the managerial attitudes (i.e. the cognitive frames) and the behavioral elements (i.e. the routines) to take due account of such factors. For example, the post-acquisition integration procedures adopted by Cisco Systems are structured in two-levels of responsibility: a central integration team that defines the general direction of the integration, and a cross-functional team composed of middle-managers and employees, which is responsible for making fine-tuning adjustments to the plans for the execution and monitoring of the integration decisions. While managers often lack contextual knowledge, employees are familiar with firms' ongoing operations, and their contextualized understanding may be revealed as important as the firms' activities are reorganized (Ranft and Lord, 2002). We suggest that this may benefit the acquirer's management team by creating a bridge between its beliefs and the concrete organizational practices of the two firms, reducing the causal ambiguity of the reorganization process (Heimeriks, Schijven and Gates, 2012).

The beneficial effects of an increased level of employee orientation are likely to be partially counterbalanced by increases in two sources of costs. On the one hand, devoting greater time to analyzing the target workforce may dilute the pace of the evaluation, resulting in increased costs of due diligence and selection. On the other, the inclusion of multiple perspectives during the post-acquisition reorganization may result in increased coordination

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costs and complexity in consensus building. Overall, however, we expect that an employee orientation will have positive effects on acquisition performance that will outweigh the associated increases in organizational costs - thus:

Hypothesis 1: The greater the acquiring firm's orientation towards employees, the higher the acquisition's long-term performance will be

Customer Orientation

The received literature has generally associated a customer orientation with giving higher attention to clients' preferences (Narver and Slater, 1990), and the increased use of customer-sourced knowledge (Day, 1994): again, these behaviors are likely to be reflected in how the acquiring firm manages the pre- and post- acquisition phases.

One issue related to the pre-acquisition phase that has received increased attention in the extant literature concerns the complexities associated with selecting and valuing a target firm (Capron and Shen, 2007). In particular, the evaluation of the target firm's customer base may entail specific complexities because of the difficulties in reconstructing the causal mechanisms that may have led it to develop (or not develop) a loyal customer base (Capron and Hulland, 1999). This might be problematic for the acquisition's economic outcomes, because it can bias the accuracy of the valuation of the target firm. For example, when Whirlpool began to evaluate Philips Electronics in preparation for its intended acquisition, its managers were concerned about the loyalty of the target's dealer network and the strength of consumers' perceptions of the target's brands (Nanda and Williamson, 1995). In particular, executives from the two firms held very different perceptions about the value of these "resources", which led to very different economic valuations of the target, and thus to significant struggles during the negotiation phase.

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A higher level of customer orientation has been associated with an increased attention to the quality of a firm's relationships with its customers (Rousseau and Wade-Benzoni, 1994). In the pre-acquisition phase, customer orientation might be reflected in increased attention to assessing the relationships the target firm has developed with its customer base (Reuer, 2005). Contextually, one could expect that a customer oriented acquirer would deploy a specific and well-developed set of routines to support this analysis. Echoing prior research (e.g. Capron and Shen, 2007; Kumar and Blomqvist, 2004), we argue that a more detailed analyses of the target's customer base may reduce the chance of an acquirer making wrong assumptions about its value, so reducing systematic errors in pricing decisions.

In the post-acquisition phase, a customer orientation may intensify the involvement of customers in decisions related to products and brands (Jaju, Joiner and Reddy, 2006). Such an orientation would involve bi-lateral communication processes aimed to include these stakeholders' perceptions and preferences in the selection of a target firm's brands to be retained or to be discarded. This may partially mitigate any tendency by acquiring firm managers to leverage its own corporate brands at the expense of the target's visibility (Seth, 1990), so resulting in increased customer retention after the deal (Payne and Frow, 2005).

At the same time, however, the choice of analyzing pre-existing customer relations extensively during the selection and due-diligence processes, together with the considerable use of communication mechanisms associated with including different customer perspectives during the integration process, may affect the performance of the acquisition by increasing marketing costs and using up a greater amount of managerial time (Capron and Shen, 2007). Again, however, we suggest that customer orientation will have a predominantly positive effect on acquisition performance – thus:

Hypothesis 2: The greater the acquiring firm's orientation towards customers, the

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higher the acquisition's long-term performance will be

Supplier Orientation

Supplier orientation has received comparatively less attention than the previous two dimensions of stakeholder orientation. Its effect on the acquisition process can be analyzed by separating the pre-and post-acquisition phases.

We argue that, during the pre-acquisition phase, acquiring firms characterized by higher levels of supplier orientation would be at an advantage over other firms with lower supplier orientation for a number of reasons. First, they will likely have developed search and evaluation capabilities to assess suppliers and the resource or knowledge complementarities they have with the focal firm (Dyer and Singh, 1998). Second, they will be in the position to redeploy their analytical tools and routines from their existing supplier relationships to those of potential target firms. The implications of these routines for selecting and evaluating suppliers are twofold: they may both reduce the likelihood of erroneously selecting target firms that have poor quality relationships with their suppliers, and they may foster the preservation of a target's valuable existing supplier relationships. Capron and Mitchell (1998), for example, found that firms that could analyze, select and transfer supplier relationships between target and acquiring firms tended to perform better in terms of R&D, product quality and production costs.

In the post-acquisition stage, supplier orientated acquiring firms will be relatively better than less supplier orientated competitors at post-acquisition planning and execution. Higher supplier orientation levels have been associated with the use of knowledge exchange routines based on relational contracts (Gibbons and Henderson, 2012; Dyer and Singh, 1998; Bridoux and Stoelhorst, 2014). For example, following its merger with Daimler-Benz AG,

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Chrysler Corporation gave considerable attention to its supplier relationships, which suggested ways to reduce costs during the restructuring process, helping it make a substantial recovery from the initial losses the merger incurred (Rigby, 2001). As we suggested for employees, the inclusion of supplier knowledge may enhance the quality of the post-acquisition planning decisions (Lee, So and Tang, 2000; Dyer, 1996), by accurately contextualizing them to the situation at hand.

But there may be some drawbacks as well as advantages connected with supplier orientations. First, a broader scope of analysis in the pre-acquisition phase may increase the costs related to preserving sensitive information (Aktas et al., 2007). Second, a greater propensity to include suppliers in the post-acquisition phase may translate into slower and more complex decision-making processes, due to the need to achieve consensus across the supply chain. Third, we might expect that higher supplier orientation might imply a willingness to resist the temptation to pursue any opportunity to renegotiate prior contractual agreements with suppliers, to the possible detriment of cost efficiency. Nevertheless, we suggest that:

Hypothesis 3: The greater the acquiring firm's orientation towards suppliers, the higher the acquisition's long-term performance will be

Local Community Orientation

Finally, we explore whether higher levels of an acquiring firm's orientation towards local communities may influence its behavior during the acquisition process. Such orientation has generally been associated with managers devoting greater attention to the socio-institutional environment in which their firm is embedded (Paredo and Chrisman, 2006), and in deploying more communication and philanthropic initiatives (Marquis, Glynn and Davis,

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2007).

In the pre-acquisition phase, enhanced attention to the target's institutional context may stimulate the acquiring firm to devote more time to understanding its system of relationships with local communities and local government. Target firms, especially smaller ones, generally develop strong ties with the local communities in which they operate, to the point where attempts to take these firms over can generate fierce community resistance (see Marquis and Lounsbury, 2007). Even if these actions do not hamper the acquisition process in most cases, the acquiring firm can risk incurring significant losses of legitimacy or market share, especially if they underestimate the dynamics of targets' relationships with their local communities (Reus and Rottig, 2009). We argue that extending the scope of analysis of target firms to include such local institutional features may positively influence acquisition performance, by enabling an acquirer to anticipate and manage these dynamics correctly.

In a similar vein, a local community orientation might improve an acquirer's ability to manage the post-acquisition phase, especially if it entails major restructuring of the target firm. This capability may have both direct and indirect effects on the acquisition's performance. First, managing interactions with local communities more effectively may reduce the likelihood of protests from citizens and civil organizations that often emerge when target firms are taken over and restructured (see Gramm, 2003) in the context of local bank acquisitions). Second, it may reduce the likelihood of negative spillovers from local communities to other types of stakeholders. We can expect, for example, that disagreements and conflicts between acquiring firms and local communities about post-acquisition decisions may have negative impacts on local customers (leading to customer retention problems) or suppliers (resulting in suppliers switching their business to local competitors).

Overall, however, while developing a consensus among a local community is likely to

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entail greater analysis, communication and philanthropic expenses (Porter and Kramer, 2002) – potentially reducing the returns to capital invested in the acquisition – we can expect that:

Hypothesis 4: The greater the acquiring firm's orientation towards local communities, the higher the acquisition's long-term performance will be

Having hypothesized the direct effect of orientations towards employees, customers, suppliers and local communities on acquisition performance, we now move to study the contingencies that might amplify or reduce these direct effects. Our focus is on two different characteristics of acquisitions: the business similarity between the two firms involved, and the extent to which the target firm is integrated into the acquirer's operations post-acquisition.

Business similarity and stakeholder orientation

Business relatedness has been seen as an important antecedent to acquisition performance since the inception of the strategic management field, even though the empirical evidence in support of a positive link has been mixed (Seth 1990, Singh and Montgomery 1987). We suggest that business similarity will have positive moderating effects on the relationships between the acquiring firm's stakeholder orientations and its acquisition performances. We argue that elements of similarity between the two firms' businesses will affect the hypothesized relationships in two ways. On the one hand, such similarities will facilitate the redeployment of existing stakeholder management routines from the acquiring to the target firm's relationships (Kogut and Zander, 1992). Similarity in skills, communication mechanisms, and cognitive structures can, in fact, ease communications with a target firm's stakeholders, which in turn facilitates the analysis of existing relationships and the exchange of information with them.

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On the other hand, similarity in the domains of the two firms enhances the applicability of knowledge sourced from relationships with existing stakeholders to the context of the new firm (and to the acquisition process). When the acquiring firm operates in a similar business context, its stakeholders will likely hold information and knowledge that can be more directly applied to the target firm context. Conversely, when the two firms operate in dissimilar businesses, managers may erroneously generalize methods, frameworks or routines from one context (where they have been successful) to another where they might be detrimental (Haspeslagh and Jemison, 1991; Zollo and Reuer, 2010). Thus, we can expect business similarity will positively moderate the relationship between the acquirer's orientation towards its stakeholders and the acquisition's performance, so that:

Hypothesis 5: Business similarity will positively moderate the influence of the acquiring firm's orientation towards (a) employees, (b) customers, (c) suppliers, and (d) local communities on acquisition performance

Structural integration and stakeholder orientation

The structural integration of the acquired firm into the acquirers' operations will produce organizational conditions that will allow the coordinated exchange of resources and knowledge (Puranam, Singh and Zollo, 2006). However, while the decision to integrate the target firm may ease the exploitation of synergies between the two firms, it may also severely complicate the post-acquisition process for two reasons.

First, structural integration generally necessitates a series of highly complex, interdependent decisions regarding the redeployment of resources (Capron and Mitchell, 1998), the substitution of targets' managers (Hambrick and Cannella, 1993) or the recombination of their procedures and routines (Zollo and Singh, 2004). The number and

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complexity of these decisions mean extensive integration can often complicate managers' understanding of the steps the acquiring firm needs to take to combine the two firms' activities (Zollo and Singh, 2004; Pablo et al. 1996). The importance of the capability to integrate stakeholders' knowledge post acquisition will increase with the complexity of the mechanisms that it entails. So, for example, we expect suppliers' support to have more influence on the quality of the post-acquisition processes when the acquiring firm opts to integrate the target firm.

Second, since increased levels of integration can cause greater disruption to both firms' existing routines and procedures, it may foster negative reactions from affected stakeholders (both internal and external) (Zollo and Meier, 2008). For example, post-acquisition integration has been seen to foster employee opposition and lead to unexpected resignations from both firms because of the uncertainty that it brings to employees' career paths and the stress that likely follows the systematic substitution of existing procedures, (Hambrick and Cannella, 1993; Schweiger and Denisi, 1991). Similarly, greater structural integration is generally associated with an increase in brand substitutions and unification of post-purchase services, which, in turn can degrade customer relationships (Homburg and Bucerius, 2005), and often triggers negative reactions from the community in which the target operates as it may entail plant closures and job losses (Meyer and Lieb-Dóczy, 2003). As previously suggested, greater orientation towards different categories of stakeholders should facilitate communication with those stakeholders. Communication and participation have often been associated with greater consensus and lower resistance to change from the actors involved (Fiol, 1994), by increasing perceptions of procedural and informational justice (Ellis et al., 2009). Therefore, we expect that increased capabilities to (at least partly) anticipate and reduce resistance from the different stakeholders will be an even more significant factor when

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the modifications associated with post acquisition integration are more intense, and thus more likely to generate resistance from the actors involved. Therefore we propose the following:

Hypothesis 6: Structural integration will positively moderate the influence of the acquiring firm's orientation towards (a) employees, (b) customers, (c) suppliers, and (d) local communities on acquisition performance

Figure 2.1 summarizes the relationships we discuss and the hypotheses we advance.

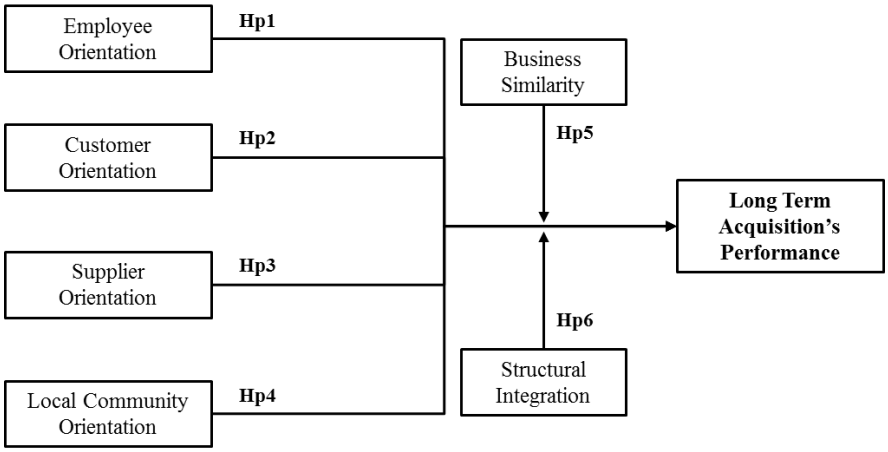


Figure 2.1 – Model and Hypotheses

METHODS

Sample

We test the hypotheses developed above using a sample of acquisitions undertaken by listed US firms between 2002 and 2010. The first step in our sampling strategy consisted of identifying those firms whose stakeholder orientation dimensions have been mapped by the Thomson Reuter Asset4 database (see below). This initial search resulted in 1,205 firms. Second, we used the Zephyr BvD database to collect data on acquisitions completed by these firms. Out of the initial sample, just 725 firms had completed acquisitions between 2002 and

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2010. We excluded from the search all acquisitions of minority stakes (less than 60%), business units, assets or factories to avoid problems of comparability between sample units, and obtained a total of 4,068 acquisitions by crossing the two databases. Third, we used the CRSP and Compustat databases to calculate stock returns and some of the controls. Due to missing data in Compustat and CRSP and some incomplete data in the Asset4 database, the sample decreased to 2,066 acquisitions. Fourth, we identified and excluded all acquisitions made for purely financial reasons (because of the different rationales), so eliminating a further 129 acquisitions by banks or funds in non-related sectors. Finally we used the Businessweek and Lexis-Nexis to cross-validate the deals included in the sample: another 100 acquisitions were found doubtful and were dropped from the sample.

Even if the impact of outliers on our estimations was likely to be limited because of the large sample size (McWilliams and Siegel, 1997), we verified them using both residual-based tests and visual inspection, and discarded a further few (10) extreme outliers in the market returns (likely due to CRSP errors). These adjustments led to a final sample of 1,827 acquisitions.

Variables

Dependent variable

To measure the *long-term performance of the acquisition*, we focus on the acquiring firm's Cumulative Abnormal Returns (CAR) over the 36 months following the acquisition (e.g. Zollo and Reuer, 2010; Cording, Christmann and King, 2008; Lubatkin, 1987). The measurement process follows standard practices in corporate finance and strategic literatures, the details of which are available in the Appendix.

We selected this approach over the other possible alternatives for a number of reasons.

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First, we preferred a long term to a short term window to ensure that information on the post-acquisition phase would be included in the dependent variable measurement (Oler, Harrison and Allen, 2007; Lubatkin, 1987). In addition, Zollo and Meier (2008) show that event studies focusing on short terms windows (around acquisition announcements) do not correlate with any other performance measures, especially with long term financial performances. Second, we discarded accounting based measures as they are often seen as being at risk of suffering from manipulation of accounting returns (Chakravarthy, 1986), or differences in firms' accounting policies. Of more concern is the fact that their relevance may vary between sectors: since ours is a cross-industry sample, this limitation of accounting measures in terms of their ability to assess standard long-term financial performances could be particularly problematic. Third, according to Zollo and Meier (2008), long term financial performance correlates significantly with the degree of synergy realization, assessed through survey methodology, providing additional justification for the approach we selected.

Independent variables

The first set of independent variables represents the acquiring firm's orientation(s) towards its different stakeholder categories. The source most commonly used to assess stakeholder orientations in the received literature has been the Kinder, Lynderburg and Domini (KLD) database (e.g. Hillman and Keim, 2001; Waddock and Graves, 1997). However, the indicators it provides are very coarse-grained, and include items that are only partly linked to stakeholder orientations. We choose to use Thomson Reuters Asset4 database instead, because of its finer grained assessments of firms' stakeholder orientations (and to hold the KLD database back to use for our robustness checks only). Asset4 has collected data

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on environmental and social dimensions for nearly 3,500 large public firms since 2002[4]. The main advantage of its approach lies in the depth of its assessments (Eccles, Ioannou and Serafeim, 2014): it includes more than 900 raw items per firm, obtained from a range of different sources, such as annual reports and sustainability reports, websites of non-governmental organizations and firm surveys.

We assess *Employee orientation* by focusing on those items included in the Asset4 database that were most evidently associated with including employees' interests in firm activities. Specifically, we assess employee engagement as the sum of four dummy (zero, one) items included in the Asset4 *'Employment quality'* macro-category which monitor: if a firm ensures good employee relations or has a policy for maintaining long-term employment growth and stability; if it describes the implementation of an employment quality policy; if it monitors employment interests; and if it sets specific employment development objectives. The measure is constructed as the sum of the four single constructs, so ranges from zero (Low) to four (High)[5].

Supplier orientation is assessed in a similar way. We construct an indicator by selecting those Asset4 database items that assess the firm's attitude (and behaviors) towards its suppliers. Specifically, we build a measure based on four Asset4 dummy items that assess: firms' commitment to treating suppliers as key business partners (presence of a policy; adoption of a code of conduct) and the existence of managerial practices designed to interact with suppliers (processes and communication tools to improve partnerships with suppliers). Again, this led to an aggregate construct ranging from zero (Low) to four (High).

We assess *Customer orientation* using Asset4's '*Customer Loyalty*' macro-item, which reflects a company's capacity to maintain a loyal client base through communication,

[4] The number of firms included in the Asset4 database has increased significantly from 600 in 2002 to nearly 3,500 in 2008

[5] We obtained similar results using the Asset4 database's more conservative macro-item 'Employment quality'.

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interaction and satisfaction programs, together with initiatives to enhance transparency in its dealings with customers[6]. Constructed by Asset4 analysts from 46 raw items, it ranges from 0 to 100[7].

Local community orientation is measured using Asset4's '*Local Communities*' macro-variable, which assesses the extent to which a company implements practices aimed at maintaining good relationships with the communities in which it operates, and uses communication tools to interact with them. It is constructed by Asset4 analysts by aggregating 126 raw items, and ranges from 0 to 100. This set of independent variables is calculated for the year before the acquisition took place.

We hypothesized that the degree of *business similarity* between the acquirer and target moderates the effects of stakeholder orientation on acquisition performance. Since the focus of this study is the difference between businesses from an organizational standpoint, we adopt the operationalization based on heterogeneity of skill requirements between acquirer and target developed by Reuer, Park and Zollo (2002), which is based on data from Occupational Employment Survey (OES) data (2002 – 2010) collected by the US Bureau of Labor Statistics and used to measure the distribution of employment across 23 occupational divisions (e.g., Management, Production, Business and financial operations, Sales and related) for all industries at the 4-digit NAICS level[8]. We calculate *business similarity* as:

$$Business\ similarity = (-1) \times \left(\sqrt{\sum_{i=1}^{23} \frac{(E_{ia} - E_{it})^2}{\sigma_i^2}} \right)$$

[6] Previous studies (mainly based on the KLD database) have assessed customer orientation by looking at indicators of product responsibility (e.g. Berman *et al.*, 1999). Although a similar indicator was available in the Asset4 database (the 'Product Responsibility' macro-item), we deliberately excluded product responsibility indicators from our construct, since they only reflect product modifications, and do not provide any assessment of a firm's customer orientation *per se*.

[7] We obtained similar results using less conservative measures constructed by focusing only on 6 items included in the Asset4's 'Customer Loyalty' macro-category. (Details of the calculation are available from the authors on request.)

[8] Complete data are available on the Bureau of Labor Statistics website (http://www.bls.gov/oes/)

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where E_{ia} is the percentage of employees in occupational division *i* is the acquirer's sector; E_{it} is the percentage of employees in occupational division *i* for the target's sector, and σ^2_i the variance of employment percentages in occupational division *i* across all industries of sample firms, which we use to weight the squared difference term.

To assess the extent to which the target firm was integrated into the acquirer's operations (*structural integration*), we adapt the operationalization used by Paruchuri, Nerkar and Hambrick (2006), and code deals' press releases and companies' snapshots provided by Businessweek's database. Concretely, if that database reports the target firm as 'operating as a subsidiary', we interpret that as indicating that integration had not been carried out (structural integration = 0): conversely, when the target firm is reported as being 'acquired' (i.e. no longer existing as a separate entity), we assume that integration had occurred (structural integration = 1)[9].

Control Variables

Taking into account the complexities involved in acquisitions, and the factors that can influence their subsequent performance, we include several control variables in our models. First, we control for the acquiring firm's *acquisition experience,* operationalizing the construct as the number of the firm's majority acquisitions over the five years before the focal event (Capron and Guillén, 2009). We reason that those with greater experience are likely to have higher capabilities in integrating target firms (Zollo and Singh, 2004).

Second, we use the *acquiring firm's previous performance* – measured as its ROA in

[9] As a validity check for the measure we coded press releases of 200 target firms provided by LexisNexis. The continued presence of a target firm in the database, listed with subsidiary status, was interpreted as showing structural integration had not been carried out, while if the firm had disappeared from LexisNexis the year after acquisition we interpreted that as showing the target had been integrated (Puranam *et al.*, 2006). We found 90% percent agreement between the LexisNexis information and our codification of Businessweek's press releases. For cross validation, we also conducted further analyses of press releases from other sources (e.g. industry newspapers, press releases) - any inconsistent observations were dropped.

