Success factors and performance outcomes of M&As –

New perspectives and empirical evidence

Der Wirtschaftswissenschaftlichen Fakultät der

Gottfried Wilhelm Leibniz Universität Hannover

zur Erlangung des akademischen Grades

Doktor(in) der Wirtschaftswissenschaften

- Doctor rerum politicarum -

genehmigte Dissertation

von

Dipl.-Kfm. (Univ.)

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geboren am 20.12.1982 in München

2017

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Tag der Promotion: 27.09.2016

ACKNOWLEDGEMENTS

I would like to begin this acknowledgement by wholeheartedly thanking my dissertation advisor Prof. Dr. Christiana Weber. She did not only help me with word and deeds in all subject-specific questions during my wonderful doctorate, but was also often there for me, when I faced private challenges. She promoted me in my scientific education beyond all description, by always supplying me with constructive feedback, by giving me the opportunities to pursue my research, and by allowing me to attend countless international conferences, thereby enabling me to interact with highly acknowledged scientists in my field of research. I am deeply grateful and can sincerely say, that she has become much more to me than my boss over the years. Furthermore, I would like to thank Prof. Dr. Erik Lehmann, whom I got to know and came to appreciate when I was his master student at the University of Augsburg. He accompanied me at all times with helpful advice, collaborated with me together on exciting academic publications, and constantly encouraged and believed in me to pursue my scientific ambitions. I am very thankful for his enduring support. Also I would like to thank David King who not only gave me the great chance to work with him on one of the papers for the dissertation but also always supported me. I am also very delighted that Prof. Dr. Axel Haunschild will chair my examination board.

Next, I want to thank my whole team at our institute for making the last six years one of best times in my life. Every single day, I loved it to go to work in the morning and enjoyed every comment to my work, every laughter and talk at the office, and every lunch break with you guys. I gained some incredible friends! Thank you for being you.

One person of capital importance for me, without whom I wouldn’t be where I am now, is my adored fiancé Henny a.k.a. “Perlito” or “Kleiner Hase”. She always had an open ear for my worries and endured my mood, when things didn’t work out as planned. I love you more than words can say and I am very much looking forward to a new and exciting chapter in our lives.

In addition, I want to thank my parents for always supporting me with an open ear, helpful advice and especially for always being believers in me. You are really the best! Furthermore my thanks go to my aunt and uncle who supported me in darker times.

Another very important thanks you goes to my best friend Kathrin. Wasn’t our time at the institute quite a ride? I thank you so much Kathrin for being there for me when I had hard times in my private life but also when I faced challenges with my dissertation project. You are one of the best human beings I ever had the chance to meet. Thank you for everything!

Finally, I want to thank my beloved brother Rouven, who blessedly visited us several times in Hannover and always had a piece of advice and a good dram of whisky with him. In deep hope that this will endure in the future, I want to cite my good old boy Dougie MacLean: There's a hand, my trusty fiere, we'll tak a right gude willie-waught!

Elvis has left the building.

Kurzfassung

Mergers & Acquisitions werden für Unternehmen, in den heutigen Zeiten des immer dynamischer werdenden Wandels der Märkte und den damit einhergehenden Herausforderungen des schnelleren Wachstums für Unternehmen, wichtiger denn je. Es ist hierbei jedoch zu beobachten, dass ca. 45-60% dieser Übernahmen nicht die finanziellen oder strategischen Ziele erreichen, die von ihnen gefordert wurden. Die in der Literatur zu Unternehmensübernahmen untersuchten Variablen erklären dabei den Erfolg von Unternehmensübernahmen nur sehr unzureichend. Es muss sich somit die Frage gestellt werden, welche weiteren Faktoren den Erfolg von Unternehmensübernahmen beeinflussen und wie sich diese Faktoren auf die Performance der Unternehmen in Übernahmen auswirken. Unterschiedet man die Performanceauswirkungen nach den beiden, an der Übernahme beteiligten Unternehmen, ist beobachten, dass Zielunternehmen aufgrund der hohen, durch die Akquirierer gezahlten Prämien, fast ausschließlich gewinnen, wohingegen die Performanceauswirkungen für Bieterunternehmen unklar sind und durch eine Vielzahl von Variablen unterschiedlich beeinflusst werden. Ziel der vorliegenden Dissertation ist es, wichtige, die Performance von Akquirierern in Übernahmen beeinflussende Variablen herauszuarbeiten sowie deren Einfluss auf eben diesen Erfolg von Akquirierern zu untersuchen. Hiermit soll ein Beitrag zu Erklärung der uneinheitlichen Ergebnisse für Bieterunternehmen in Übernahmen geleistet werden.

Das erste Paper entwickelt das Konstrukt der „Organizational absorptive capacity”, welches seinen Fokus auf Beschränkungen seitens des Managements richtet, um bei Akquirierern Unterschiede im Unternehmenswachstum durch Akquisitionen zu erklären. Unter der Annahme, dass „Organizational absorptive capacity“ die Wachstumsperformance von Unternehmen in Übernahmen einschränkt, erarbeitet der erste Beitrag moderierende Konditionen, die den Zusammenhang zwischen dem Konstrukt „Organizational absorptive

capacity“ und der Akquisitionsperformance moderieren. Das Resultat ist ein theoretisches Framework, das neue Erkenntnisse über die Einflussfaktoren der Akquisitionsperformance liefert, in dem es die „Organizational absorptive capacity“ als kritischen Faktor dieser Akquisitionsperformance herausarbeitet.

Der zweite Beitrag analysiert ob und wie der Aktienmarkt spezifisches Humankapital des CEOs bzw. Gründers von Gründungsunternehmen, die Zielunternehmen in Unternehmensübernahmen werden, bewertet. Während die Vermögensgegenstände von Zielunternehmen in Übernahmen durch den Aktienmarkt generell positiv wahrgenommen werden, sollte dies für Vermögensgegenstände, die an den Gründer gebunden sind, nicht notwendigerweise gelten. Die Ergebnisse der Event Studie in diesem Beitrag zeigen einerseits, dass der Aktienmarkt die intangiblen Vermögensgegenstände der Zielunternehmen, gemessen anhand von Patenten, positiv bewertet, dass er jedoch negativ reagiert, wenn diese Vermögensgegenstände durch den CEO der Gründungsunternehmen kontrolliert werden. Hiermit zeigt der Beitrag auf, dass die Performance von Akquirieren nach der Übernahme im hohem Maß davon abhängt, inwiefern die spezifischen, intangiblen Vermögensgegenstände der Gründungs-Zielunternehmen durch den Akquirierer nach der Übernahme weiterhin zugänglich und nutzbar sind, was nicht notwendigerweise für das spezifische Humankapital der Gründer bei Gründungsunternehmen gilt.

Der dritte Beitrag untersucht anhand einer Event Studie den Einfluss von Shareholder proposals, die gemeinsam und in spezifischen Kombinationen bei Akquirierern eingereicht werden, auf die Aktienkursreaktion von Akquirieren in Übernahmen. Die Resultate der Analyse der Aktienkursreaktionen, auf die bei den Akquirieren eingereichten Shareholder proposals zeigen, dass die Reaktion der Aktienkurse der Akquirier auf die Einreichung einzelner Shareholder proposals anders ausfällt, als die Reaktion auf die Einreichung von interagierenden Governance-Bündeln.