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the year preceding the acquisition – as a control, to help disentangle the acquisition's performance from the acquiring firm's overall performance. Literature shows that firms with higher performances may be more prone to make risky acquisitions (Morck, Shleifer and Vishny, 1990).

Third, we include the *industry relatedness* between acquiring and target firms in the model. We adapt the operationalization developed by Finkelstein and Haleblian (2002), based on SIC codes, and develop an industry similarity measure using four-digit SIC codes from all the business lines in which the two firms operate.

Fourth, as previous equity-based relationships between the target and acquirer could impact the availability of information to the acquiring firm, we control for the existence of *minority shares* participations between the firms before the focal deal.

Fifth, since cross-border acquisition may entail higher complexity levels (Björkman, Stahl and Vaara, 2007), the model includes a dummy variable that takes the value 0 for domestic acquisitions and 1 for cross-border deals.

Sixth, we control for *acquirer's resource slack*, measured as the ratio between its current assets and current liabilities. While strategic literature has suggested resource slack has positive effect on acquisition performances, received financial literature suggests the opposite, claiming that acquirers with greater resource slack are likely to make less profitable acquisitions, because of lower controls on their cash availability (Lang, Stulz, and Walkling, 1989).

Seventh, we control for the *size of the target* firm, calculated as its operating revenues (sales) before the acquisition. Difficulties of the integration process may be intensified when the acquired firm is larger, with negative effects on acquisition performance (Cording et al., 2008).

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Eighth, we include a proxy for the ratio of the acquirer's and target's sizes (*size difference*). Because of the lack of available relevant data, we use the ratio between the target's total sales and the acquirer's total assets.

Ninth, since target firms with longer histories may be more complicated to acquire, we control for the *age of the target firm*, measured as the number of years from its foundation to the acquisition. Finally, we use 8 year and 17 sector dummy variables as further controls.

Model specification and Econometric issues

We use ordinary least square (OLS) regression models to test our hypotheses on the direct effects of orientation towards different stakeholder categories (Hyps. 1, 2, 3 and 4), and those on the moderating role of business similarity (Hyps. 5a, 5b, 5c and 5d). Robust standard errors are used in all models. We address potential multicollinearity problems due to interaction terms by standardizing continuous independent variables (Aiken and West, 1991).

In estimating our second set of moderating role hypotheses (Hyps. 6a, 6b, 6c and 6d), we faced challenges associated with the potential endogeneity of the choice to integrate the target firm. To (at least partially) solve this issue, we adopt a two-step analysis based on a propensity score (Rosenbaum and Rubin, 1983; Heckman, Ichimura and Todd, 1998). This methodology involves first estimating the probability of the target being integrated by the acquirer, and then accounting for this probability by including a propensity score into the second regression step. The probability of the target being integrated (i.e. the propensity score) is calculated by regressing the dummy variable *structural integration* on a group of firm and deal characteristics which may influence the probability of such integration: acquirer's experience , business similarity, industry relatedness, a dummy indicating if the acquisition is cross-border and the organizational size ratio. To sort out the assumption of

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independence between stakeholder orientation and structural integration in the first-step estimation, we also include an aggregate variable to assess the acquiring firm's overall stakeholder orientation[10]. In the second step, we run an OLS model to estimate the effect of the interaction between structural integration and the acquiring firm's orientation towards different stakeholder categories on the acquisition performance, including the propensity score in the regression model as an additional covariate (Rosenbaum and Rubin, 1983).

RESULTS

Table 2.2 shows the descriptive statistics and correlations. Some bivariate correlations among the independent and control variables were found to be statistically significant, which might indicate multicollinearity, but correlation values below 0.90 are considered acceptable in cases of large numbers of observations (N>1,000) (Hair et al., 1995). The Variance Inflation Factor (VIF) shows no values above 10, suggesting there are no severe multicollinearity problems in our models (Hair et al., 1995).

[10] We assess overall stakeholder orientation as follows. We calculate if the acquiring firm is below or above the median score on each of the stakeholder orientation measures (Employee, Customers, Suppliers and Local community orientations). Where a firm's assessment is below the median for a specific category of stakeholders (e.g. employees) we assign a 0, otherwise a 1. We use the sum of the four dummy values recorded for each stakeholder category as the aggregate acquirers' overall stakeholder orientation variable.

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Table 2.2. Descriptive statistics and correlations

Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1. CAR 36 months	-0.168	0.769																
2. Employee Orientation	0	1	0.062*															
3. Customer Orientation	0	1	0.112*	0.377*														
4. Supplier Orientation	0	1	0.148*	0.316*	0.235*													
5. Community Orientation	0	1	0.120*	0.493*	0.520*	0.345*												
6. Business Similarity	-0.015	1.003	0.007	-0.052*	-0.074*	-0.069*	-0.066*											
7. Structural Integration	0.472	0.499	-0.032	0.052*	0.072*	0.045*	0.088*	0.040										
8. Acquirer's experience	14.150	15.016	0.054*	0.009	0.046*	0.044*	-0.022	0.098*	0.175*									
9. Minority share	0.044	0.204	-0.019	0.065*	0.014	0.007	0.035	0.034	-0.078*	-0.088*								
10. Industry relatedness	2.987	3.005	-0.028	0.003	0.020	0.018	0.030	0.564*	0.153*	0.133*	-0.021							
11. Cross-border	0.282	0.450	0.036	0.046*	0.039	-0.020	0.029	0.020	-0.093*	-0.081*	0.127*	-0.074*						
12. Size of the target	16.883	1.666	-0.005	0.043	0.010	0.014	0.037	0.075*	-0.078*	-0.164*	0.030	0.074*	-0.035					
13. Acquirer's prev. perf.	0.047	0.908	-0.121*	0.063*	0.186*	0.013	0.108*	0.031	0.027	0.137*	-0.015	0.027	0.014	-0.081*				
14. Size difference	0	1	-0.069*	-0.048*	-0.046*	-0.041	-0.042	0.083*	-0.018	-0.078*	-0.010	0.079*	-0.048*	0.340*	-0.070*			
15. Acquirer's resource slack	0	1	-0.142*	-0.046*	-0.062*	-0.078*	-0.069*	-0.052*	0.032	-0.060*	-0.018	0.021	0.007	-0.031	-0.003	0.074*		
16. Age of the target firm	18.292	23.663	0.023	-0.021	-0.027	-0.021	-0.027	0.129*	-0.123*	-0.022	-0.008	-0.003	-0.010	0.204*	-0.044*	0.083*	-0.077*	
17. Size diff. (gross grained)	0.457	0.276	0.041	0.069*	0.025	0.062*	0.078*	0.102*	-0.093*	-0.112*	0.060*	0.096*	0.122*	0.424*	-0.088*	0.198*	-0.047*	0.201*

* $p < 0.05$; N=1827

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Table 2.3. OLS regression models (industry and year dummies not reported). DV: Cumulative Abnormal Returns

	Model 0	Model 1a	Model 1b	Model 2a	Model 2b	Model 3a	Model 3b	Model 4a	Model 4b	Model 5
Constant	0.012	0.037	0.108	0.073	0.097	0.124	0.143	0.106	0.129	0.117
Acquirer's exp.	0.047 *	0.049 **	0.053 **	0.045 *	0.047 **	0.044 *	0.045 **	0.046 **	0.051 **	0.043 *
Minority share	-0.069	-0.109	-0.103	-0.095	-0.010	-0.091	-0.092	-0.104	-0.110	-0.094
Industry relatedness	-0.006	-0.009	-0.012	-0.012	-0.010	-0.017	-0.015	-0.016	-0.014	-0.021
Cross-border	0.052	0.052	0.048	0.046	0.041	0.054	0.055	0.045	0.044	0.051
Size of the target	0.006	0.004	0.001	0.002	0.001	-0.001	-0.002	0.001	-0.000	-0.001
Acquirer's prev. perf	-0.128 **	-0.131 **	-0.129 **	-0.135 **	-0.134 **	-0.127 **	-0.128 **	-0.135 **	-0.136 **	-0.134 **
Size difference	-0.043 *	-0.041 *	-0.037 +	-0.039 *	-0.037 +	-0.035 +	-0.033 +	-0.038 +	-0.036 +	-0.035 +
Acquirer's resource slack	-0.096 **	-0.095 **	-0.119 *	-0.116 *	-0.119 *	-0.108 *	-0.109 *	-0.115 *	-0.117 *	-0.107 *
Age of the target firm	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000
Structural Integration		0.015	0.017	0.016	0.014	0.007	0.003	0.004	-0.001	0.003
Business Similarity		0.023	0.020	0.026	0.019	0.029	0.024	0.031 +	0.024	0.035 +
Employee Orientation		0.023	0.027							0.024
Emp. Orient. X Bus. Simil.			0.047 **							
Customer Orientation				0.050 *	0.050 *					0.014
Cust. Orient. X Bus. Simil.					0.040 *					
Supplier Orientation						0.091 ***	0.095 ***			0.077 ***
Supp. Orient. X Bus. Simil.							0.032 *			
Community Orientation								0.075 ***	0.075 ***	0.054 **
Comm. Orient. X Bus. Simil.									0.039 *	
N	1,827	1,827	1,827	1,827	1,827	1,827	1,827	1,827	1,827	1,827
R-squared	0.142	0.159	0.163	0.161	0.165	0.170	0.174	0.166	0.169	0.175
YearFE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
IndustryFE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES

*** p<0.001, ** p<0.01, * p<0.05, + p<0.1

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Table 2.3 presents the ordinary least squares (OLS) robust regression models used to test the first four hypotheses and Hyp.5 (a, b, c and d). All models presented are statistically significant ($p<0.001$). Model 0 represents the baseline model, which includes only the control variables' coefficients, some of which are significant.

Moving to the hypothesis testing, our first prediction is a positive effect of stakeholder orientation on acquisition performance. Results, reported in Model 1a, show a slightly positive but not significant effect of firm employee orientation on acquisition performance, so failing to support our argument in Hyp. 1. Model 2a tests Hyp. 2, which predicts that customer orientation has a positive impact on acquisition performance. The coefficient of the direct effect is positive and significant (+0.05, $p<0.05$), providing support for Hyp. 2. Similarly, Model 3a and 4a show positive and highly significant coefficients for supplier and local community orientations (respectively, +0.091, $p<0.001$, and +0.075, $p<0.001$), which provide strong confirmation for Hyps. 3 and 4. Model 5, meanwhile, is the full model, and only shows significant effects for supplier and community orientations variables. This might be due to moderate multicollinearity between the measures of orientation towards different stakeholder categories. Summarizing, data provides positive confirmation for three of our four initial hypotheses, but the hypothesis of positive direct effect of an acquirer's orientation towards employees on acquisition performance was not validated in the models presented.

Interaction with business similarity

Models 1b, 2b, 3b and 4b test the second set of hypotheses (5a, 5b, 5c and 5d), which propose that business similarity positively moderates the influence of acquirers' employee, customer, supplier and local community orientations on acquisition performance. Overall, the results presented in Table 2.3 support our predictions. Specifically, Model 1b corroborates

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Hyp. 5a, showing that the interaction effect between employee orientation and business similarity has a positive and significant effect on acquisition performance (0.047, $p<0.01$) - although the direct effect of employee orientation remains non-significant. Importantly, as Figure 2.2.1 shows, the impact of employee orientation on acquisition performance can vary depending on the similarity between the businesses: when business similarity is high the effect is positive, but when the two firms operate in unrelated business, it turns negative. These results endorse the intuition previously proposed: the capabilities to obtain knowledge from employees and use it in the acquisition process can only influence the acquisition's performance positively when the two businesses are sufficiently similar.

At the same time, data shows that business similarity, generally, enhances the direct effect of acquirers' orientations towards customers, suppliers and local communities. In particular, model 2b (represented in Figure 2.2.2) displays a positive and significant effect of the interaction term between business similarity and customer orientation (0.040, $p<0.05$). The interaction term between business similarity and supplier orientation (Model 3b, Figure 2.2.3) is also positive and significant (0.032, $p<0.05$). Finally, a local community orientation (Model 4b, Hyp. 5d) is positively and significantly moderated (0.039, $p<0.05$), by the similarity between acquirer and target (Figure 2.2.4). In all these cases, the positive direct effects are not significantly affected by the inclusion of the interaction terms. In sum, the results of the tests on the second set of hypotheses (Hyps. 5a, 5b, 5c and 5d) show that they are all supported.

Interaction with structural integration

The final set of hypotheses suggests that an acquirer's orientation towards the different categories of stakeholders becomes particularly important when the target firm's operations

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are integrated into those of the acquiring firm. As discussed above, the non-randomness of the integration decision requires the adoption of a two-step approach, in which the estimation of the probability of integrating the target firm is followed by the estimation of the effects of the interaction terms on acquisition performance. Results of the first step estimation (Table 2.4) show that structural integration is positively predicted by the relatedness between the industries in which the target and acquirer operate; the experience of the acquiring firm; and the overall stakeholder orientation of the acquiring firm. In contrast, business similarity, size difference and cross-border acquisitions are negatively associated with the probability of the target firm being integrated.

Table 2.4. Probit model to calculate propensity score (Step 1)
DV : Structural integration

Variables	Model P
Business Similarity	- 0.022 *
Industry relatedness	0.073 ***
Cross-border	- 0.180 **
Size difference	-0.325 **
Acquirer's experience	0.013 ***
Aggregated Stakeholder Orient.	0.074 **
Constant	-1.1762 ***
Observations	1,827
Pseudo R-squared	0.046

*** $p<0.001$, ** $p<0.01$, * $p<0.05$, † $p<0.1$

Table 2.5 presents the results of the second step regression, which encompasses the probability of integration as an additional covariate. Data provides general confirmation of the predicted relationships, except in the case of customer orientation. Specifically, the effect of customer orientation on acquisition performance appears to be partially impeded by whether the acquirer decides to integrate the target firm or not. In fact, the data show a negative (but

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not significant) effect of the interaction term between customer orientation and structural integration (-0.016; p>0.1; Fig. 2.3.2).

Table 2.5. OLS regression models including integration interaction terms (Step2). DV: Cumulative Abnormal Returns

	Model 6a	Model 6b	Model 6c	Model 6d
Constant	-0.342	-0.189	0.100	0.178
Acquirer's experience	-0.001	0.016	0.040	0.053
Minority share	-0.086	-0.097	-0.086	-0.101
Industry relatedness	-0.068	-0.048	-0.020	-0.006
Cross-border	0.100 +	0.081	0.054	0.035
Size of the target	0.007	0.005	-0.001	-0.000
Acquirer's prev. perf	-0.130 **	-0.136 **	-0.128 **	-0.134 **
Size difference	-0.037 +	-0.038 +	-0.034 +	-0.038 *
Acquirer's resource slack	-0.118 *	-0.115 *	-0.107 *	-0.116 *
Age of the target firm	-0.000	-0.000	-0.000	-0.000
Structural Integration	0.008	0.013	0.006	0.002
Business Similarity	0.047 *	0.040 +	0.028	0.026
Employee Orientation	-0.038			
Emp. Orient. X Integr.	0.100 **			
Customer Orientation		0.047		
Cust. Orient. X Integr.		-0.016		
Supplier Orientation			0.047 *	
Supp. Orient. X Integr.			0.086 **	
Community Orientation				0.040
Comm. Orient. X Integr.				0.079 *
N	1,827	1,827	1,827	1,827
R-squared	0.165	0.162	0.174	0.169
YearFE	YES	YES	YES	YES
IndustryFE	YES	YES	YES	YES
Propensity score	YES	YES	YES	YES

*** p<0.001, ** p<0.01, * p<0.05, + p<0.1

The suppression of the direct effect of customer orientation in model 6b may be due to multicollinearity problems (that might be expected) between the customer orientation variable and the interaction term. The coefficient of the interaction term between employee orientation and integration is positive and significant (0.10, p<0.01), and provides support for Hyp. 6a (the effect is represented in Figure 2.3.1). Similarly, Model 6c corroborates the prediction of

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Hyp. 6c (0.08, $p<0.01$), which proposes an increase in the positive effect of supplier orientation when the target firm is integrated. Finally, Hyp. 6d, which proposes a positive interaction between integration and local community orientation is significantly supported (0.079 $p<0.05$). As Figures 2.3.3 and 2.3.4 show, structural integration increases the effect of (respectively) supplier and local community orientation on acquisition performance, but does not invert the sign of the effect, as in the case of employee orientation.

To further analyze the moderation effect of structural integration on the relationships between stakeholder orientations and acquisition performance, we perform sub-group analyses as suggested by Venkatraman (1989). We split our sample of acquisitions along two dimensions: integration vs. non-integration and high vs. low stakeholder category orientation. First, we analyze the difference in the effect of stakeholder orientation variables on acquisition performance between integrated and non-integrated targets. Data (available from the authors on request) suggests that employee orientation has a positive and significant effect on acquisition performance only in case of integration: the effect turns negative when the target is not integrated. This suggests that, where the target is not integrated, employee orientation may represent a burden for the acquiring firm, as the costs of maintaining a higher level of orientation towards employees may overcome its positive effects on acquisition performance. In terms of supplier and local community orientation – instead, the effects of orientation towards these categories of stakeholders on acquisition performance remain positive in both sub-samples (integrated and non-integrated). Split-sample analyses also confirm no interaction between integration and customer orientation.

Second, we split the acquisition sample along the four stakeholder orientation variables. To define those sub-groups we considered cutoffs values equal to the median for each of these variables. In employee orientation, data suggests that the effect of structural

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integration varies from negative to positive as we move from the low-employee orientation subgroup (below the median) to the high-employee orientation group (above the median). The same results emerged when splitting the sample along the supplier and community orientation dimensions (high vs. low orientation). This is in line with part of the extant literature, and suggests that integration may enhance or disrupt acquisition performance depending on a number of contingencies (Puranam et al., 2006; Datta and Grant, 1990). The analyses provided show that the orientation towards certain categories of stakeholders may be one of these contingencies, and may explain (at least partly) the heterogeneity of the effects of post-acquisition integration.

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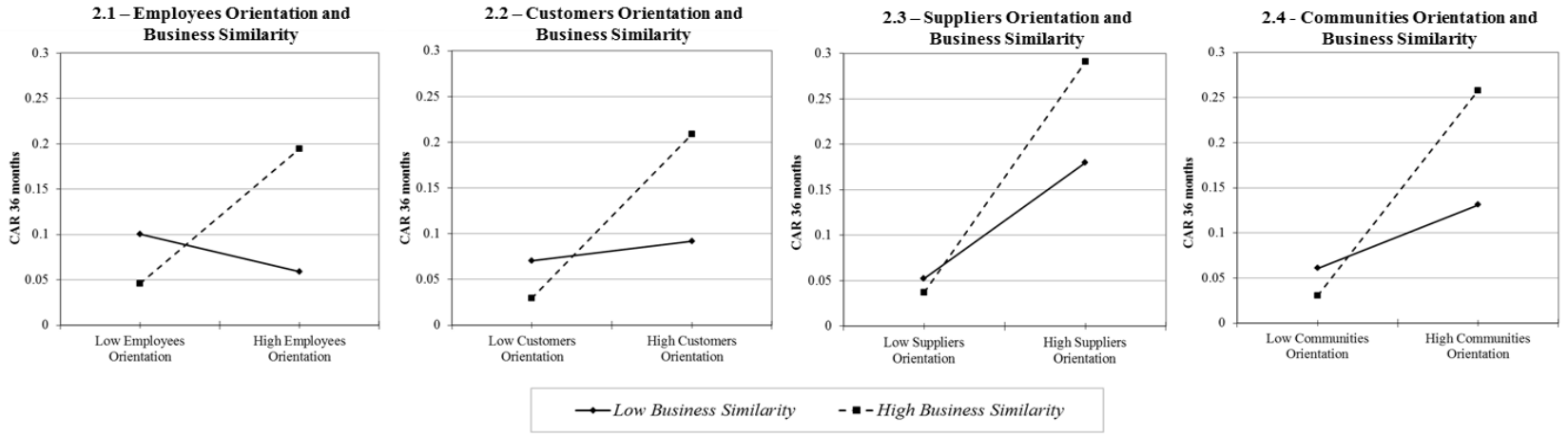


Figure 2.2 – Estimated Interaction effects (Business Similarity)

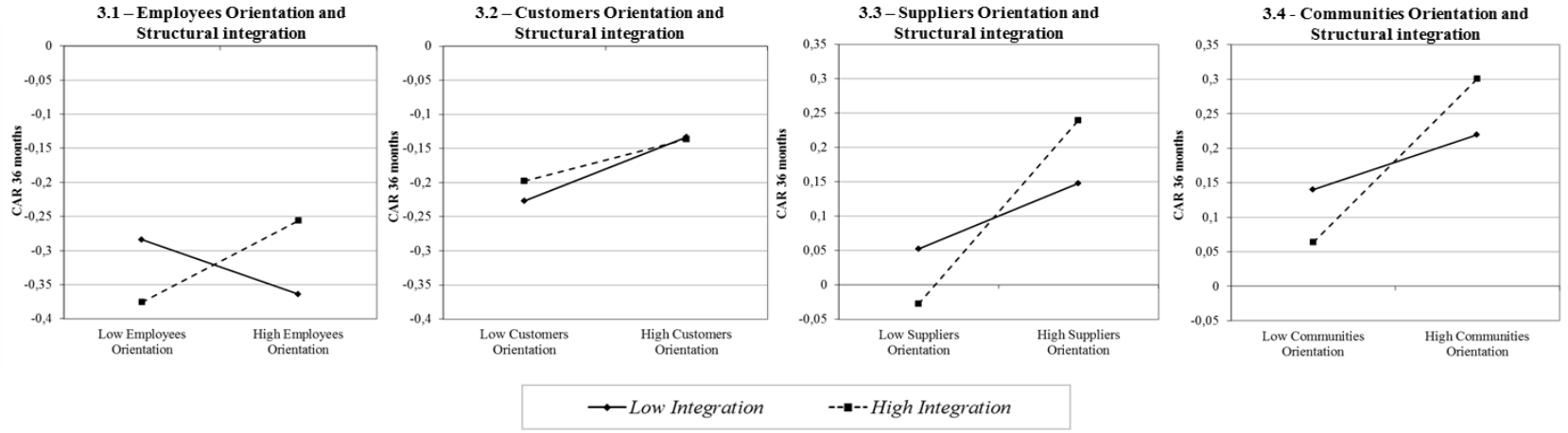


Figure 2.3 – Estimated Interaction effects (Structural Integration)

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Robustness checks

All the results reported above survive multiple robustness checks. First, they are not sensitive to the event window adopted used for calculating the dependent variable (i.e. CAR over 36 months). Using a smaller event windows (i.e. 24 months) for both the estimation and the calculation period, leaves the results qualitatively unchanged. At the same time, using different benchmarks in calculating the CAR (e.g., equal weighted or S&P market returns) provides similar results.