Der vierte Beitrag nimmt eine soziale Netzwerkperspektive ein und untersucht anhand einer qualitativen Studie die Rolle von Integrationsmanagern (IMs) als Knowledge Broker innerhalb des Integrationsprozesses in Akquisitionen. Im speziellen analysiert das Paper den Prozess der strategischen Entwicklung der sozialen Beziehungen durch die IMs mit den Mitarbeitern des Zielunternehmens und wie die IMs das daraus resultierende Sozialkapital nutzen, wenn sie den intendierten Wissenstransfer zwischen den Organisationen vorantreiben. Basierend auf Tiefeninterviews mit IMs, Zielmanagern und Mitarbeitern des Zielunternehmens in einer Multiplen Case Study, bestehend aus sechs Akquisitionen, zeigen die Resultate, dass der Erfolg des Integrationsprozesses für Akquirierer überwiegend von den Fähigkeiten der IMs abhängt, ihre Schnittstellenpositionen in Bezug auf das Wissen strategisch zu nutzen. Ebenso decken die Ergebnisse Mechanismen auf, wie soziale Netzwerke im Integrationsprozess entstehen und wie das resultierende Sozialkapital anschließend durch IMs genutzt wird, um den Wissenstransfer zwischen IMs und den beiden Gruppen an Mitarbeitern zu mobilisieren, wodurch der Erfolg der Integration erhöht wird.

Schlagwörter: Mergers & Acquisitions, Corporate governance, Integrationsprozess

Short Summary

In times of dynamic market changes and challenges of faster company growth associated with it, Mergers & Acquisitions become more important than ever. In the majority of cases, up to 40-60 %, M&As are not able to deliver the expected strategic and financial value. Variables researched in the Acquisitions literature thereby only partially explain the performance in acquisitions. Given these numbers, the question comes up, which additional variables, besides those that have already been investigated, influence acquisition performance. By dividing the performance implications by the two types of companies involved in the deal, studies show that target firms almost always win in acquisitions, whereby in contrast, acquirers' post-acquisition performance is, up to date, still contradicting. Consequently, the aim of the dissertation at hand is, to work out important variables which influence the performance of acquirers as well as to analyze the influence of these variables on acquirers' success. Thus, the dissertation will contribute to the mixed acquirer performance findings in acquisitions.

In the first paper, the construct of organizational absorptive capacity is applied to organizations with a focus on managerial constraints to explain differences in acquisitive growth. Assuming that organizational absorptive capacity limits the performance of growing through acquisitions, the paper develops conditions that modify the relationship between organizational absorptive capacity and acquisition performance. The result is a theoretical framework which offers novel insights into predictors of acquisition performance, by showing that organizational absorptive capacity is a crucial factor in determining acquisition performance.

The second paper analyzes whether and how the stock market evaluates the specific human capital of the CEO and founder of entrepreneurial target firms in acquisitions. While in general target firms assets are positively evaluated by market participants, this should not necessarily hold for assets owned by the founder of the target firm. The findings of the paper in an event

study show that stock market participants positively evaluate target firms intangible assets, as measured by patents, but that also the opposite holds if the assets are under control by the founder CEO. The paper concludes that the acquirer's post-acquisition performance strongly depends on the continued access to the targets' specific intangible assets, which is not necessarily the case for the founder's specific human capital.

The third paper focusses on the influence of the combination of shareholder proposals that operate jointly and in specific combinations, to analyze acquirer returns in takeovers in an event study. By analyzing the share price reactions to shareholder proposals submitted at acquirers in acquisitions, the results show that the individual governance mechanisms influence the share price reaction of acquirers at takeover announcement differently than several governance mechanisms do so in interacting bundles.

The fourth paper takes a social network perspective and focusses on the role of integration managers (IMs), by qualitatively exploring IMs' role as knowledge brokers within the integration process in acquisitions. The article specifically investigates the process of how IMs strategically develop their social ties with target employees and how they make or do not make use of their resulting social capital when trying to facilitate the intended transfer of knowledge between the organizations involved in the acquisition. Based on in-depth interviews with IMs, target managers and target employees in a multiple case study with six acquisitions, the results demonstrate that the success of the integration process largely depends on IMs' capabilities to strategically exploit knowledge brokering positions. The results also reveal mechanisms of how social networks are formed and how the emerging social capital is then used in order to mobilize knowledge transfer between IMs and both groups of employees, enhancing integration process performance.

Keywords: Mergers & Acquisitions, Corporate governance, Integration process

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AR	Abnormal return
BAFIN	Bundesanstalt für Finanzdienstleistungsaufsicht
CEO	Chief Executive Officer
CDAX	Composite Deutscher Aktienindex
CAR	Cumulative abnormal return
CVC	Corporate Venture Capital
EBIT	Earnings before interest and taxes
ESO	Employee stock options
et al.	Et alii (and other)
e.g.	Exempli gratia (for example)
GE	General Electric
HR	Human resources
HRM	Human resource management
i.e.	id est
IMs	Integration Managers
INSEAD	Institut Européen d'Administration des Affaires
IPO	Initial public offering
KLM	Koninklijke Luchtvaart Maatschappij
KPMG	Klynveld, Peat, Marwick und Goerdeler
MBA	Master of Business Administration
M&A	Mergers & Acquisitions
MARC	Mergers & Acquisitions Research Center

NASDAQ	National Association of Securities Dealers Automated Quotations
NPV	Net Present Value
NYSE	New York Stock Exchange
OLS	Ordinary Least Squares
p.	Page
QCA	Quantitative Comparative Analysis
R&D	Research & Development
Sig.	Significance level
SPSS	Statistical package of the social sciences
UK	United Kingdom
U.S.	United States of America
VIF	Variance inflation factor

CHAPTER 1: INTRODUCTION

1.1 UNDERSTANDING THE PHENOMENON OF M&A

When following the news these days, nearly every second report features news about companies undertaking Mergers & Acquisitions (M&A) (M&A and acquisitions will be used interchangeably henceforth) in some kind of way and every third headline in the newspaper announces a new deal. From Siemens' wind power division buying Gamesa, one of its Spanish competitors in the slowing market for wind turbines, to Midea, gaining access to Kuka, one of the world's leading robot manufacturers. From to the acquisition of Monsanto, the Vietnam-war and glyphosate stigmatized agricultural giant by Bayers' chemical division, to GE, the highly innovative conglomerate US icon once brought to life by Thomas Edison, taking over Alstoms energy division. M&A are more than ever on the rise.

2015 saw 89.440 global deals worldwide (Statista, 2016) with an all-time high of 4.304 $ trillion (Wall Street Journal, 2016) and the outlook for 2016 is far away from slackening. KPMGs 2016 M&A outlook report, in which 550 M&A professionals were asked on their estimation of the trends in the M&A market for the current year 2016, prognosticates another hot deal year with the number of M&A deals to accelerate and the average deals size to ascend in 2016 (KPMG, 2016). Deloittes 2016 M&A trends report underlines these findings by interviewing roughly 2300 executives in the U.S., who identified the most important developments for the global M&A business: Deal activity will remain strong, deals will be smaller, strategic and more transformational, acquirers increasingly look for foreign targets, and divestitures are on the move (Deloitte, 2015).

Simultaneously, scholarly research on M&A has increased pace in the last couple of years (Bauer, Hautz, & Matzler, 2015). Starting with the first publications more than one hundred years ago (Bauer & Matzler, 2014), M&A research has been rapidly prospered over the last three decades. Was there only a relatively small number of about 15 articles published in 2000 (Ferreira, Santos, de Almeida, & Reis, 2014), the publication rate constantly rose within the last decade – with two small setbacks in 2003 and 2008 – culminating in more than 50 articles on the topic released in leading scientific journals alone in the year 2012[1] (Reis, Carvalho, & Ferreira, 2015). This increasing M&A importance within the scholarly community manifests for example in universities installing M&A research centers (e.g. MARC at the Cass Business School, London), MBA and business courses at top-tier universities ("M&As and corporate strategy" course at INSEAD, Fontainebleau), in recent publications in regular journal volumes of top management journals (Cuypers, Cuypers, & Martin, 2016; Lehmann & Schwerdtfeger, 2016; Trichterborn, zu Knyphausen-Aufseß, & Schweizer, 2016; Uhlenbruck, Hughes-Morgan, Hitt, Ferrier, & Brymer, 2016), or special issues dedicated to the topic (e.g. Organization Studies, 2015, 26 (10)).