Second, we considered that identifying the acquisition's performance through the use of stock returns might be biased if more than one acquisition was conducted within the same event window (e.g. Zollo and Singh, 2004) – when estimating the effects of one cannot be disentangled from the effects of the other. In order to partially account for this issue, we checked for the robustness of results by including in the model the number of acquisitions that the acquirer undertook in the three years following the focal deal[11]. This measure can be interpreted as the number of parallel acquisitions to the focal one. No significant differences emerged in the results.

Third, we checked for robustness of the solution that we adopted to account for the non-randomness of the integration decision (i.e. the propensity score), by using the procedure proposed by Hirano, Imbens and Ridder (2003). Here, instead of including the propensity score in the estimation model, we use the inverse of the propensity score to weight each observation in the treated (i.e. integrated) group, and one minus the inverse of the propensity score in the non-treated group (non-integrated). This procedure led to similar results.

Fourth, to check the robustness of our main independent variables (employee, customer, supplier and community orientations), we triangulated our analysis against data

[11] This variable has been included only in the robustness checks since, as it can be expected, multicollinearity issues may emerge with the measure of experience that we adopted.

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sourced from the KLD database (rather than from Asset4). Multivariate regressions for most of the KLD based variables show similar results to those reported: only the supplier orientation variable shows significant inconsistencies, due to differences in its specification[12].

Finally, since *size difference* and *size of the target* share a component variable (target sales), they might face artificial correlation problems ("ratio error correlation" – see Hitt, Hoskisson, and Kim, 1997), which could risk violating the *ceteris paribus* assumptions of the regression model. To check for this potential issue we re-estimated the models including the *size difference* variable only, but the results remained qualitatively unchanged.

DISCUSSION AND CONCLUSIONS

In this study we have built on the stakeholder theory of the firm to shed light on one possible explanation of heterogeneity in acquisition performance: the acquiring firms' orientations towards their stakeholders. The basic intuition is that the approaches firms adopt in managing their relationships with different groups of non-shareholding stakeholders enhance their likelihood of success of their acquisitions. Specifically, we have explored how an acquiring firm's stakeholder orientation might influence its behavior during the pre and post-acquisition phases of the M&A process, and identified the benefits and the drawbacks that such behavior may have for the acquisition's performance. The recognition that stakeholder orientations may have both positive and negative implications is a distinguishing feature of this study, which shows a much more nuanced empirical picture than have studies based on previous theoretical considerations.

In general, we found evidence that an acquiring firm's orientations towards its

[12] This might be due to the fact that, since KLD database does not include any supplier specific item, the triangulation has been performed using an aggregation of variables measuring very different constructs (Further details are available from the authors on request.)

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different categories of stakeholders matters for a descriptive model of its acquisition performance. The magnitude and sign of their influence vary across the categories of stakeholders – for example, our findings suggest that higher acquirer attention towards customers, suppliers and local communities have, all else being equal, positive direct effects on acquisition performance, although the same cannot be said in the case of employee orientation.

The study of two specific contingencies allowed us to refine our analysis of these effects. First, we looked at business similarity between the acquiring and target firms. Results show that the more similar the two firms are, the more positive is the impact of the acquiring firm's orientations towards its different stakeholder groups on acquisition performance, including their orientation towards employees. Particularly interesting, we found that the moderation effect of business similarity on the performance impact of employee orientation is sufficiently strong to switch the regression coefficients from negative to positive. The strength of the moderating effect of business similarity can be interpreted as a consequence of the importance of knowledge transfer effects, not only between the two companies involved in the acquisitions, but also between the two networks of stakeholders.

A second moderating effect that we considered is the extent to which the target is integrated into the acquiring firm. The data that we examined suggests that structural integration increases significantly the effect of the acquiring firm's orientations towards some stakeholder categories (i.e. employees, suppliers and local communities) on acquisition performance. Importantly, the degree of integration does not influence the impact of customer orientation on acquisition performance. One interpretation of these results is that the performance effect of post-acquisition integration should be studied in conjunction with the willingness and capacity of the acquiring firm to integrate the interests and knowledge of its

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stakeholders in its decision making process. In addition to the results on the moderating effect of post-acquisition integration on the relation between the acquirer's stakeholder orientation and acquisition performance, we observed strong evidence of the opposite side of the moderation effect (i.e. the influence of stakeholder orientation on the integration impact on acquisition performance). We conclude that there might be strong positive synergies between an acquiring firm's stakeholder orientation and its decision to integrate the target firm. This has clear implications, not only for the future developments of M&A and stakeholder research, but also for business practice.

In terms of limitations, this study was only able to partly disentangle the effects of the acquirer's orientation towards each category of stakeholders in the different phases of the acquisition process. One promising direction for future research might be the empirical exploration of this heterogeneity.

This study has also assumed that acquiring firms have homogenous orientations with respect to specific stakeholder categories - but variations may exist even within a same stakeholder group. For example, a firm can decide to address the interests of specific types of employees, such as knowledge-based employees, while neglecting the interests of others, say its low-level laborers. Stakeholder and strategy literatures have rarely tried to disentangle stakeholder orientation within specific categories, mainly because of a lack of data. We suggest that future research efforts could be directed toward exploring these differences, and the effects that they might have on firms' performances both in the M&A contexts and other strategic tasks.

Despite these limitations this paper tries to contribute to the development of a number of strands in the literature. First, it links the M&A literature with the growing body of work in the stakeholder based view of the firm, and tries to extend the scope of the analysis of

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corporate development activities by studying the influence of acquiring firms' relational capital, relational contracts, and relational capabilities with its stakeholders (Kale, Singh and Perlmutter, 2000, Gibbons and Henderson, 2012; Dyer and Singh, 1998).

Second, it contributes to the development of the stakeholder based view by providing theoretical and empirical support from a more fine-grained analysis of each stakeholder category. Although the literature has considered orientation towards the whole set of stakeholders as an overall firm characteristic, we claim that the way in which firms approach their stakeholder relationships , although reflecting a general attitude, cannot be fully described by one single construct (Tantalo and Priem, 2014).

Although this paper represents a first attempt to link stakeholder theory with the M&A literature, we hope we have shown a potential fertile ground for future applications of the stakeholder based view of the firm to the study of other corporate strategy decisions and processes, such as alliances, reorganizations and market entry, to name but a few strategically relevant contexts.

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APPENDIX

CAR is calculated as the sum over time of a firm's abnormal returns, which represent the extra returns it gains compared to standard (normal) returns. The calculation of CAR is constructed in two steps. The first calculates a_i and b_i by estimating the returns of the acquiring firm as a function of the returns of the market index during the estimation period (36 months before the announcement of the deal):

$$RET_{it} = a_i + b_i RET_{mt} + e_{it}$$

where RET_{it} is the return of the common stock of the firm i at time t (month); RET_{mt} is the return of the of the benchmark portfolio at time t (month); b_i is the parameter that links the returns of the firm i to the returns of the portfolio; and e_{it} is the random error term. The CRSP value weighted market index is used as benchmark.

The second step calculates the abnormal return for firm i at month t as:

$$CAR_{i36} = \sum_{t=1}^{36} [RET_{it} - (a_i + b_i RET_{mt})]$$

where t, now, indicates the 36 months starting from the month of the announcement; RET_{it} and RET_{mt} are, respectively, the returns at time t of the firm's common stock and the benchmark portfolio.

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CHAPTER 3[13]

STAKEHOLDERS AND ORGANIZATIONAL LEARNING: THEORY AND EVIDENCE FROM CORPORATE ACQUISITIONS

ABSTRACT

The purpose of this paper is to study the interaction between experiential learning and the quality of stakeholder relationships in the context of complex strategic tasks such as corporate acquisitions. We argue that a firm's stakeholder orientation can have both positive and negative effects on its ability to extract knowledge from previous experience and apply it to a focal task. To model these relationships, we propose a direct effect on the capability to make inferences from previous experience and an indirect effect on the influence that novelty (in terms of cognitive distance) of the focal task has on correct application of accumulated knowledge. We test these arguments on a sample of 1,718 corporate acquisitions by US listed firms and find evidence of a negative direct effect of stakeholder orientation on experiential learning. We also find evidence that problems associated with the application of accumulated experience to novel contexts increase with the level of stakeholder orientation of the firm.

[13] This chapter is the result of joint work with Maurizio Zollo. Earlier version of this appeared in the Academy of Management Best Paper Proceedings (2015)

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INTRODUCTION

What are the factors that influence whether firms can learn from their past experience? What are the boundary conditions for the accumulation of experience that can enhance organizational task performance? In particular, how does the quality of a firm's relational capital – its relationships with its key internal and external counterparts - affect its ability to extract appropriate elements of knowledge from its past experience and apply them to the task at hand?

Understanding how organizations learn from their experience has been one of the prominent challenges in both organizational literature (March and Simon, 1958; Cyert and March, 1963; Argyris and Schon, 1978; Levitt and March, 1988; Nonaka, 1994; Argote, 1999) and strategy literature (Kogut and Zander, 1992; Teece, Pisano and Shuen, 1997; Zollo and Winter, 2002). The debate has moved over the decades from understanding the direct effects of accumulated experience (i.e. the repetition of specific tasks) on performance to the identification of the boundary conditions for effective learning (i.e. the circumstances under which the accumulation of experience can lead to an increase in firm performance). In the case of the latter, scholars have studied the roles of task characteristics (e.g. formalization of the task; see Barrett, 1998), organizational features (e.g. leadership characteristics, autonomy or the use of incentives; see Vera and Crossan; 2004; Sorenson and Sørensen, 2001; Nonaka, 1994) and environmental conditions (e.g. environmental ambiguity; see Lant and Mezias, 1990) on the effectiveness of experiential learning.

However, less effort has been devoted to analyzing the relational aspects of experiential learning or to understanding the extent to which the relationships a firm has built up over the years can influence (positively or negatively) its ability to learn. A few notable exceptions have analyzed the degree to which firms can learn from other parties' experience

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by studying experience spillovers through interlocking directorates or information leakages (e.g. Baum, Li, and Usher; 2000; Haunschild and Miner, 1997; Haunschild, 1993). Most of these studies focused on the effect that the experience of others in specific tasks (e.g. acquisitions undertaken by competitors) can have on focal firm behaviors (e.g. paying premium prices in acquisitions) or outcomes (e.g. acquisition performance).

Less attention has likewise been given to analyzing the effects that different actors' perceptions about the same event have on a focal firm's experiential learning process. In particular, prior literature has largely neglected the effect that the involvement of different categories of stakeholders may have on a firm's ability to learn from its experience. To our knowledge, only one study - by Roome and Wijen (2006) - has combined insights from the stakeholder-based view with organizational learning literature. In this study, Roome and Wijen develop a theoretical model of the effect of stakeholder power on incremental learning in the environmental management context. Our study, instead, investigates how a firm's experience, the relational capital it has developed with its stakeholders, and their interactions affect its performance in a specific task. In other words, it aims to analyze how stakeholder orientation - which we define as the degree to which a firm's management focuses its attention on sensing and integrating stakeholders interests and knowledge in the firm's decision making and learning processes[14] - can impact a firm's ability to learn from its previous experience.

This question is particularly important for the development of a comprehensive theory of experiential learning in organizations - which we define as the appropriate transfer of the organization's experience from past events to a focal event (see Barkema and Schijven,

[14] Previous literature on stakeholder relationships has not focused explicitly on the cognitive elements associated with stakeholder orientation and has concentrated mainly on the knowledge exchange aspects (e.g. Harrison, Bosse, and Phillips, 2010) or the competitive advantage that may derive from *engaging* stakeholders in managerial processes (Sloan, 2009).

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2008; Haleblian and Finkelstein, 1999) – given the fundamental conundrum that relational quality can have both positive as well as negative effects on learning processes. On the one hand, relational quality can enhance the effectiveness of experiential learning by improving the quality of the inferences a firm makes from its past experience as well as the quality of the application of previous routines to the focal task[15]. On the other hand, different stakeholders can generate (and share) a variety of interpretations of the same event and so increase (rather than reduce) causal ambiguity. We argue that this conundrum can be explored by studying two different mechanisms. First, we will focus on the direct effect that stakeholder orientation can exert on the relationship between experience in a specific task and performance of a further iteration of the same task. Second, we will focus on how relationships with stakeholders can influence the impact of the novelty of the focal task - which we define as the cognitive distance between the stock of previous experience and the focal task - on the relationship between accumulated experience and performance of a focal task. Previous studies have shown how a larger stock of experience increases the tendency of an organization to rely on consolidated routines even when undertaking cognitively distant (novel) tasks (Nadolska and Barkema, 2007; Cohen and Bacdayan, 1994; Leonard-Barton, 1992). We claim that stakeholder relationships can either increase or decrease this mechanism by acting on the capability of managers to judge the appropriateness of previously developed routines to the context at hand.

To study the interplay between a firm's stakeholder orientation and its organizational learning, we concentrate on corporate acquisitions, a context that is particularly interesting for our inquiry for several reasons. First, since firms learn from the repetition of routines associated with specific and distinguishable events, acquisitions represent situations that are

[15] By 'focal task' we mean the activity that the firm is about to undertake, given that a similar task (or at least one that is perceived as similar) has been carried out in the past.

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clearly identifiable both by firms and by researchers (Zollo, 2009). Second, acquisitions are complex events in which the capability to learn from previous successes or errors can determine the difference between a successful and a failed acquirer (Heimeriks, Schijven, and Gates, 2012). Finally, the role of stakeholders in the acquisition context is particularly relevant because of the high impact such deals carry for the broad set of relationships in which the firm is embedded (Shrivastava, 1986).

The corporate development setting has received increasing attention from organizational learning scholars in recent decades, and several studies have sought to determine how firms learn about how to undertake acquisitions from their past experience. Some scholars (e.g. Fowler and Schmidt, 1989) have found positive relationships between experience and performance, while others have found non-significant (e.g. Hayward, 2002; Zollo and Singh, 2004) or U-shaped relationships (Haleblian and Finkelstein, 1999; Porrini, 2004) between the two. These heterogeneous findings suggest that there are important contingencies at play. Our paper aims to contribute to this discourse by focusing on the role of the acquiring firm's relational capital in the development of its M&A capabilities through the accumulation of relevant experience.

The remainder of the paper is structured as follows. First we develop a theoretical explanation of learning from experience and selectively review the literature on stakeholder orientation. Second, we develop a set of testable hypotheses which explicitly bridge stakeholder based relational capital with experiential contingencies to explain acquisition performance. In particular, we argue that an organization's stakeholder orientation can have a positive or negative effect on its ability to make inference from previous experience (i.e. previous acquisitions) and on its capability to select routines to be applied to novel contexts. Third, we introduce our sample and explain the methods we use to test our hypotheses.

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Fourth, we present the results of our study, focusing specifically on the interactions between the different factors involved. We conclude by discussing our results, pointing out our paper's limitations and making suggestions for further research.

THEORETICAL DEVELOPMENT

The study of experiential learning requires the identification of the conditions and factors that might foster or hamper the impact of the accumulation of experience on task performance. Previous literature (see Levitt and March, 1988) has identified some organizational conditions (e.g. culture, firm structure, strategic choices; see Fiol and Lyles, 1985; Argyris and Schon, 1978) or deliberate actions (e.g. codification of knowledge, exchange of experience; see Zollo and Winter, 2002; Zollo and Singh, 2004) that influence the learning mechanisms, either by promoting greater understanding of the causal relationships associated with firm events or by reducing misapplication of previously learned lessons (Huber, 1991).

Despite the significant progress in our understanding of these mechanisms, limited attention has as yet been paid to the role of social interactions. Only some more recent works have actually studied external learning activities (i.e. interactions with individuals and groups in the context in which the focal entity is embedded), focusing on analysis at the team level (Bresman, 2010; Bresman and Zellmer-Bruhn, 2013). These studies looked, however, at the effects of knowledge exchange mechanisms on performance, yet did not acknowledge the effects of relational sources of information on the development of capabilities through experience accumulation. In particular, the degree to which decision makers are keen to include stakeholders' knowledge and perspectives in their decision-making processes has not been acknowledged as a factor that influences the relationship between experience

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accumulated in a task and focal task performance.

This is somewhat surprising since several scholars do point to the role of social relationships in both the existence of the firm and its learning processes (Kogut and Zander, 1996). In this view, the very existence of firms is motivated by their superior learning processes based on the characteristics of the organization as a social community. In addition, previous literature has also suggested that since learning is a social construction process (Brown and Duguid, 1991), the degree to which the firm is exposed to external sources of information - such as partners, suppliers, or customers - and the extent to which it engages in participative activities with external actors are determining factors in its ability to understand complex events (Levinthal and March, 1993) and to correctly develop routines from experiential learning processes (Nelson and Winter, 1982). As Fiol puts it: "to promote learning as a community, managers must actively encourage the development of different and conflicting views of what is thought to be true, while striving for a shared framing of the issues that is broad enough to encompass those differences" (Fiol, 1994, p. 418). In this light, the literature seems to converge on the fact that the quality of the learning process depends on the extent to which it takes a variety of views into account. Below we argue that the stakeholder based view of the firm can provide a useful framework for studying the role of organizational relationships in the effectiveness of experiential learning processes.

The role of stakeholder orientation

The stakeholder based view sees an organization as a set of interdependent relationships between different stakeholders (Donaldson and Preston, 1995; Rowley, 1997), who form the "individuals and constituencies that contribute, either voluntarily or involuntarily, to its wealth-creating capacity and activities, and who are therefore its potential

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beneficiaries and/or risk bearers" (Post, Preston, and Sachs, 2002, p.19) . In this view, stakeholders who supply critical resources both bear a certain degree of risk and have the power to affect firm performance. The identification of stakeholders used in this paper reflects the "narrow stakeholders" definition, which includes those stakeholders that are vital to the organization's survival and success: employees, suppliers, local communities, and customers (Dunham, Freeman, and Liedka, 2006)[16].

We define stakeholder orientation as the degree to which a firm's management focuses its attention on sensing and integrating stakeholders interests and knowledge in the firm's decision making and learning processes. Previous literature points out that the level of stakeholder orientation represents a strategic decision managers make about how to conduct business (Sachs and Ruhli, 2011). In doing so, they decide the extent to which they will analyze, balance, and incorporate stakeholders' interests, information, and perspectives into their decision-making processes (Bridoux and Stoelhorst, 2014; Greenley and Foxall, 1997). For example, firms rely more or less intensively on knowledge sourced from customers (Slater and Narver, 1998) or employees (von Hippel, 1988) when taking decisions about product innovation. They also include the knowledge sourced from suppliers to different degrees when redesigning internal routines (Dyer and Nobeoka, 2000).

For purely explanatory reasons, we can typify two models of managing the relationship with stakeholders which represent the extremes of a "stakeholder orientation continuum". At the one end of this continuum (i.e. High stakeholder orientation), we find firms who try to build relational capital with stakeholders and set up mechanisms aimed at

[16] In theory, shareholders could also be included in the definition that we have adopted, but we consider this category of stakeholder to be residual and focus only on non-shareholding stakeholders. We do not seek to underestimate the importance of this category, but, for the purposes of this paper, we see limited value in looking at how firms differ in terms of their shareholder orientations. We have therefore included shareholder orientation as a control variable in our empirical analysis and provide some evidence of their role in the additional analyses we conducted.

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generating open exchanges of relevant information to collaboratively resolve problems and concerns (Bridoux and Stoelhorst, 2014). This model concretizes in a set of behavioral practices (routines) that a firm uses to exchange knowledge with its stakeholders and incorporate their interests or demands in its decisions (Tantalo and Priem, 2014; Harrison et al. 2010; Dyer and Sing, 1998). At the other end of the continuum, the second model (i.e. Low stakeholder orientation) is characterized by fewer (or no) investments in relational capital and limited knowledge exchanges between the firm and its stakeholders. This approach is denoted by a shorter term horizon in the relationship and, consequently, by limited possibilities to establish joint problem solving mechanisms.

Stakeholder orientation is one of the underlying constructs in the stakeholder based view of the firm and has been used in several studies to predict strategic outcomes such as economic performance (e.g. Greenley and Foxall, 1997; Hillman and Keim, 2001; Choi and Wang, 2009; Eccles, Ioannou, and Serafeim, 2014) or technological innovation (Flammer and Kacperczyk, 2015). In this paper, however, we will focus on the impact of stakeholder orientation on experiential learning and explore its potential role as enabler or barrier in the learning process. In particular, we will suggest that the mechanism of learning may be affected by the approach adopted in managing stakeholders (High vs. Low stakeholder orientation) because of the effect stakeholder sourced knowledge may have on the firm's processes for generating and applying routines. Given the dearth of prior theoretical and empirical research pertaining to the role of stakeholder relationships in experiential learning, we put forward both positive and negative hypotheses here. We will begin by hypothesizing two competing effects of stakeholder orientation on experiential learning by focusing on the influence that stakeholder relationships exert on the process of inference from experience. We will then move on to the indirect influence of stakeholder orientation on the application of

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accumulated knowledge to the focal task.

Experiential learning and stakeholder orientation – inference from experience

The direct influence of stakeholder orientation on the capability to learn from experience relates to the effect that it exerts on the process of inference from events. Accumulated experience will, in fact, only drive positive future performance when correct inferences are drawn from previous events (Levitt and March, 1988).

How does stakeholder orientation influence the capability of an organization to make inferences from experience? As noted in the previous section, managers make choices as to whether and how to include information and knowledge sourced from stakeholders in their managerial processes. In the experiential learning context, this implies that managers may decide to (or decide not to) gather and consider the different interpretations of stakeholders with respect to specific events. We submit that this choice may have both a positive and a negative influence on the process of inference from experience.