When trying to converge to the phenomenon of M&A, the definition of M&A is inconsistent, as the term M&A is a melting pot for mergers, acquisitions, carve-outs, etc. The process of M&A itself is likewise not univocally defined as "there is no consensus on the boundaries of an M&A process, when an acquisition begins or concludes, or the number and characterization of the phases within the process" (Gomes et al., 2013, p.16). However, there is accordance that there is a moment, in which ownership transfers from the target to the acquirer and that there are two distinct phases, the pre- and the post-acquisition phase, which are divided by the date of closing (Gomes et al., 2013). Acquisitions thereby comprise many different forms like horizontal (when firms acquire their competitors), vertical M&A (firms acquire their distributors or suppliers), or conglomerate acquisitions (firms acquire unrelated companies) (Haunschild, 1993; Moatti, Ren, Anand, & Dussauge, 2015; Walter & Barney, 1990), or the

[1] More up to date numbers on published M&A articles are not available due to missing Meta analytical M&A studies counting those publications.

acquisition of private/public firms (companies listed at the stock market) by private/public acquirers (Andrade, Mitchell, & Stafford, 2001). Furthermore, the transaction price can be paid for by cash or by stock from the acquirer (Agrawal, Jaffe, & Mandelker, 1992; Eckbo, Giammarino, & Heinkel, 1990; Huang & Walkling, 1987; Walker, 2000) and the acquisition can be executed in a friendly or hostile manner (Dodd & Ruback, 1977; Schnitzer, 1996; Wansley, Lane, & Yang, 1983).

The area of M&A has attracted an enormous number of researchers who try to understand and forecast M&A outcomes (Meglio & Risberg, 2010), coming from various management disciplines like strategy, finance, organizational behavior, cross-culture or process research (Bauer & Matzler, 2014; Cartwright & Schoenberg, 2006). These researchers have analyzed M&A from different theoretical standpoints like e.g. social network theory (Ishii & Xuan, 2014; Westphal, Seidel, & Stewart, 2001), agency theory (Lehmann & Schwerdtfeger, 2016; Wright, Kroll, Lado, & Van Ness, 2002), or organizational learning theory (Barkema & Schijven, 2008a, 2008b) just to name a few important ones. They applied various methods to approach the object of investigation, like event study methodology (Andrade et al., 2001; Brown & Warner, 1985; Lehmann & Schwerdtfeger, 2016), standard Ordinary Least Squares (OLS)-regression (Cuypers et al., 2016), questionnaires (Trichterborn et al., 2016), qualitative interviews (Graebner & Eisenhardt, 2004; Graebner, 2004), bibliometric methods (Ferreira et al., 2014), or Qualitative Comparative Analysis (QCA) (Campbell, Sirmon, & Schijven, 2016).

Both, the practical reports by leading consulting companies mentioned earlier as well as scientific literature show that M&As have grown an important means for companies to follow their strategic agendas, comprising business, product or geographic objectives (Bilgili, Calderon, Allen, & Kedia, 2016; Deloitte, 2015; Ferreira et al., 2014; KPMG, 2016). Moreover, they have become major drivers of company growth (Bauer & Matzler, 2014; Baum, Li, & Usher, 2000; Cartwright & Schoenberg, 2006; Kim, Haleblian, & Finkelstein, 2011; Moeller, Schlingemann, & Stulz, 2005). Bower (2001) has pointed out that companies initiate M&A for various reasons as for example to deal with overcapacities in their industries to gain back market share, to expand geographically in adjacent territories, to extend their product line or market reach, to gain access to R&D, which they otherwise would have to costly develop by their own, or to be at the cutting edge of converging industries. Besides these factors, literature provides empirical evidence that companies undertake acquisitions e.g. due to the intended maximization of market power (Berkovitch & Narayanan, 1993), managerial hubris (Berkovitch & Narayanan, 1993; Morck, Shleifer, & Vishny, 1990; Roll, 1986), or due to managements' self-interest (Malatesta, 1983) like for instance a higher management compensation (Agrawal & Walkling, 1994; Harford & Li, 2007).

Next to those variables impacting the motivation to undertake M&A, literature has predominantly addressed factors influencing the performance of the parties involved in the deal. These studies demonstrate that M&As significantly impact the performance of companies (Laamanen & Keil, 2008). Most of the research on acquisition performance has concentrated in some way on either conglomerate acquirers (Agrawal et al., 1992), relatedness between acquirer and target (Wansley et al., 1983), the method of payment for the acquisition (Walker, 2000), and acquirers' acquisition experience (Barkema & Schijven, 2008a, 2008b). Furthermore, research has focused on the acquisition process itself as for instance on the process of post-merger integration (Monin, Noorderhaven, Vaara, & Kroon, 2013; Vaara, 2002; Zollo & Singh, 2004). This literature shows that the results from the analysis of those variables researched are mixed and so far only explain a small part of varying results in M&A performance (King, Dalton, Daily, & Covin, 2004). Moreover, as M&A research shows that in sum acquisitions often do not deliver what has been expected upfront the acquisition (Barkema & Schijven, 2008b; King et al., 2004) and that less than half of all M&As conducted ever reach their expected goals under financial or strategic points of view (Cartwright & Schoenberg, 2006; Ranft & Lord, 2000), displaying high failure rates of 50% and more (Hunt, 1990; Marks & Mirvis, 2000), it seems more than necessary to analyze further variables, impacting the performance of companies in acquisitions.

1.2 OVERRIDING RESEARCH QUESTION AND STRUCTURE OF THE DISSERTATION

As mentioned above, M&A are in the majority of cases (40-60 %, sometimes even between 70 and 90%) not able to create value (Bower, 2001; Christensen, Alton, Rising, & Waldeck, 2011; Homburg & Bucerius, 2006). Given these numbers, the question comes up, which additional variables, besides those that have already been investigated, influence acquisition performance. Moreover, if those factors investigated so far do not sufficiently explain success or the absence of success, the pressing question is: which (additional) variables influence the success of acquisitions? As outlined earlier, an enormous number of variables exits which influence acquisition performance (Datta, Pinches, & Narayanan, 1992; Haleblian, Devers, McNamara, Carpenter, & Davison, 2009; King et al., 2004). However, those variables researched in the literature on M&A only explain a small part of varying results in M&A performance, which lets studies summarize that the "[…] post acquisition performance is moderated by variables unspecified in existing research" (King et al., 2004; p. 188). Performance research in M&A is thereby of particular interest for strategy scholars, as the literature findings of this acquisition performance are – especially for acquirers– inconsistent (Aklamanu, Degbey, & Tarba, 2015; Gomes et al., 2013; Haleblian et al., 2009). Despite several meta-analytic reviews which have been published in the last years, trying to consolidate M&A communities' knowledge (Haleblian et al., 2009; Hitt et al., 2012; Meglio & Risberg, 2010; Papadakis & Thanos, 2010), M&A research is still attracted by the fact that our common understanding of the antecedents, the acquisition and post-merger integration process itself and especially the performance outcomes of M&A is still mixed (Haspeslagh & Jemison, 1991; Hitt et al., 2012). Thus studies show that target firms almost always win in acquisitions (Asquith, 1983; Jensen & Ruback, 1983), whereby in contrast, acquirers' post-acquisition performance is, up to date, still contradicting (Agrawal et al., 1992; Haspeslagh & Jemison, 1991). Some studies show acquirers to win, whereas others find them to break even (King et al., 2004; Lang, Stulz, & Walkling, 1989), and others again show acquirers to loose (Bradley, 1980). Consequently, the overriding research question of this dissertation is as follows: *Which factors are crucial for acquirers' M&A success and how do these factors influence acquirers' performance in M&A?*

In trying to bring light to these mixed findings for acquirers in acquisitions and to answer the above stated research question, the present thesis will in a next step work out the most important variables, discussed within the M&A literature, which influence acquisition outcomes and thereby especially acquisition performance for acquirers and targets. From this manifold number of research topics, the dissertation will afterwards derive four important future research opportunities. To address these research gaps, this dissertation consists of four papers, whereby each of these papers is concerned with a different facet of how various determinative variables influence the performance of acquiring companies within the context of M&A. One paper goes one step further, by additionally trying to integrate target firms into the analysis, and analyzing the influence of organizational absorptive capacity on target firms in acquisitions. The different papers develop theory and deliver evidence of factors which on the one hand permit acquirers to successfully shape the M&A process, and improve acquisition performance, and on the other hand carve out variables, which destroy value for acquirers and which should thereby be taken into account.