Arguments in favor of a positive influence on the accuracy of inference from experience rely on the fact that when a firm chooses to base its strategy on incorporating the perspectives of its different stakeholders, its managers will have access to a wider range of information and interpretations of the firm's actions than less stakeholder oriented firms. This is because stakeholders can add different interpretations of the same event through their societal, organizational, and personal filters (Zyglidopoulos, 1999), and their reactions can differ considerably depending on their views, preferences, or utility curves (Harrison et al., 2010). The quality of the interpretation of the complex causal relationships that underlie a specific event (such as a corporate acquisition) has been often positively associated with the extent to which a firm has access to different perspectives. A variety of different standpoints

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has, in fact, been seen to partially reduce the causal ambiguity associated with the interpretation of complex events (King and Zeithaml, 2001). In particular, having access to and integrating different interpretations allows managers to triangulate different sources of information, which can question the truth of the different explanations, thus reducing the likelihood of simplistic causal-effect mechanisms (Beckman and Haunschild, 2002). This is in line with the principle of complementarity (Bohr, 1950), which suggest that a correct understanding of a complex phenomenon may benefit from the integration of a number of complementary representations (interpretations) thereof (Bartunek, Gordon, and Weathersby, 1983). These considerations suggest that the more a firm has access to a variety of interpretation and reactions from different stakeholders, the more likely it is that its inferences from previous experience in a specific task will be accurate. This leads to a first (positive effect) hypothesis:

> *Hp 1a - The greater the level of stakeholder orientation, the more positive (less negative) will be the effect of a firm's prior experience on its performance of a focal task.*

However, other arguments suggest an opposite effect of stakeholder orientation on a firm's ability to make sense of and develop accurate inferences from its experience. Behavioral theorists point out that when organizations fail to disentangle the interactions between the simultaneous interpretations of an event by multiple actors, the capacity of the firm to learn from the event depends on the degree of misalignment between those interpretations (Levinthal and March, 1993; Lounamaa and March, 1987). This is in line with Szulanski's (1996) observation that causal ambiguity deriving from multiple sources is likely to impede the internal creation and diffusion of resources and capabilities in the firm (Cennamo, Berrone, and Gomez-Mejia, 2009). Since stakeholders - even within a specific

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category - will in most cases have divergent interests and objectives (Heugens, 2003) and, thus, hold heterogeneous views about firm events (Cohen, March, and Olsen, 1976; Cyert and March, 1963), higher orientation towards stakeholders may increase rather than decrease causal ambiguity in the interpretation. When stakeholders disagree about what the organization's priorities should be, interpretations of what can be considered as positive or negative outcomes of the firm's actions (Grandori, 2013) are also likely to reflect more the relative power of the stakeholders than the interests of the firm (Roome and Wijen, 2006; Cyert and March, 1963). Reed and De Fillippi (1990) note that, in such cases, causal ambiguity may be so great that not even managers are able to fully understand the causal relationship between actions and outcomes. This is also consistent with an attention based view of the firm (Ocasio, 1997), which suggests that managers, being bounded in their capability to be attentive to multiple sources of information, face increasing cognitive difficulties when solicited by different (and heterogeneous) stimuli from stakeholders.

In this sense, the heterogeneity of stakeholder interpretations generates an interesting paradox. On the one hand, it enables firms to explore a wider variety of views, which, in theory, gives them more scope to identify the causal patterns required for learning. On the other hand, this same heterogeneity may be overwhelming for boundedly rational actors (such as managers), because of the level of causal ambiguity it generates (Barkema and Schijven, 2008). We therefore also submit to empirical analysis a negative hypothesis that reverses Hp 1a:

> *Hp 1b - The greater the level of stakeholder orientation, the less positive (more negative) will be the effect of a firm's prior experience on its performance of a focal task.*

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Experiential learning and stakeholder orientation – application of experience

Aside from a direct influence of stakeholder orientation on the capability of the firm to make inferences from experience, an indirect effect relating to the capability of managers to select and apply the correct routines to the context at hand (i.e. the focal task) can also be postulated. This requires a brief explanation of the interaction between accumulated experience and the novelty (i.e. cognitive distance) of the focal task.

Transfer theory suggests that, even when causal mechanisms are properly understood, experience can still lead to negative or null effects when the lessons learned are subsequently applied to dissimilar (novel) contexts (Cormier and Hagman, 1987). The transfer of knowledge from previous experience, in fact, only increases the performance of a focal event when the focal task and the stock of past experience are objectively similar (Haleblian and Finkelstein, 1999). However, managerial cognitive biases may lead organizations to perceive two events as similar even when they are cognitively distant, leading to the use of existing routines in cognitively distant contexts (i.e. inappropriate generalization; see Haleblian and Finkelstein, 1999; March, 1991).

Existing literature provides significant evidence that cognitive biases are often associated with larger stocks of experience. Since the use of existing routines allows firms to reduce their cognitive efforts when performing a fresh activity (Nelson and Winter, 1982), firms which developed greater experience in a task will be more likely to perceive similarities between previously learned mechanisms and focal activities (Cohen and Bacdayan, 1994; Gavetti, Levinthal and Rivkin, 2005). This is consistent with Leonard-Barton's (1992) arguments, which suggest that when radically new capabilities need to be developed, firms with larger stocks of knowledge tend to fall into competency traps. In the M&A context, for instance, Stettner and Lavie (2014) argue that firms which have gathered experience in

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exploitative acquisitions face more difficulties when undertaking explorative acquisitions than firms with limited experience. Similarly, Ellis et al. (2011) found empirical evidence of competency traps for firms with experience in small acquisitions when undertaking large acquisitions. This suggests that when a firm with a larger stock of experience undertakes a novel (i.e. cognitively distant) task, it will be more likely to perceive the focal task as similar and, thus, fall into a competency trap. This calls for a preliminary hypothesis on the role of novelty in the relationship between accumulated experience and performance of a focal task:

> *Hp 2 – The more novel the focal task, the less positive (more negative) will be the effect of a firm's prior experience on its performance of that task*

Can stakeholder orientation influence these cognitive biases? Is a firm oriented towards stakeholders more or less likely to apply "old routines" to novel contexts (where they are sub-optimal)? We again submit competing explanations for a positive (decrease in probability of erroneous generalization) or a negative (increase in probability of erroneous generalization) effect of stakeholder orientation in the application of experience to the focal task.

Two sets of explanations support the argument that stakeholder orientation may reduce cognitive biases in the application of experience. The first relates to the decrease in managerial biases (such as excessive confidence in existing procedures) that results from the inclusion of heterogeneous of opinions in decision making processes (Hambrick, Cho, and Chen, 1996). For example, the extent to which managers adopt a participative and open style has been shown to mitigate their tendency to over-estimate their firm's competence levels (Keck and Tushman, 1993). In a similar vein, firms characterized by like-minded managers have been seen to face an higher risk of competency traps (Nadolska and Bakema, 2014;

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Levitt and March, 1988), core rigidities (Leonard-Barton, 1992), or group self-reinforcement (Janis, 1972). This stream of research also indicates that listening to the views of heterogeneous sets of voices promotes a healthy skepticism in managers (Keck and Tushman, 1993), which can mitigate the probability of confidence traps and the consequent (erroneous) conviction that existing routines can be applied to every situation (Eisenhardt and Tabrizi, 1995). Based on this evidence, we contend that managers who are more prone to base their decisions on heterogeneous sources of information (such as those in highly stakeholder oriented firms) would be less likely to fall into "competency traps" associated with excessive confidence in existing routines and, therefore, would also be more likely to mitigate the risk of misapplication of existing routines to novel contexts.

The second argument in support of a positive effect of stakeholder orientation on the capability of a firm to tackle novel activities pertains to the effect that stakeholder relationships have on the firm's innovation capabilities. Several studies in the field of innovation suggest that firms which engage stakeholders (or specific categories of stakeholders) are more able to innovate than other firms because of their increased access to information and knowledge resources. For example, some marketing literature has found evidence that firms which are more oriented towards customers can uncover latent customer needs more effectively, which in turn increases their capability to undertake distant innovation (Lukas and Ferrell, 2000). Similarly, von Hippel (1988) found that knowledge transfer mechanisms with suppliers and users allow manufacturers to "out-innovate" firms with less effective knowledge exchange routines. Moreover, Sharma and Vredenburg (1998) provide qualitative evidence that firms which engage their employees in environmental innovation were more prone to respond to organizational challenges by using radically distant mental frames. More recently, Flammer and Kacperczyk (2015) provided empirical evidence of a

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positive effect of stakeholder orientation on the capability of the firm to innovate. These contributions indicate that since stakeholder oriented firms can rely on a larger set of knowledge, they will more likely to be able and prone to tackle cognitive distant activities (such as creating new products or developing novel mental frames). This, in turn, could suggest that the higher the stakeholder orientation, the less problematic the selection and application of routines in novel contexts will be. Considering these arguments, we propose a positive interaction effect between level of experience, stakeholder orientation, and novelty of the focal task and hypothesize as follows:

> *Hp 3a – The higher the level of stakeholder orientation, the less negative will be the effect of novelty on the link between experience accumulation and task performance.*

Different arguments, on the other hand, suggest that stakeholder orientation may increase, rather than decrease, cognitive biases and foster the application of sub-optimal "old routines" to novel contexts. The first such argument, which supports the claim that higher stakeholder orientation can lead to inappropriate application of experience, relates to the managerial overconfidence that can emerge from strong and supportive relationships with stakeholders (Cennamo et al., 2009; Jensen, 2002). Previous studies have suggested that when managers gain credibility with stakeholders (by being more oriented towards their interests and perspectives), the latter will more likely develop positive perceptions of the former's capabilities to judge problems (Cennamo et al., 2009). In turn, managers favored by stakeholders face "only limited barriers in exercising discretion […], by force of personal reputation" (p. 388) and will be able to act "where many others might not even get the opportunity" (Hambrick and Finkelstein, 1987, p. 388). The fact that managers face only limited barriers to their choices (because they have the support of stakeholders) will likely foster overconfidence in their own competencies. In this sense, considerable experience, when

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associated with higher levels of support from stakeholders, may encourage managers to erroneously generalize the applicability of existing routines and prioritize their use even in wrong contexts (such as novel tasks). This argument provides an additional explanation for the well-known phenomenon of cognitive inertia found in the failed adaptation of firms which are strongly supported by their existing groups of stakeholders (Hannan and Freeman, 1984).

The second argument, this time in favor of a decreased capability of stakeholder oriented firms to tackle novel activities, partially mirrors the positive argument suggested above. Even if some of the literature on innovation claims that orientation towards external parties can increase the capability of the firm to innovate, several studies have cast doubts on this positive effect. Christiansen (1997), for instance, found that a firm's knowledge of its existing customers' needs increases the likelihood that it will develop products/services which appeal to those customers rather than to new sets of customers. Similarly, marketing literature has pointed out that customer-led firms (i.e. whose strategies are based on satisfying the needs of their existing customers) will be less likely to innovate radically in either their products or their business models (Narver, Slater, and MacLachlan, 2004; Slater and Narver, 1998). In a similar vein, Eisenhardt and Tabrizi (1995) found that top innovators in the computer industry eschew involving suppliers from the process, in order to maintain higher levels of freedom when designing products. Finally, Bettinazzi and Zollo (2015) found evidence that orientation towards employees has a positive effect on acquisition performance when the acquisition involves a similar business, and a negative effect when it is undertaken in novel businesses. Taken together, this evidence suggests that the relationship between orientation towards stakeholders and capability to tackle novel tasks may indeed be negative (instead of positive). Considering the arguments presented, we therefore propose a negative interaction effect between level of experience, stakeholder orientation, and novelty of the focal task, which

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reverses hypothesis 3a:

> *Hp 3b – The higher the level of stakeholder orientation, the more negative will be the effect of novelty on the link between experience accumulation and task performance.*

The context of the study

To empirically explore the issues presented above, we focus on the study of corporate acquisitions, which is an interesting setting for our analysis for a variety of reasons. First, acquisitions are events that modify the firm significantly and are likely to affect a broad range of stakeholders. During acquisitions, firms expose their real behaviors and often challenge the relationships they have created with many of their stakeholders (Cording et al., 2013). Indeed, the willingness and ability of firms to integrate stakeholders in the acquisition process have been theorized and empirically studied both qualitatively (e.g. Kato and Schoenberg, 2014; Anderson, Havila, and Nilsson, 2012; Melkonian, Monin, and Noorderhaven, 2011) and quantitatively (Homburg and Buccerius, 2005; Waddock and Graves, 2006). Previous work, for example has shown how firms characterized by higher stakeholder orientation can outperform other firms, especially when the acquiring and acquired firms are integrated following the acquisition (Bettinazzi and Zollo, 2015; Cording et al. 2013). Second, acquisitions are discrete (and in most cases rare) events (Zollo, 2009), which allows for a more precise identification of the stock of experience involved than the analysis of continuous, non-separable, and incremental events (e.g. production learning curve studies). Third, acquisitions are inherently complex events, whose success or failure can be determined by the development of capabilities (Heimeriks et al., 2012). The acquisition process is made up of many interdependent sub-activities - such as due diligence, negotiation, financing, and integration - each of which is complex in itself and is complicated by the simultaneity and

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interdependence of the decisions involved. For these reasons, the development and application of the correct routines in dealing with these different tasks are important factors of success.

Experiential learning in the acquisition context has been the subject of interest in many prior studies, and has received increasing attention from the research community over the last few years. Most of the earlier studies found a positive relationship between an acquirer's experience and its acquisition performance (e.g. Fowler and Schmidt, 1989). However, more recently, Haleblian and Finkelstein (1999) questioned the 'always positive' effect of past experience, finding instead a U-shaped relationship between acquisition experience and performance. With respect to the negative side of learning, a few studies have focused on the impact of experience accumulation in fostering undue self-confidence in managers in their own abilities to acquire or organizational inertia towards developing acquisition capabilities (Heimericks et al., 2012; Zollo, 2009).

In the following section, we describe the methods used to test our hypotheses in this setting.

METHODS

Sample

We test the hypotheses developed above by studying a sample of acquisitions made by US-listed firms in the period from 2004 to 2011. As a first step to determine our sample, we identified those firms for whom a stakeholder orientation assessment is available in the Thomson Reuter Asset4 database (see below) across the entire focal period, extracting an initial sample of 1,205 firms. The second step used the Zephyr BvD database to collect data on acquisitions completed by these firms in the years considered (2004-2011), together with data on their past acquisitions (from 1997). 480 firms who made no acquisitions between

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2004 and 2011 were excluded from the sample. To avoid any comparability issues, we also excluded all acquisitions of minority stakes (less than 60%), business units, assets, or factories, as well as all joint ventures, thereby reducing our sample to 3,028 acquisitions. Third, we used the CRSP and Compustat databases to calculate stock returns and some of our control variables. Missing data in these databases, and some incomplete data in the Asset4 database, decreased the sample further to 1,947 acquisitions. We then excluded a further 125 deals that were made purely for financial reasons by eliminating all acquisitions by banks or funds in non-related sectors[17]. Finally we excluded all acquisitions by firms that had no previous acquisition experience because some of the variables in our analysis (e.g. novelty of the focal deal, heterogeneity of experience) would be meaningless if applied to such firms. Finally, we used the Businessweek and Lexis-Nexis databases to cross-validate the deals included in the sample: we decided to discard a further 99 deals from our sample as we could not find evidence of them in both databases. We verified the impact of outliers on our estimations (which is likely to be limited because of the size of our sample) using both residual-based tests and visual inspection, and discarded a further 5 extreme outliers in the market returns (probably due to CRSP reporting errors). A final sample of 1,718 acquisitions was thus used to test our hypotheses.

Variables

Dependent variable

The dependent variable hypothesized in this study is the performance of the focal task: since we test our hypotheses in the corporate acquisition context, we adopt the *performance of*

[17] We are aware that by doing so, we may also have excluded acquisitions of service firms by financial institutions. However we deliberately opted to adopt this conservative approach, assuming that financial acquirers in non-related sectors are mainly motivated by financial rather than industrial motives.

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the focal acquisition as our dependent variable. We use the acquiring firm's Cumulative Abnormal Returns (CAR) calculated over the 36 months following the acquisition (Zollo, 2009; Cording, Christmann, and King, 2008) to operationalize this variable.

A number of reasons motivated the choice of this operationalization over other options that have been used in the extant literature. First, we opted for a long-term window instead of a short-term one (around the acquisition announcement) as the latter primarily assesses investor expectations of an acquisition's potential outcomes rather than its realized performance (Oler, Harrison, and Allen, 2007). Long-term financial measures offer specific indications of post-acquisition performances, including both price 'shocks' and long-term effects on acquirers' performance (Fama, 1998). Moreover, it has been shown that studies of short-term events do not correlate with other performance measures, including long-term financial performance (Zollo and Meier, 2008). Second, we avoided measures based on accounting returns, such as the evolution of Return on Assets (ROA) following acquisitions (e.g. Zollo and Singh, 2004), as these may be affected by differences in accounting policies or by the manipulation of items. This limitation can be particularly critical when assessing differences in long-term performance using cross-industry samples, as the heterogeneity in accounting policies may significantly bias the results. Moreover, measures based on stock prices are considered to be more informative than accounting returns for analyzing acquisition performance, since they provide indications of both market expectations and realized performance (over the long-term horizon), while accounting returns only reflect the latter (Montgomery and Wilson, 1986). Finally, our choice is supported by evidence of the high positive correlation between long-term financial performance and the degree of synergy realization when assessed using a survey methodology (Zollo and Meier, 2008).

This considered, we computed the *performance of the focal acquisition* as the

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difference between the acquiring firm's monthly stock returns and the monthly returns of an *ad hoc* portfolio (selected from the whole sample of listed firms) (Loughran and Vijh, 1997). The use of portfolios to estimate abnormal returns has been shown to provide more accurate estimations of post-acquisition performance than other benchmarking methods (such as average market returns) (Rau and Vermaelen, 1998). Specifically, we associated an *ad hoc* portfolio of 20 firms within the same sector that had not gone through an acquisition in the same period with each acquisition-firm observation in the sample, using a k-nearest neighbor's propensity score matching methodology (controlling for multiple identical propensity scores) with replacements (Rosenbaum and Rubin, 1983, 1985). The criteria used to select these 20 firms were based on market-to-book ratio values and size, as reported in the quarter prior to the acquisition (see Fama and French, 1992). We did not employ portfolio rebalancing strategies, as they might create abnormal downward biases (Loughran and Vijh, 1997). We then computed the abnormal return as the difference between the stock returns of the acquiring firm and the matched portfolio of non-acquiring firms, i.e.:

$$CAR_j = \sum_{i=1}^{36} \left(Return_j - \frac{\sum_{r=1}^{20} Return_r}{20} \right)_i$$

where CAR_j is the cumulative abnormal returns over 36 months of the focal firm *j*; $Return_j$ is the stock market return of the focal firm *j*; $Return_r$ is the stock market return for month *i* of firm *r* that is included in the benchmark portfolio of firm *j*.

Independent variables

To determine each firm's level of prior experience at the time of the focal acquisition, we count the number of its prior acquisitions. *Acquisition experience* is the total number of majority (≥51% of shares after deal closing) and full (100% of shares) acquisitions the acquiring firm completed between 1997 and the year of the focal acquisition (Nadolska and

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Barkema, 2007; Haleblian, Kim, and Rajagopalan, 2006). In recent decades, there has been a general trend towards a preference for measures of experience based on longer (e.g. Kale and Singh, 2007; Zollo and Singh, 2004) rather than shorter (e.g. Porrini, 2004; Haunschild, 1993) time periods. However, both types of measures have their own sets of issues. Whereas measures based on short time horizons can underestimate firms' ability to remember past events, those using longer time periods may overestimate this ability. Nonetheless, we still felt it more advisable to use longer time horizons, since they allow the researcher to shape the form of the experience–performance relationship function more directly (Barkema and Schijven, 2008). To check the robustness of our measures, we performed the same analysis looking at the acquisitions undertaken in the four years preceding the focal acquisitions (see Porrini, 2004). Results were mostly overlapping, even if the distribution of the short-term experience variable suffered from higher levels of skewness.

The second independent variable (*level of stakeholder orientation*) represents the attitude of the acquiring firm towards engaging its different sets of stakeholders. The most commonly used source of data for measuring stakeholder orientation is the Kinder, Lynderburg and Domini (KLD) database (e.g. Graves and Waddock, 1994; Hillman and Keim, 2001), but the indicators this source provides are coarse-grained and only partially connected to stakeholder orientation. The Thomson Reuters' Asset4 database, in contrast, collects data and scores on nearly 3,500 firms worldwide across several firm dimensions, including more than 900 raw items per firm, obtained from different sources such as stock exchange filings, annual/sustainability reports, non-governmental organizations, and surveys. Accordingly, we relied here on the Asset4 database (and held the KLD database back to use for our robustness checks) as it offers a more detailed analysis of firms' behaviors in terms of activities to exchange knowledge with stakeholders and to integrate their interests into

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managerial decisions (Roulet and Touboul, 2015; Ioannou and Hawn, 2015; Eccles, Ioannou, and Serafeim, 2014).

Specifically, we constructed an aggregate measure for the acquiring firm's *level of stakeholder orientation,* starting from those items (included in the database) that are associated with firms' orientations towards different categories of stakeholders. We assessed the extent to which the firm is oriented towards its employees by using the sum of four dummy items included in the Asset4 macro-category 'Employment quality', which monitors whether the firm has a "policy for maintaining good long term employee relations"; if it describes the "implementation of an employment quality policy"; if it "monitors employees' interests"; and if it sets "specific employment quality objectives to be achieved and monitored". The measure we constructed ranged from zero to four for each year, and we calculated the average of all years (since 2002) preceding the focal acquisition[18].

Similarly, to measure the extent to which the firm is oriented towards its suppliers, we constructed a measure based on four dummies that assess the firm's "commitment to treating suppliers as key business partners" (presence of a policy and adoption of a code of conduct) and the presence of "managerial practices to interact with suppliers" (two items assessing the existence of processes and communication tools to improve partnerships with suppliers). Again, the result is a single construct ranging from zero (low) to four (high) to measure firms' orientation towards their suppliers using the average of all years preceding that of the focal acquisition.

We assessed customer orientation by calculating the average in the years preceding the focal acquisition of the Asset4 'Customer Loyalty' macro-variable, which reflects the firm's capacity to grow and maintain a loyal client base through communication, reputation, and

[18] We obtained similar results when using more conservative measures based on Asset4's more comprehensive "Employment quality" measure of 39 items (details of this calculation are available from the authors on request).

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satisfaction programs[19]. The measure, which is constructed by Asset4 analysts, ranges from 0 to 100 and is based on 46 raw items.

Finally, to assess a firm's orientation towards the local community, we used Asset4's 'Local Communities' macro-variable, which reflects a company's capacity to put activities designed to maintain positive relationships with local communities into practice by developing and using appropriate communication tools (e.g. whistle blower, ombudsman, suggestion box, hotline, newsletter, website). This micro-variable is constructed by Asset4 analysts based on 126 raw items and also ranges from 0 to 100. We again used the average scores over the years preceding the focal acquisition.

We constructed the measure of the *level of stakeholder orientation* by aggregating the assessments of these four (employees, suppliers, customers, local community) stakeholder categories. Where a firm's assessment was below the median for its orientation with a specific category of stakeholders it was assigned a zero; otherwise a one. We then took the sum of these four dummy values as our aggregate measure. To check for robustness, we re-performed the analyses using the mean of each stakeholder category instead of the median, which has been shown to be more robust in case of skewed distributions (Brown and Forsythe, 1974): the results were almost identical.

To calculate the *novelty of the focal acquisition* vis-à-vis the firm's previous acquisitions, we adapted the measure proposed by Reuer, Park, and Zollo (2002) in the joint venture context. The operationalization is based on data from the Occupational Employment Survey (OES) for the years 2002 to 2010 by the US Bureau of Labor Statistics. We used OES data to obtain the distribution of employment across 23 occupational divisions (e.g. management, production, computer and mathematical, office and administrative support, sales

[19] We obtained similar results using less conservative measures constructed by focusing only on six items included in Asset4's 'Customer Loyalty' macro-category (details of this calculation are available from the authors on request).

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and related) for all industries at the 4-digit NAICS level.