1.3 LITERATURE FRAMEWORK AND RESEARCH GAPS IN THE FIELD OF M&A

To shed light on the myriads of important topics M&A research has dealt with, and to identify promising areas for future research, I will first create a short time scale of important trends researched in M&A literature, and second, building upon and extending Haleblian et al. (2009), develop a finer grained integrative framework encompassing important variables, M&A research has focused on. Hereby the selection of the researched topics is of course subjective and raises no claim to completeness, but was selected for the reason that those topics receive most of the attention of the M&A community. Those topics will be divided into *antecedents*, *moderators*, *acquisition* and *post-merger integration process*, and *performance outcomes* of M&A. In a subsequent step, I will derive important research gaps from this M&A literature review which the four papers of this dissertation will address. Figure 1 shows the time scale and figure 2 the integrative literature framework.

Following and supplementing Ferreira et al. (2014), figure 1 shows that the first decade of M&A research was predominantly based on financial, economic, institutional and resource dependence theories (Jensen, 1986; Lubatkin, 1983; Pfeffer & Salancik, 1978; Rumelt, 1974; Williamson, 1973), converging to the topic of acquisitions mostly with descriptive approaches and deriving recommendations. The subsequent period from 1991 to 2000 saw a rise of additional theoretical foci, like transaction cost economics (Chatterjee, 1986; Jensen & Meckling, 1976) and a stronger orientation towards performance analyses (Chatterjee, Lubatkin, Schweiger, & Weber, 1992; Chatterjee, 1992; Datta, 1991). The following decade furthermore experienced a rise of studies dealing with resources and knowledge (Cassiman, Colombo, Garrone, & Veugelers, 2005; King, Slotegraaf, & Kesner, 2008), firm capabilities (Hagedoorn & Duysters, 2002; Ranft & Lord, 2002), organizational learning (Barkema & Schijven, 2008a, 2008b; Cohen & Levinthal, 1990; Haleblian & Finkelstein, 1999), cultural issues in acquisitions (Björkman, Stahl, & Vaara, 2007; Teerikangas & Very, 2006), and governance (Dalton, Hitt, Certo, & Dalton, 2007; Grinstein & Hribar, 2004; Loderer & Martin, 1997). Finally, the period from 2011 to date is characterized by an increase in interrogations of performance (Moatti et al., 2015; Trichterborn et al., 2016), governance topics (MCCann, Reuer, & Lahiri, 2016; Misangyi & Acharya, 2014), and post-merger integration (Bauer et al., 2015; Uzelac, Bauer, Matzler, & Waschak, 2015).

Antecedents of Acquisitions

Starting with the antecedents of acquisitions, literature has predominantly concentrated on *resource redeployment, market discipline, managerial hubris and management compensation*. First, turning to *resource redeployment*, literature reveals that acquirers often use acquisitions to redeploy resources between acquiring and target companies after the acquisition (Capron, Dussauge, & Mitchell, 1998). The redeployment of resources impacts acquisition performance differently, depending on the type of resources (King et al., 2008) and upon the type of company – acquirer or target – from which those resources stem (Capron, 1999), leading to asset divestiture at the receiving but not the delivering firm (Capron, Mitchell, & Swaminathan, 2001).

Facing the motive of *market discipline* within the market for corporate control, studies have long pointed at the fact that, based on the notion of the separation of ownership and control (Jensen & Meckling, 1976), acquisitions are a means of disciplining an ineffective management of the target (Morck, Shleifer, & Vishny, 1989, 1988), leading to better performance (Jensen, 1986, 1988; Jensen & Ruback, 1983), as poor performing managements are essentially lower compensated (Agrawal & Walkling, 1994), or even replaced after the acquisition (Shleifer & Vishny, 1997). Furthermore, literature argues that the market for corporate control serves as a matching mechanism between large, established firms and smaller, entrepreneurial firms (Blonigen & Taylor, 2000; Jones, Lanctot, & Teegen, 2001; Junkunc, 2007). Hereby, the access to high-tech firms is indicated to be an important vehicle to attract knowledge and know-how (Audretsch, Kuratko, & Link, 2015; Ireland, Hitt, & Sirmon, 2003; Kuratko, Hornsby, & Hayton, 2015), Moreover, literature highlights the importance of intangible assets of target companies to become a takeover target (Duysters & Hagedoorn, 2000; Hagedoorn & Duysters, 2002; Lehmann, Braun, & Krispin, 2012; Tsai & Wang, 2008; van de Vrande, Vanhaverbeke, & Duysters, 2009). It is displayed that incumbent firms enjoy competitive advantages in the commercial exploitation of innovations, while start-up firms enjoy advantages in their exploration (Gick, 2008; Granstrand & Sjolander, 1990; Henkel, Ronde, & Wagner, 2015; Steffens, Davidsson, & Fitzsimmons, 2009). Literature has thereby analyzed announcement effects of bidder and target companies in acquisitions, exhibiting that bidders experience positive returns, due to the access to valuable external knowledge (Desyllas & Hughes, 2008). IPO-targets are expected to receive positive returns due to lower information asymmetries through the IPO (Ang & Kohers, 2001). By contrast, research on acquisitions of high-tech start-ups and entrepreneurial firms by larger incumbents, dealing with how the stock market perceives takeovers of targets, in which the target possess inalienable, intangible specific assets, is rare within the M&A literature. Paper two of this dissertation is concerned with that topic. It analyzes how the stock market evaluates acquirers in M&A, which are conducted as R&D, when target companies are in possession of inalienably bound intangible assets, whereby the performance is measured by acquirers' share price reaction to such takeover announcements.