Previous studies have preferred measures of novelty based on industry codes: their operationalizations assume that the more digits which match between the two firms' codes, the greater the similarity of the two businesses. However, such industry code-based operationalizations principally reveal similarities between the production processes in two businesses; unfortunately, businesses can be very similar in terms of their product outputs, but very different in terms of the skills and organizational structures required to manage their activities (Chang, 1996). Since the aim of our research is to study the differences between businesses from an organizational standpoint (rather than an industrial perspective), we chose to adopt a finer grained operationalization based on industrial similarity in terms of skill requirements between focal target and previously acquired firms. The extent to which the focal target operates in a business that has different skill requirements to the acquirer's previous acquisitions influences the complexity in terms of usability and transferability of previous experience to the new acquisition. As a result, we calculated the *novelty of the focal acquisition* in terms of the average distance (in terms of skill requirements) between the focal acquisition and previous acquisitions in the acquirer's experience set using the following expression:

$$Novelty\ of\ the\ Focal\ Acquisition = \frac{1}{N}\sum_{j=1}^{N}\sqrt{\sum_{i=1}^{23}\frac{(E_{if}-E_{ij})^2}{\sigma_i^2}}$$

where j is a firm that was acquired prior to the focal acquisition, E_{if} is the percentage of employees in the occupational division i for the industry in which the focal target operates, E_{ij} is the percentage of employees in the occupational division i for the industry in which firm j operated, and σ^2_i is the sample variance of employment percentages in occupational division i across all industries.

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Control variables

We included several control variables in the models to account for the complexity of acquisitions and the factors that can influence their performance. The first is the *distance to core business*, i.e. the extent of the dissimilarity between acquirer and target sectors. Using data on the distribution of employment in the two firms' industries, we calculated this variable using the following expression:

$$Distance\ to\ core\ business = \sqrt{\sum_{i=1}^{23} \frac{(E_{ia} - E_{it})^2}{\sigma_i^2}}$$

where E_{ia} is the percentage of employees in occupational division *i* for the acquirer's sector; E_{it} is the percentage of employees in occupational division *i* for the target's industry, and σ^2_i is the variance of employment percentages in occupational division *i* across all industries of sample firms, which we use to weight the squared difference term.

Second, we controlled for *acquisition experience heterogeneity* - the diversity in the different acquisitions the acquiring firm had undertaken before the focal deal. Firms with excessive experience heterogeneity levels have been shown to face problems in learning (Haleblian and Finkelstein, 1999), but at the same time moderate levels of experience heterogeneity have been shown to have positive effects on learning mechanisms (Reuer et al., 2002; Hayward, 2002). The measure adopted here is constructed as a proxy of the variation in skill requirements among all the industries in which the firm has made previous acquisitions (Reuer et al., 2002):

$$Acquisition\ experience\ heterogeneity = \sum_{i=1}^{23} \frac{\theta_i^2}{\sigma_i^2}$$

where θ_i^2 is the sample variance in employment percentage in occupational division *i* across

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all the industries of those firms acquired by the acquirer in the years preceding the focal acquisition and σ^2_i is the variance of employment percentages in occupational division *i* across all industries.

Third, we controlled for the firm's orientation towards shareholders. As previous literature has suggested, the extent to which a firm is prone to integrate the interests of its shareholders into managerial decisions may impact its ability to generate long term profits by, for example, fostering its ability to access capital at lower cost (Hansmann and Kraakma, 2001) or its focus on short term performance (Bagwell, 1991). We measured *shareholder orientation* (which we define as the extent to which a firm put routines into practice to protect shareholders rights and engage them in managerial decisions) through specific items in the Asset4 database. Specifically, we measured shareholder orientation as the sum of four dummy variables assessing the existence of a policy to "facilitate shareholder engagement", to monitor the preservation of shareholder rights, to communicate actively with shareholders, and determining if the firm describes the implementation of its shareholder rights policies[20]. Thus, the variable constructed ranges from zero (low shareholder orientation) to four (high shareholder orientation).

Fourth, we included whether the acquiring firm chose to integrate the target firm following the closure of the focal acquisition as an additional covariate. The decision to integrate the acquired operations into the acquiring firm generally increases the complexity of the post-acquisition processes (Haspeslagh and Jemison, 1991; Puranam and Srikanth, 2007). This may, in turn, influence the effect of experience on the performance of the focal acquisition, by increasing the relevance of previously developed routines in the acquisition process (Zollo and Singh, 2004). To measure *post-acquisition integration*, we followed the

[20] Although the last item is an assessment of corporate disclosure (more than pure orientation), we assume that a higher level of details in the description of shareholder policies may be a signal of an increased level of managerial attention towards shareholder rights.

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operationalization used by Paruchuri, Nerkar and Hambrick (2006), and coded acquisition-related press releases and company snapshots sourced from the Businessweek database. Specifically, if the Businessweek database reports the target firm as "operating as a subsidiary" following the acquisition, we interpret this as an indication that integration had not been carried out (structural integration = 0). Conversely, when the database reports the target firm as being "acquired" following completion of the deal (i.e. no longer existing as a separate entity), we assume that integration had occurred (structural integration = 1)[21].

Fifth, we included the *acquiring firm's previous performance,* measured as its ROA in the year prior to the acquisition, as a control. Acquirers who record higher returns have been found to be better at selecting targets and exploiting the potential of their acquisitions (Haleblian and Finkelstein, 1999).

Sixth, we controlled for the *financial size of the acquiring firm*. Large acquirers can encounter more modest variations in performance, especially when acquiring smaller firms. We measured this variable as the natural logarithm of the acquiring firm's total assets for the year before the acquisition.

Seventh, we included the *organizational size of the acquiring firm* as a further control, as larger organizations may face greater inertial problems during the integration phase than smaller acquirers (Haleblian et al., 2006). We measured the *organizational size of the acquiring firm* as the natural logarithm of the firm's total number of employees in the year before closing the deal (Barkema and Schijven, 2008).

Eighth, we controlled for the *acquirer's resource slack*. The effect of resource slack

[21] To check the validity of the measure, we double-checked by coding press releases of 200 target firms as reported in the LexisNexis database. The presence of a target firm (with a subsidiary status) following the acquisition was interpreted as an indication that integration had not been carried out by the acquiring firm, while if the firm "disappeared" from LexisNexis following the acquisition, we interpreted this as an integration of the target firm (Puranam and Srikanth, 2007). We found 90% percent agreement between the LexisNexis sourced data and our codification of Businessweek press releases. For cross validation, we also conducted further analyses of press releases from other sources (e.g. industry newspapers, corporate press releases).

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on acquisition performance is still a topic of debate. Hitt, Hoskisson, and Ireland, (1990) found support for the notion that resource slack has a positive effect on acquisition performances. But financial literature suggests the reverse, submitting that greater resource slack is likely to encourage acquirers to make more risky acquisitions because of lower controls on the availability of free cash (Lang, Stulz, and Walkling, 1989). We assess resource slack via the firm's liquidity ratio.

The ninth variable we included as a control is the *relative target size*, calculated as the target's operating revenues (sales) before the acquisition over the acquirer's total assets. Small differences between acquirer and target sizes can enhance the difficulties of integrating the target firm and can also have a negative effect on the acquirer's stock performance (Cording et al., 2008).

We then included whether the acquiring firm held a *minority interest* in the target firm before the final acquisition in our model. The existence of previous equity-based relationships between the firms could lead to the acquirer having better information about the target, thus increasing its chances of detecting target firm strengths or weaknesses before the complete takeover. We measured minority interest through a dummy variable that took the value 1 when the acquirer controlled a minor percentage (40% or less) of the target's shares prior to the acquisition.

Since *cross-border* acquisitions can entail greater complexity than domestic deals (Seth, Song, and Pettit, 2002), we also controlled for this factor in our model. We accounted for whether an acquisition was domestic or cross-border through a dummy variable that took the value of 0 for domestic acquisitions and 1 for cross-border deals.

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Regression model

The complete model specification to test the hypotheses is:

$$Performance\ of\ focal\ acquisition = \alpha + \beta_1 Stakeholder\ Orientation + \beta_2 Acquisition\ Experience + \beta_3 Novelty\ of\ the\ focal\ acquisition + \beta_4 Acquisition\ Experience * Stake.Orientation + \beta_5 Acquisition\ Experience * Novelty\ of\ the\ focal\ acquisition + \beta_6 Stake.Orientation * Novelty\ of\ the\ focal\ acquisition + \beta_7 Stake.Orientation * Novelty\ of\ the\ focal\ acquisition * Acquisition\ Experience + Controls + \varepsilon$$

We tested our first hypotheses (Hp 1a and 1b) through inferences about β_4; Hp 2 through inferences about β_5; and Hp 3a and 3b by looking at β_7, using ordinary least square (OLS) with sector and year fixed-effects regression models to perform our estimations. We used robust Huber-White standard errors in all models and addressed potential multicollinearity problems due to the use of interaction terms by standardizing the independent variables (Edwards, 2009).

RESULTS

Table 3.1 shows the descriptive statistics and correlations. Some bivariate correlations show statistically significant values, which might indicate multicollinearity problems, although values below a threshold of 0.90 can be acceptable when using large samples (N>1,000). Analyses of the Variance Inflation Factor analyses (VIF) show no values above 10, suggesting no acute multicollinearity (Hair et al., 1995).

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Table 3.1. Descriptive statistics and correlations

	Variables	Mean	s.d.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
1	Perf. of the focal acquisition	-0.019	0.461															
2	Acquisition experience [b]	0	1	0.059*														
3	Stakeholder orientation [b]	0	1	0.044	-0.034													
4	Novelty of focal acquisition [b]	0	1	-0.051*	-0.160*	0.065*												
5	Distance to core business	3.303	3.590	-0.026	-0.097*	0.103*	0.691*											
6	Experience heterogeneity	0.651	0.372	-0.022	-0.049*	0.144*	0.506*	0.332*										
7	Shareholder orientation [b]	0	1	0.036	0.110*	0.372*	0.024	0.028	0.052*									
8	Post-acquisition integration	0.460	0.470	0.055*	0.134*	0.093*	-0.103*	-0.047*	-0.046	0.031								
9	Fin. size of the acquirer. [a]	9.391	1.525	0.055*	0.005	0.522*	0.054*	0.071*	0.086	0.148*	0.063*							
10	Resource slack.	0.958	2.086	0.075*	-0.046	0.005	-0.051*	0.042	-0.041	0.087*	0.069*	-0.066*						
11	Previous minority interest	0.039	0.194	-0.037	-0.073*	0.051*	-0.016	-0.032	-0.013	0.040	-0.071*	0.050*	-0.037					
12	Full acquisition	0.975	0.155	-0.014	0.047*	0.014	-0.001	0.011	0.001	-0.007	0.030	-0.043	-0.043	-0.191*				
13	Performance of the acquirer	0.073	0.084	0.051*	0.098*	0.152*	-0.040*	-0.032	0.041	0.098*	0.046	-0.055*	0.038	-0.028	0.060*			
14	Org. size of the acquirer [a]	3.196	1.346	0.003	0.062*	0.501*	0.074*	0.066*	0.152*	0.072*	0.013	0.729*	-0.312*	0.055*	-0.021	0.065*		
15	Relative target size	-0.053	0.655	0.028	-0.067*	-0.067*	-0.064*	-0.088*	-0.082*	-0.017	-0.057*	-0.103*	-0.005	-0.009	0.021	-0.060*	-0.065*	
16	Cross-border	0.289	0.453	-0.039	-0.097*	-0.013	-0.004	-0.014	-0.017	0.030	-0.088*	0.022	-0.011	0.113*	-0.154*	0.002	0.071*	-0.066*

Notes: * $p < 0.05$; [a] Logarithm [b] Standardized

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Table 3.2. OLS regression models (DV: CAR 36)

Variable	Hp	Model 0	Model 1	Model 2	Model 3	Model 4
Acquisition experience [b]			0.0241*	0.0139	0.0142	0.0138
			(0.0105)	(0.0103)	(0.0117)	(0.0107)
Stakeholder orientation [b]			0.0095	0.0130	0.0082	0.0141
			(0.0146)	(0.0148)	(0.0146)	(0.0149)
Novelty of focal acquisition [b]			-0.0312†	-0.0340*	-0.0324†	-0.0309†
			(0.0169)	(0.0168)	(0.0168)	(0.0168)
Stake. orientation x Experience	1a/b			-0.0327***		-0.0385***
				(0.0097)		(0.0098)
Novelty x Experience	2				-0.0264†	-0.0211†
					(0.0141)	(0.0117)
Stake. orientation x Novelty						-0.0161
						(0.0098)
Stake. orient. x Novelty x Experience	3					-0.0231*
						(0.0104)
Distance to core business		-0.0013	0.0042	0.0049	0.0044	0.0043
		(0.0031)	(0.0043)	(0.0043)	(0.0042)	(0.0042)
Experience heterogeneity		-0.0018	0.0301	0.0346	0.0268	0.0303
		(0.0362)	(0.0407)	(0.0408)	(0.0406)	(0.0408)
Shareholder orientation		0.0333*	0.0293†	0.0259	0.0279†	0.0248
		(0.0152)	(0.0161)	(0.0161)	(0.0162)	(0.0162)
Financial size of the acquirer [a]		0.0111	0.0156	0.0296	0.0205	0.0317†
		(0.0161)	(0.0177)	(0.0186)	(0.0183)	(0.0188)
Resource slack		0.0062	0.0048	0.0055	0.0051	0.0056
		(0.0044)	(0.0043)	(0.0041)	(0.0042)	(0.0041)
Previous minority interest		-0.1371*	-0.1321*	-0.1360*	-0.1322*	-0.1333*
		(0.0639)	(0.0642)	(0.0641)	(0.0639)	(0.0637)
Full acquisition		-0.0661	-0.0662	-0.0696	-0.0668	-0.0687
		(0.1008)	(0.1000)	(0.0997)	(0.1000)	(0.0997)
Performance of the acquirer		0.1279	0.0739	0.0961	0.0744	0.1008
		(0.1407)	(0.1416)	(0.1412)	(0.1420)	(0.1408)
Organizational size of the acquirer [a]		0.0000	-0.0107	-0.0180	-0.0127	-0.0211
		(0.0185)	(0.0192)	(0.0195)	(0.0194)	(0.0196)
Relative target size		0.0199	0.0229	0.0243	0.0235	0.0251
		(0.0163)	(0.0165)	(0.0167)	(0.0164)	(0.0166)
Cross-border		-0.0104	-0.0048	-0.0067	-0.0045	-0.0073
		(0.0253)	(0.0256)	(0.0256)	(0.0256)	(0.0256)
Post-acquisition integration		0.0070	-0.0042	-0.0010	-0.0046	-0.0012
		(0.0233)	(0.0238)	(0.0237)	(0.0237)	(0.0237)
Intercept		0.0216	-0.0120	-0.1057	-0.0523	-0.1182
		(0.1585)	(0.1707)	(0.1737)	(0.1738)	(0.1749)
Year Fixed Effects		YES	YES	YES	YES	YES
Industry Fixed Effects		YES	YES	YES	YES	YES
R-squared		0.0969	0.1017	0.1058	0.1032	0.1091
Model F		5.73***	3.37**	13.28***	3.50*	4.70**
n		1,718	1,718	1,718	1,718	1,718

Notes. † $p < 0.1$ * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$ [a] Logarithm [b] Standardized
Standard errors appear in parentheses.

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Table 3.2 presents the OLS robust regression models used to test our hypotheses. Model 0 is the baseline model, which includes control variables only. Model 1 adds the direct effects of the theorized variables: acquisition experience, level of stakeholder orientation, and the novelty of the focal acquisition. Model 2 includes the interaction term between level of stakeholder orientation and acquisition experience to test hypotheses 1a and 1b, while Model 3 includes the interaction between focal acquisition novelty and acquisition experience to test hypothesis 2. Finally, Model 4 represents the full model, adding the triple interaction effect between novelty of the focal acquisition, stakeholder orientation, and acquisition experience, together with the interaction term between focal acquisition novelty and level of stakeholder orientation. All models are significant at the 0.001 level.

Hierarchical F-tests reveal that the direct effect model improves on the explanatory power of the baseline specifications (i.e. $F = 4.94$, $p<0.01$ for Model 1 vs. Model 0), and similar tests reveal that the interaction term adds significantly to the explanatory power of the model (i.e. $F =13.28$, $p<0.001$ for Model 2 vs. Model 1). Finally, the inclusion of the triple interaction effect in Model 4 vs. Model 2 again offers a significant increase in explanatory power (4.70, $p<0.01$).

Some control variables are significant across all the models. The existence of a previous minority share in the target firm shows a negative influence on the acquisition performance in all models, indicating that ‘having a foothold’ in the target firm might be counterproductive for acquirers. In some models, the *size of the acquirer* is significantly and positively related to the acquisition performance.

The results from Model 1 show a positive and significant (0.0241, $p<0.05$) effect of experience on focal acquisition performance, which partly bears out our expectations (although not hypothesized) that, in general, experience of making acquisitions can have a

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positive effect on their subsequent performance, but that contingencies will determine the sign and magnitude of this effect in a specific case. At the same time, *novelty of the focal acquisition* is negatively associated with acquisition performance, providing initial confirmation of the difficulties associated with acquisitions in previously unexplored areas.

Regarding the formal test of the hypotheses advanced earlier, the inclusion of the interaction term (*level of stakeholder orientation* x *acquisition experience*) in Model 2 provides a first indication of the effect of experience, when accumulated in a stakeholder orientation context, on the focal task. Results from Model 2 show a negative and highly significant effect of the interaction term (-0.0327, $p<0.001$), which are confirmed in Model 4 (-0.0385, $p<0.001$). In the acquisition context, it seems, therefore, that experience is more beneficial to firms that are less active in including their different stakeholder viewpoints in their managerial processes, as the performance implications of *acquisition experience* are worse when the firm is more oriented towards its stakeholders. Figure 3.1 provides a graphical representation of such relationships, showing that when firms adopt collaborative relationships with their stakeholders, the experience they accumulate has less of a positive influence (to the point being harmful) on the focal task than when they adopt an arms-length approach to such relationships. This result provides support for the negative side of the interaction between experiential learning and stakeholder orientation. Thus, for our first pair of opposite hypotheses, Hp 1a and Hp 1b, our findings support the latter and refute the former.

Model 3 allows for the formal testing of hypothesis 2. First, our results indicate a moderately significant negative effect of the interaction between *novelty of the focal acquisition* and *acquisition experience* on focal acquisition performance (-0.0211, $p<0.1$). These results provide limited support for Hp 2, namely that, all else being equal, experience is

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less beneficial to the performance of a focal activity when that activity is more novel (see Figure 3.2). This confirms evidence from previous studies of the negative effect of experience in cases of novel events (e.g. Haleblian and Finkelstein, 1999).

Finally, in Model 4 we focus our analysis on the three-way interaction effect between the *level of stakeholder orientation*, *acquisition experience*, and the *novelty of the focal acquisition*. The estimated parameter of the three-way interaction is negative and significant (-0.0231, $p<0.05$), suggesting that when a firm manages its relationship with its heterogeneous stakeholders in a participative and proactive way, the negative effect of novelty on the effect of experience will be more pronounced. In other words, our results suggest that, in general, novelty (cognitive distance) between stock of experience and focal acquisition has a negative effect on the ability of the firm to use its previous experience for a specific activity, and that the inclusion of stakeholder preferences and knowledge in managerial processes enhances this negative effect. Thus, we can speculate that stakeholder orientation fosters a more conservative way of managing tasks: when the focal task can be addressed efficiently with existing routines, stakeholder orientation may generate positive support, but when the task requires the development of new procedures, it may push (anyway) towards the use of existing knowledge. Thus, our results support hypothesis 3b and refute hypothesis 3a. Figure 3.3 provides a graphical representation of the estimated relationships: it shows that the extent to which the effect of experience on novel acquisitions is negative depends on the orientation of the firm towards the knowledge and interests of the stakeholders.

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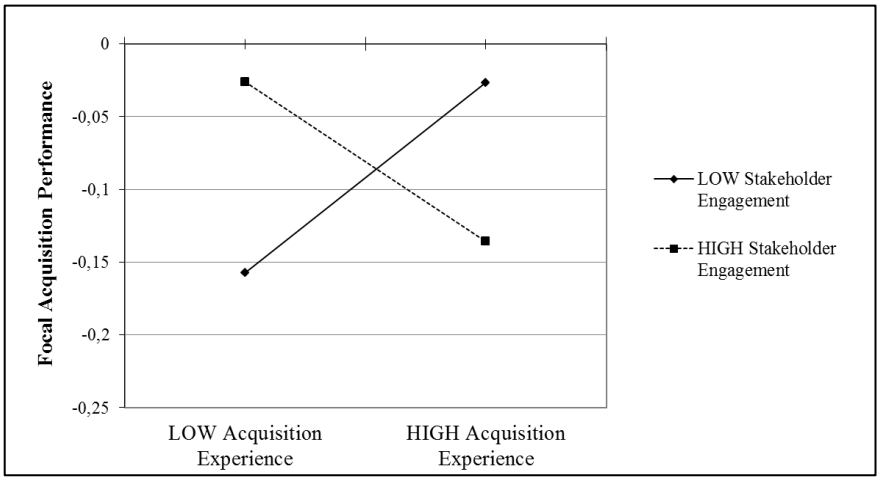


Figure 3.1 – Estimated relationship, Hypothesis 1: two-way interaction

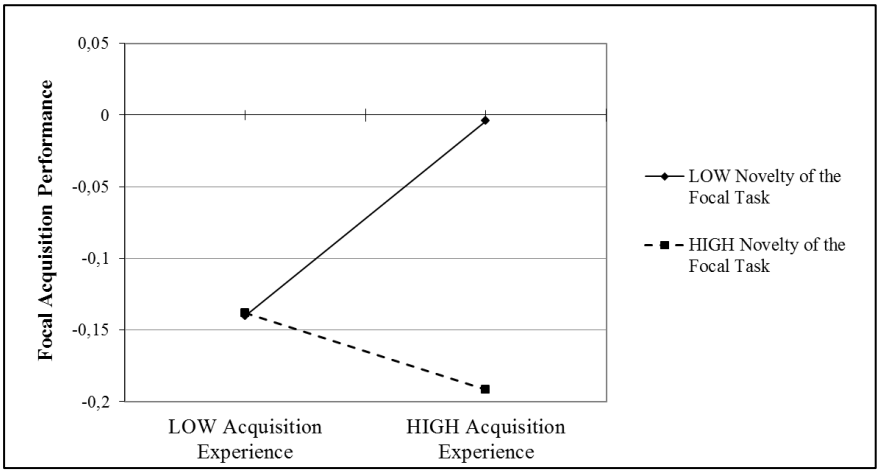


Figure 3. 2 – Estimated relationship, Hypothesis 2: two-way interaction

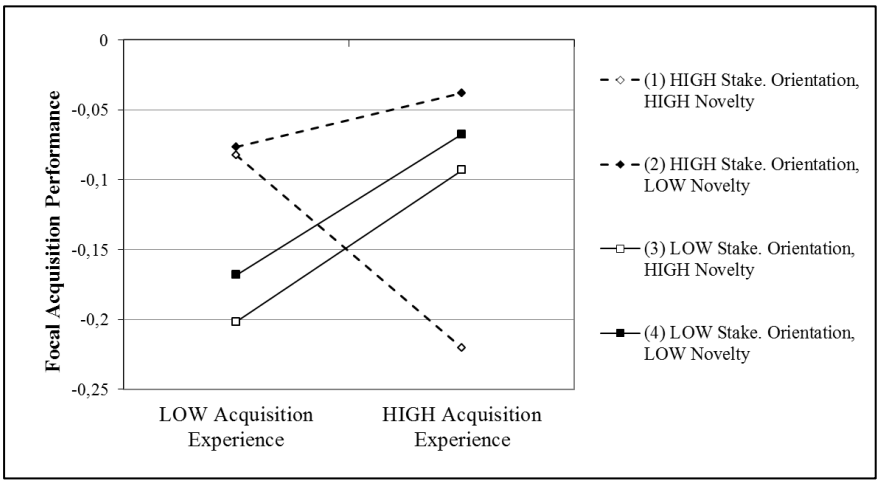


Figure 3. 3 – Estimated relationship, Hypothesis 3: three-way interaction

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Robustness checks

We conducted several additional analyses to check the robustness of our results. First, we checked the robustness of our measure of *acquisition experience*. We re-performed our analysis using the logarithm of the total number of acquisitions instead of the actual number. The use of the logarithm was dictated by both theoretical and statistical reasons. The former pertains to Pablo's (1994) finding that experience shows decreasing marginal returns, so the relationship between experience and performance might follow a log-linear rather than a linear shape. The latter relates to the slightly significant positive skewness of our sample distribution - adopting a log transformation could partially solve that problem. We performed the robustness analysis both on the original measure of experience (number of acquisitions since 1997) and on the alternative measure, based on a four-year window. While the results overlap, the log-transformation seems to be more meaningful when calculating experience over the four-year horizon.