Figure 1: Time scale of important research topics in the M&A literature

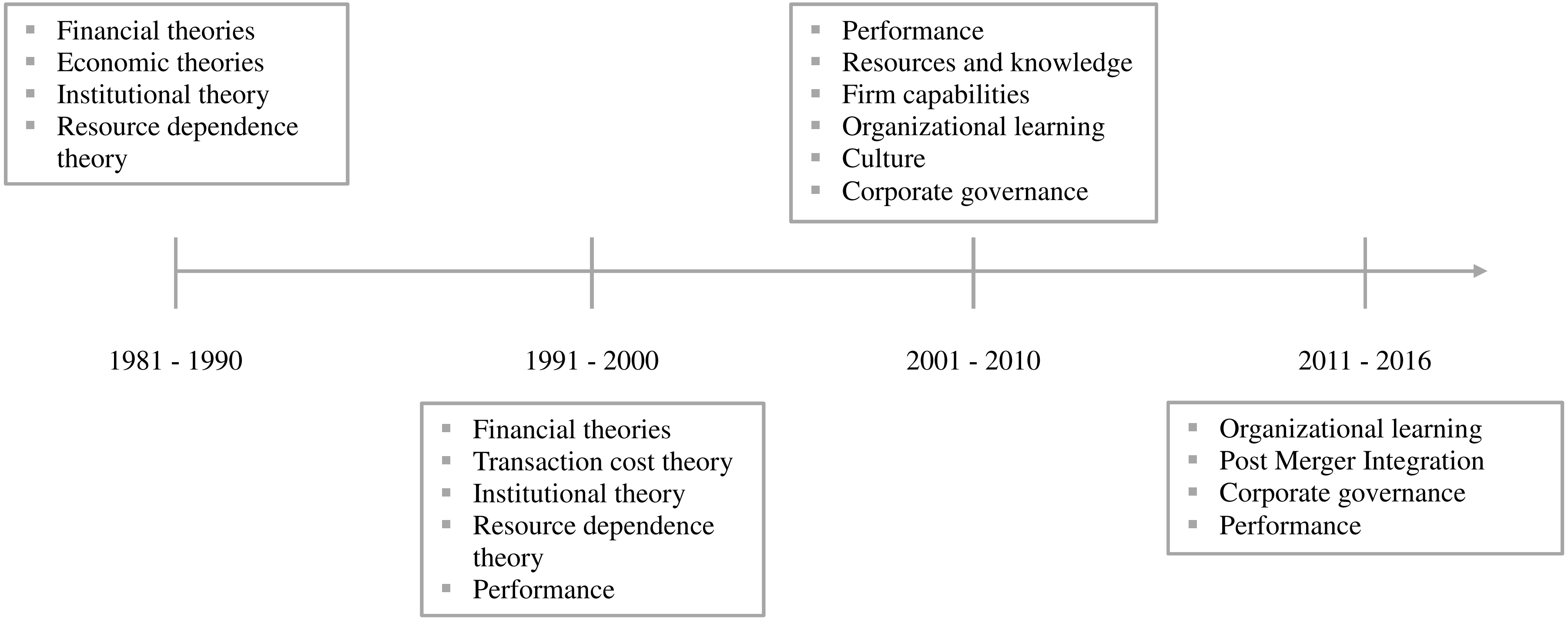
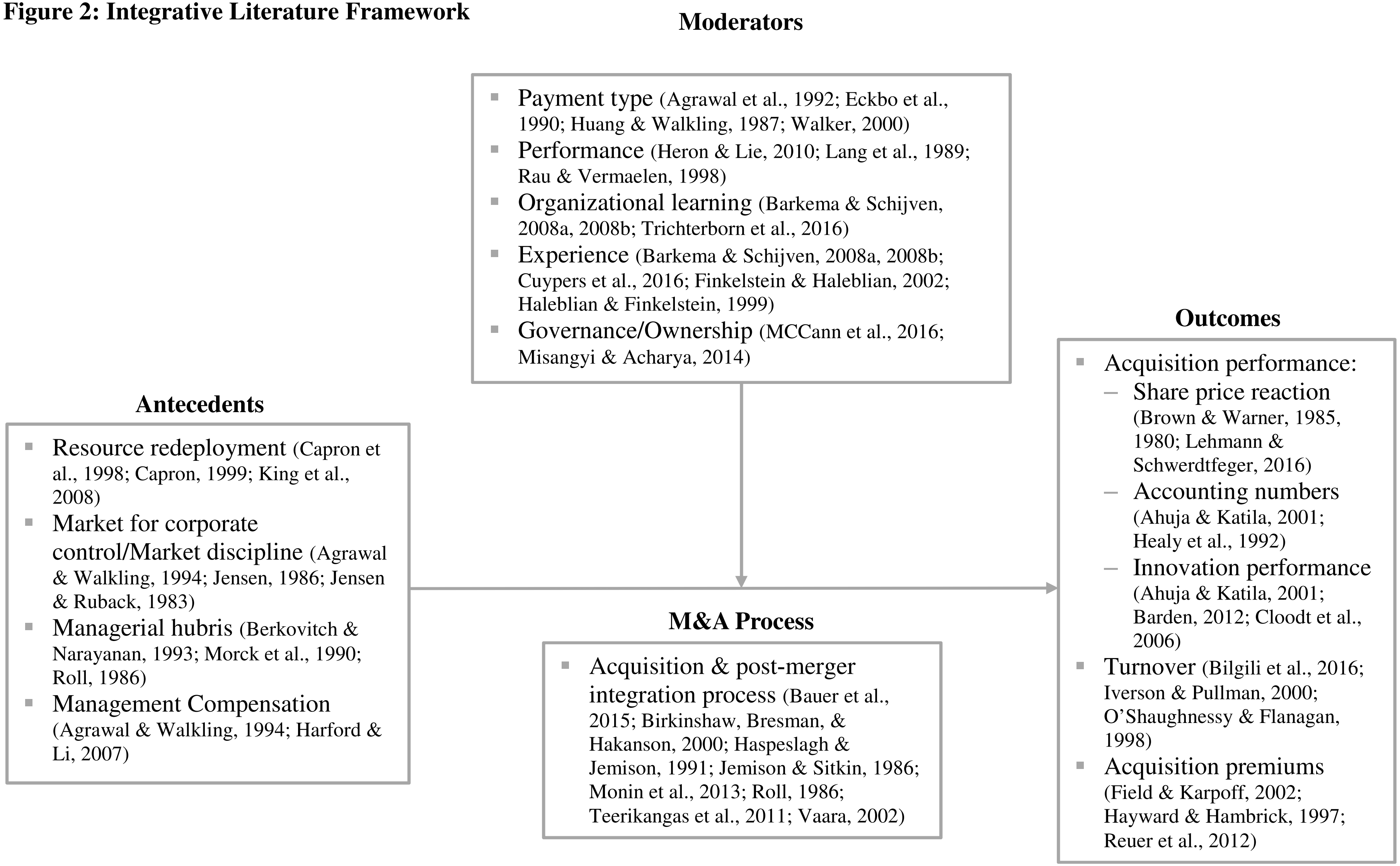


Figure 2: Integrative Literature Framework



Literature dealing with the antecedent of *managerial hubris* depicts that acquiring managers tend to overestimate their capabilities to deliver value and consequently overpay in acquisitions. This means they pay a higher price than what the target is really worth (Morck et al., 1990), as they overrate their own ability to manage the new company after the acquisition (Berkovitch & Narayanan, 1993; Roll, 1986). Hereby, CEOs do not only pay higher acquisition premiums due to their overconfidence, which leads to wealth destructing acquisitions (Hayward & Hambrick, 1997; Malmendier & Tate, 2008), but are also more likely to initiate acquisitions, especially diversifying acquisitions. If cross border acquisitions are for example rather driven by managerial hubris than domestic ones, represents a research area which needs further attention (Seth, Song, & Pettit, 2000).

Management compensation literature reveals that managers undertake acquisitions as they strive after higher compensation and greater power after the acquisition. Literature, for instance, exposes that the compensation of CEOs strongly increases after the acquisition, regardless of the real performance of the acquisition, as CEOs receive comprehensive stock and option grants (Bliss & Rosen, 2001; Harford & Li, 2007). Literature further demonstrates that the power of CEOs generally increases if they manage bigger firms after the acquisition, as they have more power to influence board decisions, negatively impacting acquisition performance (Grinstein & Hribar, 2004; Haleblian & Finkelstein, 1993). As research for example reveal that CEOs in companies in which owners are in control are lower remunerated than in firms which are manager controlled (Kroll, Wright, Toombs, & Leavell, 1997), more studies are wanted, regarding the question of how various governance mechanisms influence management compensation after acquisitions.

Moderators of acquisition outcomes

Turning to the moderators of acquisition performance, M&A literature has predominantly concentrated on *payment type*, acquirers' *historical performance*, *organizational learning* and *acquisition experience* of the acquirer, and *governance and ownership*.

Literature dealing with the *payment type* in acquisitions displays that firms pay the deal price in cash when they think that their company is undervalued and with stock when they think the firm is overvalued (King et al., 2004). Regarding performance, it is indicated that cash deals produce higher benefits to acquirers than stock deals do (Eckbo et al., 1990; Huang & Walkling, 1987; Walker, 2000), as a result of asymmetric information between acquirers' management and its shareholders (Linn & Switzer, 2001; Loughran & Vijh, 1997).

Turning to the *historical performance* of acquirers', literature has predominantly shown that acquirers' performance increases if high performing acquirers take over low performing target firms (Heron & Lie, 2010; Lang et al., 1989; Servaes, 1991). The reason lies on the one side in the fact that acquirers with agency issues seem to invest in projects with negative NPV's (Rau & Vermaelen, 1998) and on the other side in the fact that low performing targets offer the best chances to raise value after restructuring (Chatterjee, 1992). Nonetheless, literature is disunited on the effects of historical performance. Thus other studies reveal that the choice of poor performing targets can also lead to decreasing returns at acquirers', as those acquirers may not be able to successfully reorganize these messed up targets (Clark & Ofek, 1994), leaving room for future research opportunities.

Although *acquirers' experience* from former acquisitions through learning processes should positively impact acquisition performance in the subsequent acquisition, literature on acquisition experience yields that the outcome depends on several influencing factors (Barkema & Schijven, 2008a). Acquisition experience alone is not the key for superior acquisition performance, as the performance depends on organizational learning like the codification of experience knowledge (Zollo & Singh, 2004) or articulation, sharing and internalization (Trichterborn et al., 2016), the right appropriation of knowledge from the former acquisition to the current one (Haleblian & Finkelstein, 1999), as well as firm similarity and industry dissimilarity (Finkelstein & Haleblian, 2002; Hebert, Very, & Beamish, 2005; Hoang & Rothaermel, 2005). Research on the similarity and dissimilarity is only just at the beginning to understand how much similarity or dissimilarity is beneficial for acquisition success (Finkelstein & Haleblian, 2002; Hayward, 2002). Furthermore, this stream of literature has just begun to explore if acquirers only learn from undertaking iterated acquisitions, or if these acquirers are also able to learn by observing related acquisitions by competitors (Delong & Deyoung, 2007; Francis, Hasan, Sun, & Waisman, 2014)

Finally, *governance and ownership* research in acquisitions mostly follows the agency perspective in that management compensation influences interest alignment between managers and their shareholders (Haleblian et al., 2009). The findings are mixed: Some studies display that moderate levels of ownership lead to higher acquisition returns (Wright & Boswell, 2002), whereas others bring to light that CEOs who have more power over their boards obtain higher bonuses and strive for bigger acquisitions, leading to more negative acquisition returns (Grinstein & Hribar, 2004). Within the context of M&A, literature points at the fact that “value in more fully examining the influence of governance mechanisms on acquisition behavior” (Haleblian et al., 2009, p.489) exists, whereby M&A literature is still in its infancy when it comes to the understanding of how governance mechanisms influence the misalignment between managers and shareholders (Kroll et al., 1997). Thus, besides the above mentioned executive compensation, various other corporate governance mechanisms can influence acquisition behavior and outcomes of companies, as for example shareholders possessing varying profit maximization interests, which can or cannot coincide with the interests of the companies’ shareholders (Claessens, Djankov, Fan, & Lang, 2002; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2000). The shareholders may force firms into takeovers (Haleblian et al., 2009), or determine which form of market entry mode – strategic alliance or acquisition – is chosen (MCCann et al., 2016). Furthermore, shareholder proposals, which are shown to have an impact on firm performance in general (Dalton et al., 2007; Misangyi & Acharya, 2014), may influence the interest alignment between acquirers' management and its shareholders, thereby leading to superior or inferior management of the new company after the M&A. Paper three of this dissertation draws on this research gap. It analyzes how different forms of corporate governance mechanisms via shareholder proposals at acquirers' influence acquirers' performance in acquisitions. More specifically, this essay focusses on the impact of the combination of shareholder proposals that operate jointly and in specific combinations (so called governance bundles) on acquirers' returns in takeovers in an event study.

Besides these just mentioned areas of moderator research in acquisitions, another promising area deals with questions of how external firm growth through acquisitions (Baum et al., 2000; Kim et al., 2011) is limited, thereby pointing out that limits to growth represents an area where additional theory development is needed (Lockett, Wiklund, Davidsson, & Girma, 2011; Lockett, 2005; Shepherd & Wiklund, 2009). Already Penrose (1959) argued that managerial limits to growth in general can be expanded to acquisitions. Notwithstanding, the associated mechanisms enabling and constraining firm growth have still not been developed. For managers, an acquisition involves opportunity costs that keep them from doing something else (Levinthal & Wu, 2010; Penrose, 1955). The value to be realized from such acquisition is likely to be higher when existing managers and organizational processes can absorb the additional demands an acquisition represents, or when a firm has sufficient *organizational absorptive capacity*. Thus questions of how the absorptive capacity of an organization is influenced by acquisitions and how, in turn, this organizational absorptive capacity impacts acquisition performance are fruitful areas for future research. Paper one of this dissertation deals with this topic, by developing theory of how organizational absorptive capacity is influenced by external firm growth through acquisitions and how in turn this organizational absorptive capacity influences acquisition performance.

Acquisition and post-merger integration process

Haspeslagh and Jemison (1991) were with their seminal work on acquisition processes among the first who regarded the acquisition as an entity and understood it as a process, concentrating on the intraorganizational dynamics during the acquisition process. They evinced that the evolution of capabilities and the transfer of competencies are the most important mechanisms for acquisition success. Within the acquisition context, the integration process itself is considered the most value creating vehicle to successfully shape the acquisition as a whole (Haspeslagh & Jemison, 1991; Jemison & Sitkin, 1986). This important vehicle to create value in acquisitions has deserved growing attention within the M&A and especially within the acquisition process literature. Studies have concentrated on various factors which occupy a pivotal role within this process to become more successful. Such factors contain, for instance, the resource complementarity between acquirer and target (Bauer & Matzler, 2014; Kim & Finkelstein, 2009), the degree/level (Pablo, 1994; Zollo & Singh, 2004) and speed of integration (Bauer & Matzler, 2014), the autonomy left to the target (Datta & Grant, 1990; Zollo & Singh, 2004), the perception of (in-)justice by employees (Ellis, Reus, & Lamont, 2009; Monin et al., 2013), cultural issues between acquirer and target (Bauer, Matzler, & Wolf, 2016; Björkman et al., 2007), previous integration experience (Al-Laham, Schweizer, & Amburgey, 2010; Ellis, Reus, Lamont, & Ranft, 2011), or the extent of resource redeployment after the acquisition (Capron, 1999). Furthermore it has been yielded that the transfer of knowledge between the parties involved is of tremendous importance for the integration process to become successful (Bresman, Birkinshaw, & Nobel, 1999). For successful knowledge transfer, in turn, to occur, literature has prominently pointed to social capital and especially to trust within networks

(Graebner, 2009; Inkpen & Tsang, 2005). With the exception of Graebner (2009a) who investigates how trust asymmetries between both parties involved in the deal originate, develop and, subsequently, influence their behavior, research on social capital as antecedent of successful knowledge transfer in acquisitions is sparse. Having said this, the analysis of the M&A integration process from a social capital perspective seems desperately necessary, as it allows researchers to investigate not only the role of trust (as part of social capital's relational dimension), but also the structural as well as the cognitive dimension. These two additional dimensions, in turn, might disclose that on the one hand, the position of central knowledge brokers within the post-acquisition network matter for successful knowledge transfer, and that on the other hand mechanisms to promote norms and values play a crucial role for the integration process success. Paper four of this dissertation attends to that matter. It explores which mechanisms help integration managers (IMs), as individuals who are indispensable within the integration process, to strategically set up their social ties in such ways and with those target employees that important knowledge is transferred, leading to a more or less successful integration process.

Acquisition outcomes

Finally, capturing the right hand side of Figure 1, research on M&A has long been engaged with questions concerning acquisition outcomes. Herby studies have predominantly dealt with the performance of acquisitions, measuring it by the reaction of *share prices*, *accounting numbers*, and *innovative performance*. A smaller number of studies devoted themselves to other acquisition outcomes like *acquisition premiums* or management and employee *turnover* (Haleblian et al., 2009).