As a second robustness check, we triangulated the data on the *level of stakeholder orientation* using data sourced from the KLD database. Although KLD does not provide specific indications of a firm's behavior towards its stakeholders, we constructed an aggregate measure of orientation based on the extent to which the firm shows more or less commitment towards different stakeholder categories (employees, suppliers, local communities, and customers)[22]. The results mostly overlap with those already presented, although the coefficient of the triple interaction effect (*level of stakeholder orientation* x *novelty of the focal acquisition* x *acquisition experience*) result is not significant. This might be due to the coarse-grained nature of the KLD sourced data, which biased the variance of the measure downwards.

[22] Details of the data and calculations used are available from the authors on request.

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Third, in order to further validate the *level of stakeholder orientation* measure, we adopted a different, less conservative, aggregation strategy with Asset4 data. Specifically, instead of using the sum of the dummies for the individual categories (i.e. 1 if above the median, 0 if below), we calculated the weighted average of the four category-specific items. Again, the results mostly overlap.

Fourth, since the extrapolation of the performance of the acquisition from stock returns can be confounded when more than one deal is undertaken within the same event window (e.g. Zollo and Singh, 2004), we assessed the robustness of our results by including the number of acquisitions that the acquiring firm undertook in the 36 months following the focal deal in the regressions. This measure can be interpreted as the number of acquisitions parallel to the focal one, and can partially account for the difficulties in disentangling the performance outcomes of one acquisition from the effects of others. No significant differences emerged from these results.

Fifth, we adopted a different operationalization of the dependent variable, calculating *cumulative abnormal returns* by estimating the difference between the acquiring firm's realized and expected returns (a function of the equally weighted portfolio as provided by CRSP), instead of using an *ad hoc* matched portfolio. The data shows less variance in the dependent variable used, but qualitatively similar results (although less significant).

Sixth, since two of the control variables (namely *size difference* and *size of the target*) share target sales as a component variable, they may suffer from artificial correlation issues (i.e. 'ratio error correlation'; see Hitt, Hoskisson, and Kim, 1997) and increase the likelihood of violating the 'ceteris paribus' assumption of the estimation model. To check for this potential problem, we re-estimated the models including the *size difference* variable only: all results remain qualitatively unchanged.

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Seventh, we also sought to exclude the possibility that firms characterized by higher levels of stakeholder orientation could differ significantly from those with lower levels, thus making them poorly comparable (e.g. firms with a higher level of stakeholder orientation systematically perform more acquisitions and thus have, on average, more relevant experience). To reduce the possible sources of imbalance across firms, we used propensity scores to match firms showing higher levels of stakeholder orientation with firms displaying lower levels of stakeholder orientation, and excluded firms which were significantly different. We are aware of the fact that this procedure does not address the problems associated with endogeneity deriving from unobservable variables, however the use of matching can mitigate problems of selection bias due to observables and increase the quality of the estimates of ATT (Average Treatment Effect on the Treated) (Rosenbaum and Rubin, 1983; Zhao, 2004). In order to distinguish between firms with higher and lower levels of stakeholder orientation, we split the sample on the median value of level of stakeholder orientation and created a dummy variable which takes the value 1 for HIGH stakeholder orientation and 0 for LOW stakeholder orientation. We performed N-to-N matching with replacement using acquirer specific variables (i.e. *acquiring firm's previous performance, financial size of the acquiring firm, acquirer's resource slack, organizational size of the acquiring firm, sector, and previous acquisition experience*) and a conservative caliper (0.001) to increase the comparability between the firms in the high stakeholder orientation group with those in the low group. This matching procedure excluded 315 acquisitions which were shown as dissimilar from the sample. When estimating the effects of the independent variables and the interaction terms, we included the propensity score calculated in the first step (Rosenbaum and Rubin, 1983, 1985) in the regression. The results show that when the imbalance between the two groups is reduced, the hypothesized effects remain significant and in line with predictions.

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Finally, to further explore the moderation effect proposed hypothesis 3, we conducted two additional sets of analysis. First, we conducted split sample analysis (Shaver, 2007) on the stakeholder orientation variable, estimating Model 3 at the above-mean and below-mean level of stakeholder orientation. The results confirm the triple interaction effect results presented above: in the above-mean sample (high stakeholder orientation), the interaction between novelty and experience is negative and significant (-0.042, $p<0.05$); in the below-mean sample (low stakeholder orientation), the coefficient of the interaction is not significantly different from zero (-0.0002; $p>0.1$).

Second, we assessed the level of experience *in highly similar businesses*, in *moderately similar businesses* and in *non-similar businesses,* calculated as the number of previous acquisitions by the acquirer in industries that were highly similar, moderately similar, or dissimilar to the focal acquisition target's sector. When the NAICS code of a previous target's industry matched that of the focal target firm at the five-digit level, the two were classified as *highly similar*; when the two sets of codes matched at the four, three or two-digit levels (but not at the five or six-digit levels), the previous and focal target sectors were classified as *moderately similar*; matches at the one-digit level (or below) were classified as *not similar*. Our expectation was that we would find a positive effect in interactions between *level of stakeholder orientation* and experience in *highly similar businesses*, and negative effects between stakeholder orientation and experience in *moderately similar* or *non-similar businesses*. Our results (Table 3.3) confirm these predictions, showing that stakeholder orientation positively moderates the relationship between experience in highly similar businesses and focal acquisition performance (0.0245, $p<0.01$) and negatively moderates the impact of experience on the focal acquisition performance in moderately similar or not similar businesses (-0.0326, $p<0.001$ and -0.0340, $p<0.001$ respectively).

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Table 3.3. OLS regression models for different types of experience (DV: CAR 36)

Variable	Model A	Model B	Model C
Stakeholder orientation [b]		0.0242*	0.0387**
		(0.0123)	(0.0131)
Experience in highly similar businesses		0.0130	0.0026
		(0.0097)	(0.0106)
Experience in moderately similar businesses		0.0046	0.0050
		(0.0111)	(0.0113)
Experience in non-similar businesses		0.0199†	0.0202†
		(0.0113)	(0.0113)
Stake. orientation x Experience in highly similar businesses			0.0245**
			(0.0083)
Stake. orientation x Experience in moderately similar businesses			-0.0326***
			(0.0093)
Stake. orientation x Experience in non-similar businesses			-0.0340***
			(0.0085)
Distance to core business	-0.0007	-0.0006	-0.0024
	(0.0029)	(0.0031)	(0.0031)
Experience heterogeneity	-0.0466	-0.0622*	-0.0550†
	(0.0297)	(0.0310)	(0.0311)
Shareholder orientation	0.0328*	0.0264†	0.0291†
	(0.0151)	(0.0156)	(0.0156)
Post-acquisition integration	0.0196	0.0098	0.0151
	(0.0213)	(0.0219)	(0.0219)
Financial size of the acquirer. [a]	-0.0043	-0.0102	-0.0069
	(0.0138)	(0.0157)	(0.0158)
Resource slack	0.0083	0.0079	0.0081†
	(0.0053)	(0.0051)	(0.0048)
Previous minority interest	-0.0845	-0.0777	-0.0723
	(0.0517)	(0.0519)	(0.0515)
Full acquisition	0.0134	0.0109	0.0157
	(0.0815)	(0.0808)	(0.0806)
Performance of the acquirer	0.0637	0.0056	0.0041
	(0.1425)	(0.1431)	(0.1423)
Organizational size of the acquirer [a]	0.0036	-0.0036	-0.0102
	(0.0159)	(0.0168)	(0.0168)
Relative target size	0.0196	0.0219	0.0227†
	(0.0144)	(0.0140)	(0.0137)
Cross-border	-0.0014	0.0048	0.0039
	(0.0224)	(0.0226)	(0.0225)
Intercept	0.0601	0.1493	0.1415
	(0.1280)	(0.1417)	(0.1417)
Year Fixed Effects	YES	YES	YES
Industry Fixed Effects	YES	YES	YES
R-squared	0.0672	0.0706	0.0819
N	2,193	2,193	2,193

Notes. † $p < 0.1$ * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$ [a] Logarithm [b] Standardized. Standard errors appear in parentheses.
Experience *in highly similar businesses*: number of acquisitions in industries whose NAICS match that of the focal target firm at the 5-digit level; Experience *in moderately similar businesses:* number of acquisitions in industries whose NAICS match that of the focal target firm at the 4, 3 or 2-digit levels Experience *in non-similar businesses*, number of acquisitions in industries whose NAICS match that of the focal target firm at the 1-digit level (or below)

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Additional analyses

In this paper, we have considered stakeholder orientation as an aggregate construct which measures the extent to which the acquiring firm is oriented towards the whole set of primary stakeholders. Recent trends in stakeholder literature (e.g. Tantalo and Priem, 2014) suggest that high levels of relational capital with one category of stakeholders (e.g. customers) is not necessarily associated with a higher level of orientation to other stakeholder categories (e.g. employees). Therefore, in order to deepen our understanding of our results, we tested hypothesis 1 by focusing separately on the orientation towards each of the stakeholder categories (i.e. customers, employees, suppliers, local communities). We also assessed the effect of shareholder orientation on the relationship between acquisition experience and performance of the focal acquisition. The results, which are shown in Table 3.4, indicate that for customers, employees and local communities, the moderating effect of a firm's orientation towards the individual categories is consistent with the results obtained using the aggregate measure (-0.0311, $p<0.01$ for customers; -0.0261, $p<0.01$ for employees; and -0.0284, $p<0.01$ for local communities). In contrast, the data show a negative, but not significant, effect of supplier orientation on the relationship between acquisition experience and performance of the focal acquisition. These results could suggest that orientation towards stakeholders can actually be a multifaceted construct and that the effects of an orientation towards one stakeholder category are not necessarily collinear with those for the other categories.

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Table 3.4 OLS regression models for separated stakeholders categories (DV: CAR 36)

Variable	CUSTOMERS	EMPLOYEES	SUPPLIERS	COMMUNITIES	SHAREHOLDERS
Acquisition experience [b]	0.0150	0.0194†	0.0235*	0.0138	0.0087
	(0.0105)	(0.0102)	(0.0105)	(0.0100)	(0.0117)
Customers orient. x Experience	-0.0311**				
	(0.0103)				
Customers orientation	0.0049				
	(0.0147)				
Employees orient. x Experience		-0.0261**			
		(0.0096)			
Employees orientation		0.0220			
		(0.0164)			
Suppliers orient. x Experience			-0.0038		
			(0.0108)		
Suppliers orientation			0.0185†		
			(0.0104)		
Community orient. x Experience				-0.0284**	
				(0.0097)	
Community orientation				-0.0535***	
				(0.0153)	
Shareholder orient. x Experience					0.0439*
					(0.0194)
Shareholder orientation	0.0256†	0.0252	0.0291†	0.0396*	0.0366*
	(0.0150)	(0.0164)	(0.0156)	(0.0157)	(0.0142)
Novelty of focal acquisition [b]	-0.0338*	-0.0352*	-0.0305†	-0.0365*	-0.0310†
	(0.0169)	(0.0167)	(0.0170)	(0.0168)	(0.0168)
Distance to core business	0.0049	0.0049	0.0038	0.0060	0.0045
	(0.0043)	(0.0042)	(0.0043)	(0.0042)	(0.0042)
Experience heterogeneity	0.0365	0.0346	0.0307	0.0450	0.0306
	(0.0408)	(0.0408)	(0.0406)	(0.0409)	(0.0404)
Post-acquisition Integration	-0.0027	-0.0029	-0.0041	0.0085	-0.0038
	(0.0235)	(0.0238)	(0.0237)	(0.0234)	(0.0235)
Financial size of the acquirer [a]	0.0330+	0.0246	0.0178	0.0510**	0.0205
	(0.0188)	(0.0175)	(0.0166)	(0.0181)	(0.0167)
Resource slack	0.0062	0.0051	0.0053	0.0059	0.0059
	(0.0042)	(0.0041)	(0.0044)	(0.0044)	(0.0043)
Previous minority interest	-0.1351*	-0.1325*	-0.1323*	-0.1294*	-0.1294*
	(0.0639)	(0.0641)	(0.0641)	(0.0635)	(0.0640)
Full acquisition	-0.0686	-0.0674	-0.0701	-0.0736	-0.0731
	(0.0995)	(0.0998)	(0.1000)	(0.0990)	(0.0997)
Performance of the acquirer	0.1097	0.0753	0.0954	0.1608	0.0917
	(0.1425)	(0.1401)	(0.1406)	(0.1435)	(0.1413)
Org. size of the acquirer [a]	-0.0184	-0.0160	-0.0125	-0.0172	-0.0088
	(0.0195)	(0.0193)	(0.0194)	(0.0197)	(0.0191)
Relative target size	0.0241	0.0246	0.0233	0.0245	0.0228
	(0.0167)	(0.0164)	(0.0166)	(0.0171)	(0.0163)
Cross-border	-0.0075	-0.0046	-0.0043	-0.0114	-0.0006
	(0.0253)	(0.0254)	(0.0256)	(0.0254)	(0.0257)
Intercept	-0.1493	-0.0698	-0.0233	-0.3452*	-0.0634
	(0.1769)	(0.1665)	(0.1592)	(0.1727)	(0.1609)
Year Fixed Effects	YES	YES	YES	YES	YES
Industry Fixed Effects	YES	YES	YES	YES	YES
R-squared	0.1050	0.1052	0.1027	0.1123	0.1042
n	1,718	1,718	1,718	1,718	1,718

Notes. † $p < 0.1$ * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$ [a] Logarithm [b] Standardized. Standard errors appear in parentheses.

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DISCUSSION

This paper set out to examine questions related to the interdependence of experiential learning and relational capital. How do stakeholder orientation strategies affect a firm's ability to learn from its experience? When do these strategies facilitate – and when do they hinder – capability development from experience accumulation?

To answer this question, we developed and tested a theory on the effects of relational capital on the interpretation and application of experience. To do so, we proposed and tested conflicting hypotheses on the advantages and disadvantages of making inferences from experience and applying accumulated knowledge to cognitive distant tasks. The data we examined shows that the overall impact of stakeholder orientation on experiential learning is negative. In our interpretation, higher levels of stakeholder orientation foster an excessive amount of conflicting inputs, which can confuse managers' ability to tease out causal mechanisms between decision and outcome(s) in past experiences. In addition, higher relational quality with stakeholders might contribute to managerial overconfidence in the quality of their existing routines, which, in turn, could hamper correct application of existing knowledge.

The second implication of our results relates to the role of task novelty in experiential learning processes. First, the data we examined confirm the expectation that novelty will exert a negative moderating influence on the impact of accumulated experience on performance. This can be explained by the negative effects of routinized processes generated by such experience accumulation, which may lead to a novel task being addressed inappropriately via existing routines that are selected though erroneous generalization and analogical thinking (Gavetti et al., 2005).

Moreover, the evidence we examined shows that relational capital moderates the

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relationship between novelty of the focal task and capability to tackle it through accumulated experience. When managers rely more on their relational capital, the cognitive distance of the focal task from a firm's previous experience seems to have a particularly negative effect on its capacity to translate accumulated experience into organizational capabilities. Conversely, when managers rely to a limited extent on accumulated relational capital, novelty does not seem to be a barrier to the correct selection of the routines to be applied. These results lead us to speculate that stakeholder orientation practices can stimulate a worse understanding of focal events (in our case acquisitions) and foster the use of experience even when it is suboptimal: it can be beneficial in cases of exploitative actions, but may be problematic for explorative activities (March, 1991).

Taken together, our theoretical development and the empirical evidence we have unearthed can provide a number of contributions to ongoing debates in different strands of literature. The first of these is the debate on the role of experience in organizational learning processes. Here, we propose a nuanced contingency model that takes into consideration the interplay between organizational (stakeholder orientation) and task (novelty) factors to identify some of the boundary conditions to the relationship between experience accumulation and capability building. In this respect, we go beyond the standard account of capability development through the marginal adaptation of organizational routines and examine the positive and negative aspects of organizational willingness to include the perceptions and knowledge of stakeholders.

The second stream of literature to which our results contribute is the ongoing discussion on the relative benefits or drawbacks of stakeholder orientation. Although management literature has often seen stakeholder orientation as "a panacea for a variety of ills and a means of accessing untapped opportunities" (Hall and Vredenburg, 2005, p.11), the data

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we examined suggests that the benefits of these strategies tend to be idiosyncratic and context-dependent. Our general finding - that stakeholder orientation has a negative influence on the effectiveness of experiential learning – might be somewhat surprising for stakeholder theorists, but may be in line with the current understanding of the hazards of learning processes in rare and complex tasks (Lampel, Shamsie and Shapira, 2009).

Another area where our study contributes is corporate acquisitions. Acquiring firms may have found it hard to develop the capabilities needed to manage acquisition processes not only because of the inherent complexity of the phenomena, but also because of the ambiguous effects of relational capital, which we suggest can be particularly damaging in the case of acquisitions carried out in novel domains.

LIMITATIONS AND CONCLUSION

Like any empirical study, ours has a number of limitations that future work could address. First, it focuses on the context of acquisitions: future research should probe the applicability of our findings to different types of tasks such as partnerships, organizational change initiatives, or other strategic market decisions (market entry, price adjustments, outsourcing/insourcing).

A second limitation may concern the assessment of relational capital in terms of stakeholder orientation. It is clear to us that there are several different ways in which the quality of relational ties could be conceptualized and measured, an endeavor which we encourage future scholars to undertake. From a methodological perspective, studying the interplay between relational capital and experiential learning would certainly benefit from a direct observation of the phenomenon, which could be made possible through more inductive designs. An intermediate solution to this problem might require the development of survey or

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interview methodologies to study how firms leverage relational capital as they accumulate and try to make sense of experience.

A secondary methodological issue derives from the use of the acquisition as the unit of analysis. Since researchers have recently started to increase the attention paid to serial acquirers (e.g. Laamanen and Keil, 2008) and the performance implications that may derive from multiple parallel or sequential acquisitions, doubts could arise as to whether the deal (acquisition) might be an appropriate level of analysis (Levinthal, 2000). Future researchers might address this issue by focusing on the evolution of experience in single firms characterized by different levels of stakeholder orientation.

Another limitation might derive from the fact that we have considered task novelty as the only dimension of interest for explaining the impact of relational capital on organizational learning. The heterogeneity of the tasks, their temporal and spatial spacing, or their complexity and causal ambiguity might also be seen as equally compelling dimensions.

Finally, we believe that important avenues for future advancements could be provided by the use of experimental designs, both in lab or field contexts, where the conditions under which experiential learning occurs can be more precisely determined or controlled. This is particularly important if we want to build a more comprehensive theory of the influence of relational capital and task features on capability development.

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CHAPTER 4

POST-ACQUISITION INTEGRATION AND TARGET'S STAKEHOLDER RELATIONSHIPS

ABSTRACT

In this paper I analyze the effects that the post-acquisition integration process may have on the stakeholder-based relational resources of the target firm. First I submit that acquirors can benefit from the acquisition of target firms which possess strong relationship with stakeholders. Moreover, I hypothesize that structural integration has a negative effect on the stakeholder-based relational resources and this may, in turn, reduce the performance of the acquisition. I test the hypothesis on a sample of 170 acquisitions. Preliminary results show partial confirmation of the hypotheses submitted. In particular results suggest that relationship with stakeholders can be a valuable resource to be acquired, but the organizational effects that structural integration have on relational resources may endanger the economic performance of the acquisition.

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"Very quickly, some of their worst fears were realized. Ben & Jerry's had almost never fired an employee, but Unilever, the world's largest ice cream maker, had manufacturing and supply-chain acumen and wanted synergies. A production plant and a distribution center were shuttered, workers at the two sites were laid off, and sales representatives at headquarters were fired.

[…]

But today, 15 years after the deal, Mr. Michalak said Ben & Jerry's remained as mission-driven as ever, and was having a bigger impact than before because of its increased size. (Since the acquisition, Unilever has nearly tripled Ben & Jerry's revenue and added hundreds of jobs.)

[…]

The recipe for this amicable partnership was written into the acquisition agreement. Unilever, not wanting to squander its purchase, chose to operate Ben & Jerry's with more autonomy than any of its other subsidiaries."

DAVID GELLES, "How the Social Mission of Ben & Jerry's Survived Being Gobbled Up", New York Times 2015

INTRODUCTION

One of the central dilemmas in managing acquisitions is the decision about how deeply to integrate the newly acquired firm and the acquiring firm (Ranft and Lord 2002). The choice to integrate or not-to-integrate an acquired firm is followed by a set of decisions associated to the reallocation of tangible and intangible resources and to the re-design of pre-existing routines (Karim and Mitchell, 2000; Capron et al., 1998). These decisions have been seen as possible predictors of positive outcomes, such as economic performances (Zollo and Singh, 2004; Barkema and Schjiven, 2008), transfer of knowledge (Ranft and Lord, 2002) or market expansion (Cording et al 2008). At the same time, several scholars have recognized the negative effects that post-acquisition integration decisions may have on target firm's internal resources being them technological (Paruchuri et al. 2006; Puranam et al., 2006)

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organizational (Larsson and Finkelstein, 1999) or cultural (Reus and Lamont, 2009; Drori, Wrzesniewski and Ellis, 2011).