Research analyzing the *share price performance* of companies in takeovers has a long tradition (Asquith, 1983; Dodd, 1980; Halpern, 1983; Keown & Pinkerton, 1981; Servaes, 1991) and uses so called event study methodology to explore the share price reaction of the affected companies at the announcement of the deal (Brown & Warner, 1985, 1980). In general these studies reveal that acquirers stock price declines around the time the acquisition is announced (Andrade et al., 2001; Loughran & Vijh, 1997; Walker, 2000), whereas targets' share prices significantly rise in the event window around the announcement (Asquith, 1983; Bradley, 1980; Dodd & Ruback, 1977; Huang & Walkling, 1987). These results can be predominantly traced back to the payment of too a high premium by the acquirer for the target (Laamanen, 2007), which leads to decreasing share prices at acquirers, but to increasing ones at target firms. The long term share price performance again is demonstrated to be mostly negative (King et al., 2004). Further possibilities for research in the field of event studies for instance encompass the analysis of the appropriateness of the estimation windows, in which the market parameters of the model to measure the abnormal stock price returns, are defined (Aktas, de Bodt, & Cousin, 2007).

Accounting studies, however, analyze the impact of M&A on accounting numbers of the acquirer and target firm after the acquisition (Bruner, 2002). Those studies, for example, analyze the cash flow performance (Healy, Palepu, & Ruback, 1992) or the influence on the EBIT of acquirers and targets (Powell & Stark, 2005), evincing that corporate performance generally improves after the acquisition (Cornett & Tehranian, 1992). This holds especially in strategically motivated acquisitions (Healy, Palepu, & Ruback, 1997). The performance improvement in this connection however depends on the level of integration (Zollo & Singh, 2004) and on how the assets of the firms are divested and redeployed after the deal (Capron, 1999). Thereby research is in disagreement on how much integration is beneficial, which assets should be redeployed, or from which company those assets to be redeployed should stem. Consequently, this lack of unity leaves room for future research opportunities.

Research on *innovation performance* in acquisitions spawns that the transfer of knowledge between both parties plays an important role for innovation performance (Ahuja & Katila, 2001;

Bresman, Birkinshaw, & Nobel, 2010), but above this finding yields mixed findings on how innovation performance is influenced in acquisitions. On the one hand, literature features that if acquirers and targets display complementary resources, innovation performance increases after the acquisition (Cassiman et al., 2005; King, Covin, & Hegarty, 2003), whereas the performance decreases if technologies at both companies are substitutes (Cassiman et al., 2005). On the other hand, studies bring to light that acquirers innovation performance after an acquisition can decrease (Hitt, Hoskisson, & Ireland, 1990), both in technological as well as in non-technological acquisitions, whereby the relatedness between acquirer and target displays an inverted U-shape connection with the innovation performance of acquirers (Cloodt, Hagedoorn, & Van Kranenburg, 2006). The innovation performance at target key inventors after the acquisition of the target however can be reduced (Ernst & Vitt, 2000), or targets innovative performance can increase, as it becomes more amenable to innovative resources by the acquirer (Barden, 2012). Future research possibilities result from gaps in the analysis of long-term innovation performance of acquirers' (Cloodt et al., 2006) and from the varying influence of human and task integration on innovation success of companies (Bauer et al., 2016).

Turning to non-performance outcome variables, studies dealing with *acquisition premiums* as an outcome variable in acquisitions have addressed acquirers and targets in influencing acquisition premiums, featuring that targets which issue poison pills as takeover defenses increase acquisition premiums (Comment & Schwert, 1995). Furthermore, target managers who possess high amounts of ownership bargain more rigorously, until they feel compensated for their loss of ownership through the acquisition, in turn leading to higher premiums (Song & Walkling, 1993). Beyond that, higher target shareholder control also increases takeover premiums (Moeller, 2005). Studies focusing on acquirers, instead, demonstrate that management hubris leads to higher premiums (Hayward & Hambrick, 1997) and that acquisition premiums, in turn, tend to be higher when information asymmetries are greater, hampering acquirers' assessment of the target resources (Laamanen, 2007). The opposite is true for lower information asymmetries (Reuer, Tong, & Wu, 2012). Thus, research on acquisition premiums highlights the importance of further research on knowledge transfer and organizational learning between acquirer and target (Haleblian et al., 2009), and between the firms involved in the deal and companies located within their network (Beckman & Haunschild, 2002).

Research on *turnovers* in acquisitions indicates that management turnover at acquirers (Haveman, 1995) and at target firms is higher after acquisitions (Krug, Wright, & Kroll, 2015; Lubatkin, Schweiger, & Weber, 1999), whereas results on the performance implications of these turnovers are mixed. For instance, Bilgili, Calderon, Allen, & Kedia (2016) depict, based on the theory of relative standing, that the turnover rate depends upon how executives feel or how they are seen within the company. A higher turnover rate is observed when managers are seen or if they feel substitutable and vice versa. Furthermore, turnover researchers have focused on employee turnover, pointing at the circumstance that this turnover is more likely when acquirers and targets are related and targets perform worse than their industry peers (O'Shaughnessy & Flanagan, 1998). Iverson & Pullman (2000) found that turnover depends on the status of the employees (e.g. white collar vs. blue collar workers and older vs. younger employees). Future research opportunities comprise the creation of a better understanding and especially the development of forecasts of how the process of laying off employees works (Iverson & Pullman, 2000), and how subsequently those layoffs affect firm performance of the companies where they take place (O'Shaughnessy & Flanagan, 1998).

The four research articles of this dissertation are briefly introduced in sections 1.3.1 to 1.3.4. Table 1 summarizes the content of each article in this dissertation.

Table 1: Overview of the Four Research Articles in this Dissertation

	(1) Organizational Absorptive Capacity and the Road to Acquisition Performance	(2) Evaluation of IPO - Takeovers: An Event Study	(3) Governance Bundles – Their Impact on Acquirer Returns in Acquisitions	(4) The value creating role of integration managers in M&A integration processes – A social network perspective
Performance	▪ Growth through acquisitions	▪ Acquirers' share price reaction	▪ Acquirers' share price reaction	▪ Integration process success
Research Question	▪ How do acquisitions influence organizational absorptive capacity at acquirers and targets and how does this capacity in turn impact acquisition performance?	▪ How does the acquiring company and how does the stock market evaluate the acquisition of high-tech firms?	▪ How are acquirers' individual governance mechanisms and the combination of these mechanisms perceived by the financial market at the announcement of the takeover?	▪ How do IMs strategically develop their social network ties during the integration process? ▪ By means of which mechanisms does the arising social capital between IMs and target actors facilitate knowledge transfer, which in turn positively influences integration process performance? ▪ Which other effects influence the ability of IMs to successfully act as knowledge brokers?

Data	▪ No data; Theory development	▪ Corporate takeovers of German IPO-firms ▪ 42 bidders and 59 targets	▪ 170 international acquirers ▪ Shareholder proposals	▪ 30 integrations managers, target managers, and target employees
Method	▪ Theory development	▪ Event study methodology	▪ OLS-regression ▪ OLS-regression with interaction effects	▪ Qualitative guided interviews
Contribution	▪ Developing managers as important to organizational absorptive capacity ▪ Anticipation that different conditions influence a firm's capacity for acquisitive growth ▪ Showing how successful integration of target firm managers facilitate growth	▪ Developing the role of founder CEOs and the market for corporate control of IPO firms ▪ Delivering additional support on event studies to analyze announcement effects in acquisitions	▪ Development of how corporate governance issues influence acquisitions ▪ Disclosure of how different types of shareholder activism affect firm performance differently ▪ Showing that shareholder proposals as specific forms of governance mechanisms are perceived by the stock market	▪ Demonstration that the success of the integration process largely depends on IMs' capabilities to strategically exploit knowledge broker positions ▪ Highlighting of the mechanisms of how social networks are formed ▪ Showing how the emerging social capital is used in order to mobilize knowledge transfer between IMs and both groups of employees and to enhance integration process performance ▪ Revealing of structural lock-ins during the pre-closing stage between IMs and target employees