Less attention has been devoted, instead, to the effects that post-acquisition decisions may have on the relational resources that acquiring and acquired firms have developed before the acquisition. In particular, most of the research focused on the acquiring firm side and looked at effects that between post-acquisition integration can have on the relationship between acquiring firm and target's managers (Bergh, 2001; Walsh, 1989) or the economic benefits that target shareholders may have as a consequence of takeovers (Markides and Ittner, 1994; Eckbo, 1983). Notable exception can be found in the literature on human resources management which focused on the negative emotional reactions of target firms' employees to the modifications deriving from integration implementation (e.g. Marmenout, 2011; Hambrick and Cannella, 1993; Schweiger and DeNisi, 1991). In most cases, however, these studies haven't focused on the effects that acquisition have on the social complex relational resources controlled by the target firm before the acquisition. In particular, limited attention has been devoted to the effects of post-acquisition decisions on those relational resources that the target firm developed with its stakeholders before being acquired. The study by Cording and colleagues (2013) is the only one, to my knowledge, that explicitly explored the complexity of stakeholder relationships in post-acquisition processes. Their paper analyzes how the consistency between acquiring firms' communicated values and realized behavior vis-a-vis some categories of stakeholders (i.e. employees and customers) can affect the success of post-acquisition processes. My study, instead, aims to investigate how the relational capital a target firm developed before the acquisition with its stakeholders (employment, clients and local communities), the decision to integrate the target firm, and their interaction, affect the acquisition performance. This issue is important as a number of

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firms, in the last decade, increasingly relied on relational resources developed with stakeholders to generate competitive advantage being it in terms of differentiation from competitors (Crilly and Sloan, 2012) innovation (Flammer and Kacperczyk, 2015) or increased social recognition (Choi and Wang, 2009). However the understanding of how acquisitions can affect these sources of competitive advantage and what are the long term consequences in terms of performance of the acquisition is still limited.

By adopting a stakeholder based view of the firm (Freeman, 1984) I assume that firms are at a center of a nexus of relationships with different stakeholders and managers are responsible of taking decisions on how these relationship are managed (Harrison et al., 2010; Hillman and Keim, 2001). Depending on how the managers decide to manage the relationship with stakeholders the contributions of the stakeholders to the firm's competitive advantage will vary (Bridoux and Stoelhorst, 2014; Coff, 1999). Typically, the more the firm decide to build long lasting relationship based on increased attention to the interests of the stakeholders, the more the stakeholders will contribute to the process of value creation of the firm by sharing valuable knowledge with the managers and by reducing opportunistic behavior towards the firm (Bridoux and Stoelhorst, 2014; Harrison et al. 2010). This suggest that stakeholder relationships may represent, depending on the approach adopted by managers to handle them, a valuable socially complex resource for the firm. In this paper I claim that these resources can be leveraged or endangered by the integration process.

I begin the paper by selectively reviewing research on the stakeholder based view of the firm to point out how relational resources developed with stakeholders can bring competitive benefits to an organization. Thereafter, I develop two hypothesis. First, I submit that acquirors can benefit from the acquisition of target firms that created fairness-based relationship with stakeholders. Second (and more importantly), I hypothesize that structural

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integration - defined as the combination that follows an acquisition of two distinct organizational units into the acquiring firm's organization - has a negative effect on the stakeholder-based relational resources of the target and this may, in turn, reduce the performance of the acquisition. I then discuss the data and the methods I used to test the hypotheses followed by a description of preliminary findings. I then discuss briefly these findings and conclude with the limitations and the contribution of this paper.

THEORETICAL DEVELOPMENT

The central idea of the Stakeholder Based View (SBV) is that the firm is at the center of a network of stakeholders (Rowley, 1997), which interact as a complex system for exchanging goods, services, information, technology, knowledge, money, and other resources (Harrison et al., 2010; Freeman, 1984). I define stakeholders as the "individuals and constituencies that contribute, either voluntarily or involuntarily, to the wealth of the firm […] and who are therefore potential beneficiaries and/or risk bearers" (Post et al., 2002; p.8). In this paper I focus on those groups that have been suggested as the ones that "the firm needs in order to exist" (Dunham et al., 2006, p.25): local communities, employees, and customers[23] [24].

Why might firms be interested in nurturing relationships with its stakeholders?[25] I start from the consideration that effective stakeholders relations constitute intangible, socially complex resources that may enhance the firms' ability to outperform competitors in terms of long-term value creation (Hillman and Keim, 2001). The primary motive for building

[23] It is worth noting that shareholders are included in the definition proposed. However, this paper focuses on the effects of integration on the target's relationships in the post-acquisition phase. As in most cases the relationship with existing shareholders are severed as an natural consequence of the takeover, target's stakeholder relationships are excluded from the focus of this study.
[24] Because of the tack of available data, suppliers have been excluded from this analysis.
[25] In this paper I adopt an instrumental approach to stakeholder relationships. Even acknowledging that some firms proactively collaborate with stakeholders motivated by an ethical standing, I focus on the instrumental benefits that stakeholder relationships may drive in terms of economically valuable outcomes.

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relationship with stakeholder has been described in terms of gaining better access to resources (Kassinis and Vafeas, 2006). Close relationship with stakeholders have been also associated with the development of dynamic capabilities (Aragón-Correa and Sharma, 2003) and with the development, selection, and deployment of internal change initiatives (Sachs and Rühli, 2011; Zollo et al., 2013). Finally, stakeholder relations can be sources of opportunities, information and knowledge that are useful in firms' value creation processes (Sachs and Rühli, 2011) and innovation processes (Flammer and Kacperczyk, 2015), depending on how these relationships are managed.

These considerations do not necessarily imply that all firms should nurture relationships with stakeholders. Recent SBV literature, in fact, has suggested that organizations are indeed heterogeneous in the way they interact with stakeholders (Post et al., 2002) and how they prioritize the different categories of stakeholders. Firms may be able to build their competitive advantage either by adopting a fairness-based approach to the relationships with stakeholders or by adopting an arm-length approach with them (Bridoux and Stoelhorst, 2014) [26].

These two approaches (fairness-based vs. arm-length relationships) differ, at least, along three dimensions. First, arm-length approaches are generally characterized by a shorter time horizon (Rousseau and Wade-Benzoni, 1994). Second, fairness-based approaches on managing stakeholders are characterized by a stronger focus on value creation (vis-à-vis value capturing) by extending the scope of interactions from pure economic exchanges to collaborative problem solving. This concretizes into open exchange of relevant information with stakeholders aimed to establish collaborative problem solving (Bridoux and Stoelhorst,

[26] Typical examples of firms approaching stakeholder relationships in very opposite ways are Southwest airlines and Ryanair. The former bases its success on creating valuable long-lasting relational resources by interacting with stakeholders, while the latter mainly adopts short-term arm-length approaches in managing stakeholder relationships (see Bridoux and Stoelhorst, 2014)

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2014; Dyer and Singh, 1998). Finally, and more importantly for the sake of this study, when a firm adopts a fairness approach, it will mainly rely on relational contracts to regulate relationships (Harrison et al, 2010; Dyer and Singh, 1998). Relational contracts, differently from formalized contracts, depend on self-enforcing trust-based mechanisms between the parts (Gibbons and Henderson, 2012).

We may expect that when a firm adopts an arm-length approach, stakeholder's contribution to the firm's value creation process will be limited (e.g. employees will work for the firm according to their contractual duties and customers will limit their intervention to buy firm's products), thus the quality of the stakeholder based relational resources will be limited. As the benefits of stakeholder-based relational resources will be harder to obtain for those firms that adopt an arm-length approach, we expect them to be more likely to focus on other resources to build their competitive advantage. In the case of fairness-based approach, the way in which the relationship with stakeholders are managed, allow the firm obtain the benefits that derive from cooperative interactions with stakeholders. In this case, in fact, the relationship will be constructed on repeated fairness based exchanges with them that exceed the pure economic exchange. It is, therefore, expectable that stakeholders will contribute more directly to the value creation process by sharing valuable knowledge with the managers and by reducing opportunistic behavior (e.g. apart from performing their tasks, employees, may share information with managers to design more effective firm's processes; customers, as well as buying products, may be asked to provide information about their product preferences and will be less likely to leave the relationship).

To summarize, firms are heterogeneous in the way they manage relationships with stakeholders: some may adopt a fairness-based approach and enjoy the benefits of stakeholder engagement (in terms of access to information, knowledge or innovation), while others may

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adopt an arm-length approach and pursue competitive advantage in a different way. The formers, in order to build and maintain these relationships, need to establish self-enforcing mechanisms (i.e. relational contracts). In the next section I will build on these considerations to create my hypotheses.

HYPOTHESIS DEVELOPMENT

How do the quality of the target's stakeholder based relational resources affect acquisition performance? I start this inquiry by hypothesizing a direct effect of the quality of the target's relationships with stakeholders on the performance of the acquisition. The study of the relationship between the quality of the acquired firm's resources and the performance of the acquisition has shown heterogeneous results, typically depending on the nature of these resources. For instance, overall target's resource quality has been associated to a decrease in acquisition performance (Zollo and Singh, 2004; Cording et al. 2008). Similarly, Capron (1999) found that when target's firm resources are redeployed to the acquiring firm (assuming the high quality of the resources) they tend to reduce the performance of the acquisition. On the opposite, several studies, found a positive effect of target's resources on the performance of the acquisition. The quality of the target firm (measured in terms of profitability before the acquisition) have been shown to be positively related to the acquiror's short term financial performance (Capron and Shen, 2007) or accounting performance (Kusewitt, 1985) following the acquisition. Similarly, Puranam and Srikanth (2007), in the context of technological acquisitions, found that innovation quality of the target firm before the acquisition can be leveraged (under specific conditions) and lead to an overall increase in the innovative capability of the acquiring firm.

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Therefore it is not counterintuitive to set a positive baseline on the following hypothesis:

Hp1 – All else being equal, the target's quality of stakeholder-based relational resources influence positively the long-term performance of the acquisition

Most interestingly, I claim that stakeholder-based relational resources, other than being valuable, are particularly difficult to be transferred from the target to the acquiror. In particular the structural changes that the target firm experiences when it is structurally integrated into the acquiring firm, may lead to the disruption of the relational contracts on which stakeholder-based relational resources rest.

Received literature suggests that post-acquisition structural integration is a fundamental design choice on how a target firm shall be combined to the acquiring unit after the acquisition (Haspeslagh and Jemison, 1991). Knowledge-based view literature repeatedly pointed out that the "mere" acquisition of target resources is not enough in order to generate value. Thus, in several cases, acquiring firms decide to structural integrate to create the organizational conditions which are required to exploit target's knowledge and resources or to save costs by grouping similar activities (Haspeslagh and Jemison, 1991). By grouping the two firms within the same administrative aegis an acquirer will likely extend its authority, routines, systems, and processes to enhance coordination and foster the exchange of knowledge and resources between target and acquiror.

However, processes of post-acquisition integration have been seen to have a "darker side" (Puranam et al. 2006, p.265). Structural integration involves, in fact, modifications aimed to align processes of the target firm to the ones of the acquiror such as the imposition of common authority, homogenization of practices across the two entities and the alignment

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of existing procedures (Puranam and Srikanth, 2007, Haspeslagh and Jemison, 1991). These changes may include the substitution of target's managers (Hambrick and Cannella, 1993), the redeployment of target's human resources (Capron et al. 1998), the modification of targets' procedures and routines (Zollo and Singh, 2004). Independently from the benefits brought by the alignment of the two organizations, such modification can cause disruption valuable organizational resources and routines within the acquired firm (Benner and Tushman 2003, Leonard- Barton 1992, Ranft and Lord 2002). Literature on technological innovation, for example, has shown how integration processes can hamper the ability of the acquiring firm to leverage existing knowledge resources, negatively affecting firms' innovation outputs and acquisition performances in general (Puranam et al. 2006; Puranam and Srikanth, 2007; Ranft and Lord, 2002).

In a similar vein, I claim that these changes may alter the relational resources that the target firm has developed with its stakeholders, harming the possibility for the acquiror to leverage on them to create value from the acquisition. Even in those cases in which the main aim of the acquisition is to get control of exiting relational resources, in facts, the change associated to the post-acquisition phase, make the preservation of these resources, at best, uncertain as the reaction of all the actors involved can be hardly predicted (Oberg, Henneberg and Mouzas, 2007).

The "fragility" of the stakeholder-based relational resources and, in turn, the difficulty in transferring them from the target to the acquiror, derives directly from the characteristics of the relational contracts on which relational resources are built. While formalized contracts can be easily reassigned between two entities, relational contacts may face increased difficulties in being transferred. Relational contracts are implicit contracts based on behaviors that are not predictable ex-ante and thus are regulated by self-enforcing mechanisms (Baker et al., 1994).

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These mechanisms are based on the expected value of future outcomes of the relationship (Klein, 1996). The expectations about the behavior of a counterpart (being fair or not) depend on the accumulated "history" of interactions (Chassang, 2010). When two parts (i.e. the firm and the stakeholder) continue to interact, they produce some amount of information about the counterpart's fairness after each interaction. When a stakeholder observes a reiterated fairness-based behavior from the firm, he will increase its trust in the firm and it will collaborate more likely (Chassang, 2010). For example, when customers perceive that the value created from disclosing to the firm their utility functions is fairly shared (between customers and the firm), they will be more likely to re-iterate the same behavior and increase the commitment in the relationship (e.g. sharing more openly their utility function with the managers of the firm) (Harrison et al. 2010).

What would happen if the managers of the firm are replaced as a consequence of the process of integration? Likely, when the counterpart of the stakeholder is replaced, the relational contract will dissolve. Before the acquisition stakeholders were holding expectations about the behavior of the firm's managers (expectations that have been created overtime). When managers of the target firm are substituted, the same stakeholders will not have the bases on which ground the expectations about the behavior of the new counterparts (new managers). For example, employees which see their managers substituted as a consequence of structural integration, cannot evaluate ex-ante if the new interlocutors will behave fairly or not. Even in those cases in which target and acquiror adopt the same fairness-based approach in managing stakeholder relationships, relational contracts will dissolve as a consequence of integration. These contracts will be recreated only after a certain amount of interactions. Till the moment in which relational contracts are recreated (if ever), stakeholders will tend to deviate from the pre-existing collaborative behavior (Harrison et al., 2010).

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Moreover, structural integration may harm the relational contacts by modifying the interactive routines existing between target firm and its stakeholders. As suggested by Gibbons and Henderson (2012), relational contracts depend on the clarity of the mechanisms underlying the relationship. Clarity refers to the shared understanding of what is expected in terms of behavior. This understanding is, again, built overtime as the result of collaboration between the parts and depends on the stability of the behavior by the two interacting parts (Dyer and Singh, 1998). When target firms are structurally integrated they will be more likely to experience substantial changes in their routines. This may, as a consequence, affect the clarity of the relational contract between stakeholder and the firm. This would result in the disruption of common understandings and increasing information asymmetries.

Therefore, when target firms manage the relationship with stakeholders on a fairness-base, the positive effects of the structural integration in terms of exploitation of target resources, might be counterbalanced by the value loss deriving from the adverse effects on stakeholder-based relational resources. Conversely, when a target firm that adopts an arm-length approach in managing relationships with stakeholder is integrated, the benefits in terms of target resources exploitation might overcome the loss deriving from the disruption of the modest stakeholder based relational resources of the target firm. I therefore submit the following hypothesis:

> *Hp2 – All else being equal, structural integration influence negatively the effect of target's quality of stakeholder-based relational resources on the long-term performance of the acquisition*

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METHODS

Sample

The hypotheses developed above were tested using a sample of acquisitions undertaken by large listed firms in the period 2002-2011. The first step to construct the sample consisted of crossing the Thomson Reuters Asset 4 (see further) and the Zephyr-Bureau Van Djik to select those acquisitions of target firms whose assessment of stakeholder relationships was available in the Asset 4 database. An initial sample of 479 acquisitions met these criteria. The second step excluded partial acquisitions (less than 100%) and takeovers of business units, assets or factories to reduce problems of comparability between sample units. This second step reduced the sample to 285 acquisitions. Third, I excluded from the sample all financial acquisitions as they are, in most cases, motivated by financial reasons only (risk minimization, portfolio strategies). In these situations synergies between the acquiring and acquired are not planned nor emerging. I, therefore, excluded all acquisition by banks and funds in non-related industries. This step dropped from the sample 49 acquisitions. Press releases have been used to validate the exclusion method adopted. Fourth, as the assessment of the acquiring firm's stakeholder-based relational resources is part of the research design, I excluded those cases in which no such data are available on the Asset 4 database. It reduced the sample to 210 acquisitions. Finally, I relied on the Datastream Thomson Reuter database to compute the dependent variable. Due to missing data in Datastream database, I ended up with a final sample of 192 acquisitions.

Dependent Variable

The dependent variable of this analysis is the *long-term performance of the acquisition*. I focused on the acquiring firm's Cumulative Abnormal Returns (CAR) over 36

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months after the acquisition (monthly returns have been used) (Cording et al. 2008; Zollo and Reuer, 2010). Calculation is based on the market model for the period beginning one month prior to the announcement date of the acquisition and ending 36 months after the acquisition announcement date. Due to a limited availability of data, the estimation period used is 12 months, ending one month prior to the announcement date. The Datastream Sector Equity Index (Level 4 – Sector level)[27] has been used for the benchmark portfolio. As the calculation of CAR have been disclosed previously of this dissertation, for the sake of brevity, I refer to Chapter 2 for the details of the computation.

Independent Variables

To measure the first independent variable (i.e. target firm's *quality of stakeholder-based relational resources*) I used the Thomson Reuters Asset4 database, which offers fine grained assessments of firms' activities in terms of stakeholder relationships. The measure has been built by aggregating the scores (in the year before the acquisition) of the quality of the relational resources for three different categories of stakeholders: Employees, Customers and Local communities.

Quality of employees-based relational resources was assessed by focusing on four items included in the Asset4 category "*Employement quality*". Specifically, quality of relationship with employees has been calculated as the sum of the four dummy (0,1) items that monitor: if a firm ensures good employee relations or has a policy for maintaining long term employment growth and stability; if it describes the implementation of an employment quality policy; if it monitors employment interests; if it sets specific employment quality objectives.

[27] Further details on the benchmark portfolio are available upon request to the author or on the Thomson Reuters Database website.

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Quality of customer-based relational resources has been assessed by focusing on 8 items included in the Asset4 category "*Client loyalty*". I calculated the sum of the 8 dummy variables assessing: the existence of a policies to assess and improve customer satisfaction, the existence of practices for monitoring customer satisfaction, the existence detailed procedures to assess and increase customer satisfaction, the settlement of objectives for customer satisfaction improvement.

Quality of local communities-based relational resources was measured by summing 9 dummy items included in the Asset4's '*Local Communities*' category. The items assess: the public commitment of the firm towards community oriented policies, the settlement of objectives for community satisfaction, the adoption of procedures to increase community satisfaction and the use of specific tools and procedures to assess the quality of relationship with communities. The aggregate measure of *quality of stakeholder-based relational resources* has been calculated as the weighted average of these three scores (each score has been weighted using the number of items the score includes).

The moderating variable of this study is *structural integration*. Structural integration has been defined as the combination that follows an acquisition of two distinct organizational units (i.e. acquiring and acquired firm) into the one organization (in most cases the acquiring firm) (Haspeslagh and Jemison 1991, Paruchuri et al. 2006, Puranam and Srikanth 2007). This represent an initial discrete choice regarding the "unification" of two organizational units (Nadler and Tushman 1997) which is followed by non-discrete decisions about the mechanisms to be used to align and standardize of processes, to generate a common control, or to substitute managers (Puranam et al. 2006, Nadler and Tushman 1997). To measure *structural integration*, I adapted the operationalization by Puranam et al. (2006) and I

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focused on LexisNexis to code companies' snapshots. The continued presence of a target firm in LexisNexis (with subsidiary status) after its acquisition was interpreted as the structural integration had not been carried out (structural integration = 0). If the firm had disappeared from LexisNexis the year after acquisition, it was interpreted as if structural integration had occurred (structural integration = 1). To validate further the measure, I followed the approach used by Paruchuri et al. (2006) and coded press releases of each deals together with companies' reports provided by Businessweek's website. 90% percent of agreement has been found between two methods. Inconsistencies have been resolved using press releases from other sources (e.g. industry newspapers, corporate websites).

Control Variables

In order to encompass the complexity of explaining acquisition performances estimation models include a number of controls that can be grouped in three clusters: *Acquiror Attributes*, *Target Attributes* and *Deal Attributes*.

Acquiror Attributes

Acquiror experience. Firms with greater experience are likely to have developed capabilities to integrate targets firms more efficiently with smaller disruption of relational resources (Zollo and Singh, 2004). I operationalized the construct as the number of deals completed by the acquiror in the five years before the focal acquisition (Capron and Guillén, 2009).

Acquirer pre-acquisition profitability. To disentangle the acquisition's performance from the acquiring firm's overall performance I controlled for the profitability of the acquiring firm before the acquisition using the ROA in the year preceding the closing of the deal.

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Financial size of the acquiring firm. Large acquirers, in terms of financial dimensions, can face more modest variations in performances, especially when acquiring smaller firms. I controlled therefore for the financial size of the acquiring firm computed as the firm's total assets in the year before the acquisition.

Organizational size of the acquiring firm. Bigger organizations may encounter more problems of acceptance of change following the acquisition, compared to smaller acquirers (Haleblian et al., 2006). I measure this variable as the acquiring firm's number of employees in the year before closing the deal.

Acquiror's current ratio. I control for the acquirer's resource slack, measured as the ratio between its current assets and current liabilities (i.e. current ratio). Some works show that acquiror's current ratio is associated to higher acquisition performances, while some others suggests the opposite, claiming that acquirers with greater resource slack are likely to make less profitable acquisitions, because of lower controls on their cash availability (Lang, Stulz, and Walkling, 1989).

Acquiring firm's quality of stakeholder-based relational resources. Acquiring firms that developed strong relationship with stakeholders might be more capable to minimize the impact of integration on the target's relational resources (See Chapter 2). Therefore I control for the quality of the acquiror's stakeholder-based relational resources as a proxy of the capabilities developed by the acquiror in managing stakeholder relationships. Operationalization mirrors the one used for the *target firm's quality of stakeholder-based relational resources* (see above).

Target attributes

Target's pre-acquisition profitability. Higher levels of profitability can be an easy

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interpretable signal of the quality of the resources of the target firm to other firms (including the acquiror). The inclusion of this value in the model help disentangling the value of the resources that have been already leveraged (and signaled) before the acquisitions, from the value of the resources (including relational resources) that can be leveraged following the acquisition. I measure the *target pre-acquisition profitability* as the its ROA in the year before the acquisition.

Financial size of the target firm. Firms that control larger sets of assets may be more complicate to acquire in terms of resource allocation to the acquisition. I controlled for the financial size by using the firm's total assets in the year before the acquisition.

O*rganizational size of the target firm*. Larger target firms, in terms of number of employees may encounter more resistance when integrated in the acquiring firm's organization. I included as a control the number of employees of the target firm before the acquisition.

Deal Attributes

Business Relatedness. Several studies in previous literature have shown how the relatedness of the business is associated to higher levels of integration following the acquisitions (Zaheer, Castener and Souder, 2011; Capron, 1999). This calls for the inclusion of a business relatedness measure in the prediction of the probability of integration. To measure it, I adapt the operationalization developed by Finkelstein and Haleblian (2002), based on SIC codes, and develop an industry relatedness measure using four-digit SIC codes from all the business lines in which the two firms operate.

Ratio of the organizational sizes. When the difference in size between acquirer and target is significant, difficulties in the integration of routines are likely emerge as a

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consequence of the different levels of bureaucratization and formalization of the organization (Cording et al., 2008). Therefore, I controlled for it, operationalized as the ratio between the acquirer's and the target's number of employees.

Skill distance. When the two firms differs widely in terms of skills and organizational structures required to manage their activities (Chang, 1996) the integration process can face increasing amount of complexity. To operationalize organizational dissimilarity difference we relied on data from the Occupational Employment Survey (OES) data (2002-2010) from the US Bureau of Labor Statistics (Reuer, Park and Zollo, 2002). We used OES data to obtain the distribution of employment across 23 occupational divisions (e.g., Management, Production, Computer and mathematical, Office and administrative support, Sales and related) for all industries at the 4-digit NAICS level[28]. We calculated this variable as the following:

$$Skill\ distance = \sqrt{\sum_{i=1}^{23} \frac{(E_{ia} - E_{it})^2}{\sigma_i^2}}$$

where E_{ia} is the percentage of employees in occupational division *i* for the acquirer's sector; E_{it} is the percentage of employees in occupational division *i* for the target's industry and σ^2_i is the variance of employment percentages in occupational division *i* across all industries of sample firms, which we use to weight the squared difference term.

Hostile takeover. Hostile takeovers have been seen to drive a number of negative effects on both the performance of the acquisition (Jensen, 1988) and on the relationship with certain categories of stakeholders (Gokhale, Groshen and Neumark, 1995; Shleifer and Summers, 1988). A dummy variable has been used to control for the "hostility" of the acquisition.

Scheme of Arrangement. As acquisitions under the condition of need for a formalized

[28] Occupational Employment Survey (2002-2010). Further references are available upon request to the author.

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reorganization (i.e. Scheme of Arrangement) may indicate a severe financial condition for the target firm, a dummy variable has been included in the models to control for this (rare) condition.

Acquisition by a subsidiary. When the acquiring firm decides to perform the acquisition through one of its subsidiaries, the integration process might be substantially different, from cases in which the acquired firm is integrated by headquarter. A dummy variable has been included for these few cases.

Rationale of the acquisition. Different motivation may drive managers to make an acquisition (Capron, 1999; Carper, 1990; Trautwein, 1990). It is still not clear if the motives behind the acquisition exert an independent and direct effect on performance. However, for the aim of this paper, it is important to consider how different motives lead to different strategic choices following the acquisition (Bower, 2001), and in turn have different effects on M&A performance. To classify each acquisition into groups I coded manually acquisition deals' press releases and managerial announcements as provided by Zephir. Based on the extant literature I used a four motivations (non-mutually exclusive) taxonomy to classify the rationale of the acquisition: cost synergies (Seth, 1990), vertical integration (Chatterjee, 1992), market expansion (Zahra, Ireland and Hitt, 2000) and Innovation (Ahuja and Katila, 2001). "Cost synergies" has been selected when it was stated the intention of creating operational synergies or increase efficiency. "Market Rationale" has been chosen when the press releases mentioned about entering new markets, extending the product portfolio or cross-selling products in the market of the target firm. When the press release mentioned specifically about improving innovation performance or acquiring a specific technology/patent, I codified the rational as "Innovation". Finally when the description of the deal reported the intention to expand into the distribution of the products or the growth along

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the supply chain, I coded them as “Vertical Integration”.

Model specification and Econometric issues

Estimating the effect of the interplay between structural integration and the quality of stakeholder-based relational resources on the acquisition performance may be challenging because of the potential endogeneity of the decision to integrate the target firm. In order to address this problem I applied a three-step analysis based on propensity score methodology (Heckman, Ichimura and Todd, 1998). In the first step I estimate the probability the target is integrated following the acquisition. The probability (i.e. the propensity score) is calculated by regressing the dummy variable *structural integration* on: (1) *size ratio*, (2) *industry relatedness*, (3) *target’s pre-acquisition profitability*, (4) *rationale of the acquisition*, (5) *acquisition by a subsidiary*, (6) *acquiring firm’s sector* and (7) *geographical area.* To estimate the probability of integration I also included a measure of the distance in the *quality of stakeholder-based relational resources* between acquiring and acquired firm, as it might affect both the likelihood of integration and the final performance of the acquisition.

In the second step of the process each observation within the “structural integration” group (Structural integration =1) is matched to one observation in the non-treated group (Structural integration =0). Matching was based on the propensity score. This procedure excluded 22 observations from the sample as they resulted too dissimilar to be compared.

In the third step, OLS model are used to estimate the relationships proposed in the hypotheses. Following the procedure proposed by Imbens (2000) and further discussed by Hirano et al. (2003) I weighted each observations in the regression models using the propensity score. Specifically, the inverse of the propensity score is used to weight each observation in the treated group (Structural integration= 1), and one minus the inverse of the

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propensity score for the non-treated group (Structural integration= 0).

RESULTS

Table 4.1 presents the pairwise correlation table between the variables.

Table 4.1 Pairwise correlation Matrix

		1	2	3	4	5	6	7	8	9
1	Acquisition Performance									
2	Structural Integration	-0.089								
3	Target's quality of stake. Rel.	0.097	-0.062							
4	Acquiror's quality of stake. Rel.	0.153*	-0.093	0.475*						
5	Target's Return on Assets	0.208*	-0.118	0.030	0.172*					
6	Acquiror's Return on Assets	0.216*	-0.081	-0.114	0.092	0.273*				
7	Acquiror's Number of Employees	0.143	0.006	0.190*	0.251*	0.095	0.068			
8	Target's Number of Employees	-0.002	0.161*	0.232*	0.071	-0.016	0.024	0.326*		
9	Hostile Takeovers	0.151*	-0.048	0.147	0.145	0.055	-0.007	-0.011	-0.026	
10	Ratio of the organizational sizes	-0.171*	0.098	-0.125	-0.172*	-0.030	-0.112	-0.090	0.036	-0.019
11	Target's total assets	-0.025	0.100	-0.037	-0.049	-0.047	-0.085	-0.009	0.112	-0.019
12	Acquiror's total assets	-0.003	-0.021	0.107	0.006	-0.051	-0.117	0.059	0.044	0.311*
13	Skill distance	0.010	-0.013	-0.023	0.050	-0.070	0.170*	0.111	0.014	-0.056
14	Acquiror's Experience	0.008	0.102	-0.009	0.124	0.066	0.192*	0.410	0.152*	0.013
15	Scheme of arrangement	-0.015	-0.065	0.033	0.149	0.003	-0.086	-0.112	-0.119	0.089
16	Rationale - Vertical Integration	-0.030	0.171*	0.085	0.096	-0.060	0.066	0.136	0.231*	-0.048
17	Rationale - Cost synergies	-0.099	0.154*	0.035	-0.139	-0.106	-0.202*	-0.101	0.026	0.097
18	Rationale - Market expansion	0.108	0.031	0.106	0.120	0.128	0.170*	0.134	0.222*	-0.044
19	Rationale - Innovation	0.074	0.115	0.005	0.087	-0.017	0.153*	0.106	0.021	-0.104

		10	11	12	13	14	15	16	17	18
11	Target's total assets	-0.006								
12	Acquiror's total assets	-0.014	0.562*							
13	Skill distance	-0.072	0.056	-0.017						
14	Acquiror's Experience	-0.051	-0.069	-0.082	0.027					
15	Scheme of arrangement	0.123	-0.062	-0.045	0.103	-0.190*				
16	Rationale - Vertical Integration	-0.022	-0.022	-0.034	-0.005	0.118	-0.049			
17	Rationale - Cost synergies	-0.051	0.108	0.117	-0.130	-0.141	-0.144	0.092		
18	Rationale - Market expansion	-0.110	0.039	0.089	0.078	0.287*	-0.026	-0.057	-0.378*	
19	Rationale - Innovation	-0.047	-0.055	-0.075	0.145	0.244*	-0.131	0.042	-0.178*	0.119

* $p<0.05$

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In order to reduce problems of multicollinearity associated to the estimation of interaction effects continuous independent variables have been standardized (Edwards, 2008). I started by estimating the probability to pursue structural integration in the aftermath of the M&A deal. The results of this estimation are presented in Table 4.2. As it can be expected the quality of the target (calculated as the ROA of the firm) is a moderately significant negative predictor of integration (-1.89, $p<0.1$). At the same time acquisitions motivated by cost synergies are significantly associated to a higher likelihood of integration (0.47; $p<0.05$). I used the results of this regression for two purposes. First it allowed me to exclude acquisitions that were too much dissimilar in the probability to pursue structural integration. Second the propensity score calculated in the first step has been used to weight observations in the estimation of the performance of the acquisitions.

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Table 4. 2. Probit to calculate propensity score (Step 1)
Dependent Variable: Structural integration

Variables	Model 1
Ratio of the organizational sizes	0.1887
	(0.1361)
Business relatedness	0.0355
	(0.0316)
Target's Return on Assets (Bef. Acq.)	-1.8919†
	(1.1151)
Rationale - Vertical Integration	0.7927†
	(0.4377)
Rationale - Cost synergies	0.4745*
	(0.2175)
Rationale - Market expansion	0.3579
	(0.2357)
Rationale - Innovation	0.3089
	(0.2417)
Acquisition by subsidiary	-0.5237
	(0.3207)
Difference in Stakeholder relational quality between acquiror and target	0.0471
	(0.1631)
Constant	-1.1762***
	(0.3965)
Observations	192
GEOGRAPHICAL FE	YES
SECTOR FE	YES

Standard errors in parentheses *** p<0.001** p<0.01, * p<0.05, † p<0.1

Results of the OLS estimation models are reported in Table 4.3. Model 1 represents the baseline for the estimation, and includes only the control variables. Model 2 adds the direct effects of *quality of stakeholder-based relational resources* and *structural integration.* Results show a positive and moderately significant effect of *quality of stakeholder-based relational resources* on acquisition performance (+ 0.097; p<0.1). This provide partial confirmation for Hp1.

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Table 4. 3. OLS Regression Models (Step 2)
Dependent Variable: Cumulative Abnormal Return 36 Months

Variables	Model 1	Model 2	Model 3
Independent variables			
Structural Integration		-0.0821	-0.0721
		(0.1031)	(0.1036)
Target's quality of stake. Rel.		0.0972†	0.1820*
		(0.0593)	(0.0703)
Str. Integr. x Target's quality of stake. Rel.			-0.1796*
			(0.0749)
Control variables			
Acquiror's quality of stake. Rel.	0.1068	0.0751	0.0802
	(0.0703)	(0.0703)	(0.0722)
Acquiror's Return on Assets (Bef. Acq.)	1.3215	1.3820	1.2905
	(1.2419)	(1.2076)	(1.2173)
Acquiror's Number of Employees (Bef. Acq.)	0.0001	-0.0011	-0.0009
	(0.0031)	(0.0031)	(0.0029)
Acquiror's total assets	-0.0000	-0.0000	-0.0000†
	(0.0000)	(0.0000)	(0.0000)
Acquiror's Experience	-0.0069	-0.0059	-0.0088
	(0.0071)	(0.0066)	(0.0066)
Acquiror's Current ratio	0.0148	0.0130	0.0095
	(0.0610)	(0.0626)	(0.0612)
Target's Return on Assets (Bef. Acq.)	0.8573†	0.8607†	0.8318
	(0.5146)	(0.5149)	(0.5174)
Target's Number of Employees (Bef. Acq.)	0.0013	0.0012	0.0014†
	(0.0008)	(0.0008)	(0.0008)
Hostile Takeovers	0.5327*	0.5140†	0.5959*
	(0.2650)	(0.2684)	(0.2746)
Ratio of the organizational sizes	-0.0049**	-0.0038*	-0.0046*
	(0.0017)	(0.0017)	(0.0018)
Target's total assets	-0.0000	-0.0000	-0.0000
	(0.0000)	(0.0000)	(0.0000)
Skill distance	-0.0159	-0.0155	-0.0151
	(0.0204)	(0.0199)	(0.0205)
Scheme of arrangement	-0.0995	-0.0888	-0.1016
	(0.1317)	(0.1295)	(0.1294)
Constant	-0.3228	-0.2719	-0.2941
	(0.2053)	(0.2154)	(0.2124)
Observations	170	170	170
R-squared	0.2109	0.2278	0.2429
GEOGRAPHICAL FE	YES	YES	YES
YEAR FE	YES	YES	YES

Robust standard errors in parentheses *** p<0.001** p<0.01, * p<0.05, † p<0.1

Model 3 includes the interaction term between *quality of stakeholder-based relational resources* and *structural integration*. Data shows a negative and significant effect of the interaction term (-0.179; p<0.05) which provides positive confirmation for Hp 2 and

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strengthen the significance of the positive effect (0.182; $p<0.05$) of *quality of stakeholder-based relational resources* on acquisition performance submitted in Hypothesis 1. These results show that fairness-based relationships with stakeholders are indeed valuable resources to be acquired and can positively impact the long term performance of the acquisition. However, in those cases in which the target firm is integrated following the completion of the deal, the positive effect disappears. As depicted in Figure 4.1, when the target firms developed poor relationships with stakeholders, integration might generate positive economic gains. Conversely, when the target firm adopted a fairness-based approach to stakeholder relationships the decision to keep the target firm separate impact positively the performance of the acquisition.

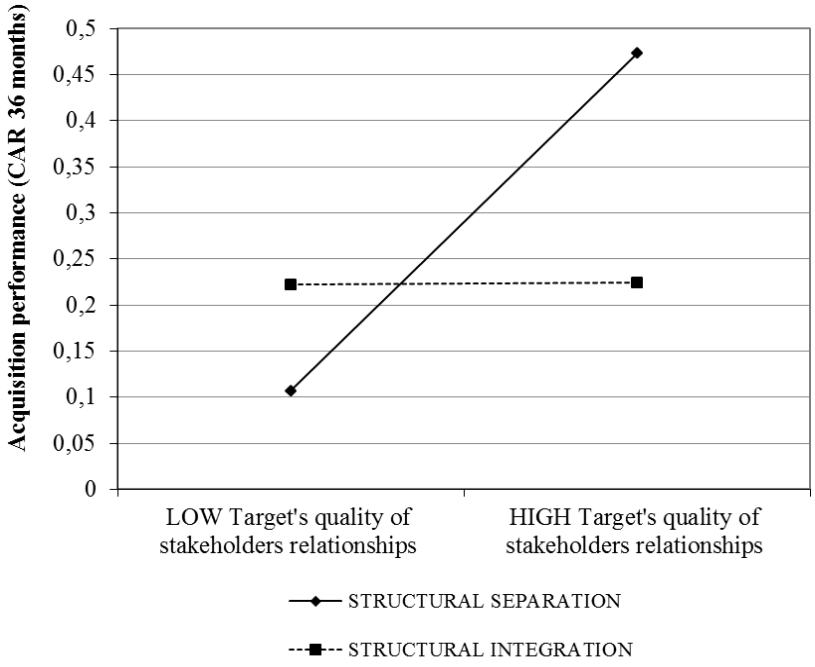


Figure 4. 1 – Estimated interaction effects, Hypothesis 2

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DISCUSSION AND CONCLUSIONS

This paper studied how the relationships that a target firm developed with its stakeholders before being acquired affect the performance the acquisition. effects that post-merger integration processes have on the relational resources of the target firm. Specifically, I submitted that fairness-based relationships with stakeholders (Employees, Customers and Local communities), may be valuable resources to be acquired. Processes associated to the integration of the target into the acquiror organizational structure may harm these resources that are built on relational contracts. Results suggest that when acquirors decide to maintain separate target firms, they may benefit from the value creation mechanisms associated to target's stakeholder based relational resources. Value associated to fairness-based relationships with stakeholders, instead, may be destroyed when target firms are integrated into the acquiring firm operations.

My paper contributes to the M&A literature by providing further evidence of the problems associated to post-acquisition integration processes. In particular it sheds light on the effect that structural integration choices may have on the relational resources that firms developed before the acquisition. These resources, especially when they are constructed upon relational contracts with stakeholders, might be destroyed by the process of change that follow the decision to integrate two previously separated entities.

This paper also contributes to the stakeholder literature by suggesting that interactions between firms and their stakeholders may be more easily interpreted by adopting a relational contract framework. The application of relational contract theory (Baker et al. 1994), might be helpful in designing an evolutionary approach to the relationships between firm and stakeholders, shedding light on the mechanisms through which these relationships may be strengthened or disrupted.

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CHAPTER 5

GENERAL CONCLUSIONS

This dissertation began its journey by observing that firms' heterogeneity in the way stakeholder relationships are managed may represent an important element of explanation of the variation in acquisition performance. Building from this simple observation this work tried to shed light on how this heterogeneity may influence the way in which an acquiring firm manages the acquisition process, the way in which it learns to undertake acquisitions and the way in which a target firm's stakeholder based relational resources can contribute to acquisition performance, depending on a number of different contingencies.

The questions that this work tried to answer are just few of the possible research avenues that may be opened by interpreting acquisitions using the stakeholder theory lenses (Freeman, 1984). As the Stakeholder Based View of the firm is currently experiencing a re-flourishing momentum, its future developments will be generate a number of insightful sparks that will shed further light on the corporate strategy field. In this work I focused on corporate acquisitions, future studies may extend the scope of the analysis to other corporate development activities, such as alliances, diversification choices or divestitures.

Major Contributions

Taken together, I believe Chapters 2, 3 and 4 of this dissertation carry important implications for both the literature on corporate acquisitions and that on stakeholder theory.

First of all, Chapter 2 is a first attempt to shed light on the role of stakeholder relationships in shaping the behavior of firms during the acquisition process. By linking the

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literature on corporate acquisitions with the stakeholder based view of the firm, it tries to extend the scope of the analysis of M&A activities focusing on the influence of acquiring firms' relational capital, relational contracts, and relational capabilities with its stakeholders. Perhaps more importantly, the theory and the empirical analysis of this chapter push forward the idea that by overlooking the heterogeneity in stakeholder orientation across firms, prior research may have systematically underestimated the role that an acquiring firm's relational capabilities may have in determining the performance of its acquisitions. Chapter 2 also contributes to the stakeholder based view by providing theoretical and empirical support for a more fine-grained analysis of each stakeholder category. Although most of the extant literature considered orientation towards the whole set of stakeholders as an overall firm characteristic, Chapter 2 suggests that by analyzing orientation across the different categories of stakeholders separately can provide a finer grained assessment of the effect that relational capabilities may exert on managerial processes (Tantalo and Priem, 2014).

Building on the evidence provided by Chapter 2, Chapter 3 contributes to the literature on corporate acquisitions by shedding light on the role of stakeholder relationships in generating M&A capabilities from experience. As previous literature motivated the difficulties of experiential learning in the context of M&A by focusing on the inherent complexity of the phenomena, Chapter 3 extends this observation by examining the positive and negative aspects of organizational willingness to include the perceptions and knowledge of its stakeholders. In this respect the arguments proposed go beyond the standard account of capability development through the marginal adaptation of organizational routines from experience and suggest that complexities may also arise from the ambiguous effects of stakeholder based relational capital, which can be particularly problematic in the case of acquisitions carried out in novel domains. A second key contribution of Chapter 3 regards the

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ongoing discussion about the relative benefits or drawbacks of stakeholder orientation. While most of the extent literature (especially in the field of strategy) looked at stakeholder orientation as "a panacea for a variety of ills and a means of accessing untapped opportunities" (Hall and Vredenburg, 2005, p.11), results, provided in Chapter 3, depict a different situation. In particular data suggests the benefits of these strategies tend to be idiosyncratic and context-dependent and that overall stakeholder orientation has a negative influence on the effectiveness of experiential learning. These findings might be somewhat puzzling for stakeholder theorists, but they are in line with the current understanding of the challenges associated to integrating different perspective into learning processes (Huber, 1991).

Finally, Chapter 4, by moving the spotlight on the relationships that target firms developed before the acquisition, provide two sets of contributions. The first relates to consequences of post acquisitions decisions on the target's firm resources. Most of the extent research has focused on the negative effects that post-acquisition integration exerts on the internal tangible and intangible resources a target firm controlled before being acquired. Theory and results presented in Chapter 4 extend the scope of post-acquisition integration drawbacks to a previously unexplored set of resources of the target firm, namely the quality of the relationships with stakeholders. In particular, data suggests that stakeholder based relational resources (which can constitute a source of competitive advantage for the target firm before the acquisition) may be particularly fragile to be transferred from the acquired to the acquiring firm, and may be severely threatened by the process of post-acquisition integration. Chapter 4 also contributes to the stakeholder based view of the firm by providing an economic-based interpretation of the generation and evolution of relational resources. In particular, I propose that relational contract theory (Baker et al. 1994), might generate

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valuable insight in explaining how the relationships between firm and stakeholders evolve overtime and what mechanisms may strengthen or disrupt these relational based sources of competitive advantage.

Limitations and suggestions for future research

As all works which build on empirical analyses, this dissertation suffers from some limitations that future works might address.

The first limitation is that it is exclusively based on archival and hand coded data. Even if this data allowed me to study (especially in Chapters 2 and 3) a large set of acquisitions, it inevitably limits the details of the understanding of the phenomena. As such, one suggestion for future research is to complement this work through the use of qualitative methodologies, which may provide a richer understanding of how stakeholder engagement mechanisms interplay with other managerial processes. This would also contribute to a broader understanding of the activities that firms concretely put in place in order to acquire and leverage stakeholder knowledge to create value.

A second limitation of this dissertation relates to exclusive focus on acquisitions. It is quite possible that the theory developed in this work is applicable to other strategic decisions, in particular in the context of corporate strategy. Heterogeneity in firms' capabilities to gather and leverage knowledge from stakeholder can in fact be used to explain their decisions to undertake corporate development actions and to describe how successfully such processes are managed. Future research efforts along this lines could complement this work and provide an integrated theoretical framework of the coevolution of corporate development and stakeholder management strategies.

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Finally this work suffers from a significant limitation due to the intrinsic endogeneity of the stakeholder orientation construct. As suggested in Chapters 2, 3 and 4, the level of stakeholder orientation represents a decision in the hand of the managers that may be correlated to other unobserved sources of variation. The correlation between these sources and the performance of a firm's strategic actions may complicate the identification of the effects of stakeholder orientation. Although the primary aim of this work is not to identify causality between stakeholder orientation and other constructs, future works may try to address this issue by identifying (and using) significant instrumental variables or by exploiting exogenous external shocks.

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