1.3.1 Organizational Absorptive Capacity and Acquisition Performance

In this chapter, my co-authors and I apply the construct of absorptive capacity to organizations with a focus on managerial constraints to explain differences in acquisitive growth. While Penrose (1959) suggested that management limits constrain firm growth, there is a paucity of research examining organizational constraints to acquisitive growth. Assuming that organizational absorptive capacity limits the performance of growing through acquisitions, we develop conditions that modify the relationship between organizational absorptive capacity and acquisition performance. With our resulting theoretical framework, we contribute to acquisition literature by offering novel insights into predictors of acquisition performance. By drawing on Penrose's (1959) observations on managerial limits to growth, our first contribution lies in developing managers as important to organizational absorptive capacity. Second, we contribute to the acquisition literature by anticipating that different conditions influence a firm's capacity for acquisitive growth. Third, we outline how successful integration of target firm managers can facilitate growth. Finally, we begin to explain how variance in acquisition performance (Agrawal, Jaffe, & Mandelker, 1992; King, Dalton, Daily, & Covin, 2004) relates to whether a firm has appropriate organizational absorptive capacity. We contend that organizational absorptive capacity is a crucial factor in determining acquisition performance, and specifically develop how different contextual factors can increase or decrease the ability of firms to manage an acquisition.

This article is currently under review at the special issue on "Innovation Management in Collaborative Partnerships" at R&D Management (Impact Factor: 1.19, Ranking: 70 out of 120 (Business), JOURQUAL: B). Previously, it has been under review at the special issue on "The Strategic Management of Dynamic Growth" at Long Range Planning (Impact Factor: 2.936, JOURQUAL: B) and at European Management Review (Impact Factor: 1.75, Ranking: Management 78 out of 192, JOURQUAL: B).

1.3.2 Evaluation of IPO-Takeovers: An Event Study

In this chapter, my co-authors and I argue that the acquisition of innovative and entrepreneurial firms has become an important issue in gaining competition advantages. While there exists a fruitful and promising literature analyzing M&A activities in general, there is only limited evidence available on the acquisitions of high-tech start-ups and entrepreneurial firms by larger incumbents. This study addresses this issue and focuses on acquisitions targeted at public IPO-firms. Our main interest is whether and how the stock market evaluates the specific human capital of the CEO and founder of the entrepreneurial target firm. While in general target firms assets are positively evaluated by market participants, this should not necessarily hold for assets owned by the founder of the target firm. The findings clearly show that stock market participants positively evaluate target firms intangible assets, as measured by patents. But that also the opposite holds if the assets are under control of the founder CEO. Our results thus strongly supports conclusions derived from property rights or incomplete contract theory on joined ownership of assets and performance. We conclude that the acquirer's post-acquisition performance strongly depends on the continued access to the targets' specific intangible assets, which is not necessarily the case for the founder's specific human capital. With our study we add to research on the role of founder CEOs and the market for corporate control of IPO firms, and by contributing to empirical research drawing on event studies to analyze announcement effects in acquisitions.

This article is published in Small Business Economics (Impact Factor: 1.795, JOURQUAL: B). The article has also been presented at the 34th Strategic Management Conference in Madrid, Spain, the 75th Annual Meeting of the Academy of Management in Vancouver, Canada and was nominated for the "Best Paper Award" within the scope of the 34th Strategic Management Conference in Madrid, Spain.

1.3.3 Governance Bundles – Their Impact on Acquirer Returns in Acquisitions

In this chapter, my co-authors and I base our argumentation on agency theory, and consider the combination of external governance mechanisms of acquirers' investors in the context of mergers and acquisitions (M&A), investigating the mixed findings for acquirer returns in takeovers. We focus on the influence of the combination of shareholder proposals that operate jointly and in specific combinations, to analyze acquirer returns in takeovers in an event study. By analyzing the share price reactions to 722 shareholder proposals submitted to 170 acquirers in our sample, our results show that the individual governance mechanisms influence the share price reaction of acquirers at takeover announcement differently than several governance mechanisms do so in interacting bundles. With our research we contribute to M&A literature which calls for greater research on how corporate governance issues influence acquisitions (Haleblian et al., 2009). We partially explain the mixed acquirer findings reported in the literature (King et al., 2004; Moeller, Schlingemann, & Stulz, 2004) by showing that effects of governance proposals and their combination on corporate performance in acquisitions do exist. Furthermore we advance the corporate governance literature in general and the shareholder activism literature in particular by answering the call by Goranova and Ryan (2014) on how different types of shareholder activism affect firm performance differently and add to the corporate governance literature by showing that shareholder proposals as specific forms of governance mechanisms are indeed perceived by the market, display within acquirers' share price reactions.

This article will be under review at European Management Journal (Impact Factor: 1.437, JOURQUAL: B) and was also under review within the selection process of the Academy of Management Conference, Anaheim, California.

1.3.4 The value creating role of integration managers in M&A integration processes – A social network perspective

Integration processes have been shown to be the most value enhancing vehicle in acquisitions. In this chapter my co-author and I attribute the mixed findings of acquiring firms' returns to this very process underlying each acquisition. Taking a social network perspective and focusing on the role of integration managers (IMs), we qualitatively explore IMs' role as knowledge brokers within this process. More precisely, we investigate the process of how IMs strategically develop their social ties with target employees and how they make or do not make use of their resulting social capital when trying to facilitate the intended transfer of knowledge between the organizations involved in the acquisition. Based on in-depth interviews with IMs, target managers and target employees in a multiple case study with six acquisitions, our results contribute to M&A literature by demonstrating that IMs are not by the very nature of their network position successful, but that instead the success of the integration process largely depends on IMs' capabilities to strategically exploit such knowledge broker positions. We also expand social network theory by highlighting the mechanisms of how social networks are formed and how the emerging social capital is then used in order to mobilize knowledge transfer between IMs and both groups of employees and to enhance integration process performance. Furthermore we partially add to the underdeveloped research area on social liabilities in networks, by revealing that IMs faced structural lock-ins during the pre-closing stage, were only allowed to establish ties to a couple of top managers at the target firm and were not able to build ties to relevant actors of the target network.

This article will be under review at European Management Review (Impact Factor: 1.219, Ranking: 78 out of 192 (Management), JOURQUAL: B). This article has been presented in various forms at the 5th Annual Conference of the EuroMed Academy of Business, Montreux, Switzerland, the OMT Dissertation Proposal Workshop during 74th Annual Meeting of the

Academy of Management, Philadelphia, USA, the 34th Strategic Management Conference, Madrid, Spain, the 33rd EGOS Colloquium, Athens, Greek and the 75th Annual Meeting of the Academy of Management, Vancouver, Canada and was nominated for the "Best Practical Implications Award" within the scope of the 34th Strategic Management Conference in Madrid, Spain.

CHAPTER 2: ORGANIZATIONAL ABSORPTIVE CAPACITY AND THE ROAD TO ACQUISITION PERFORMANCE

Co-authored with: *David King, Janne Tienari*

This article is currently under review at the special issue on "Innovation Management in Collaborative Partnerships" at ***R&D Management*** (Impact Factor: 1.19, Ranking: Business 70 out of 120, JOURQUAL: B). Previously, it has been under review at the special issue on "The Strategic Management of Dynamic Growth" at ***Long Range Planning*** (Impact Factor: 2.936, JOURQUAL: B) and at ***European Management Review*** (Impact Factor: 1.75, Ranking: Management 78 out of 192, JOURQUAL: B).

2.1 INTRODUCTION

Sustaining growth is an increasing challenge as firms face a dynamic environment (D'Aveni, Dagnino, & Smith, 2010), and falling short of growth expectations can have significant implications on organizations. For example, (Laurie, Doz, & Sheer, 2006) find a 61 percent average drop in the stock price of Fortune 50 firms that experience reduced growth. When internal options do not achieve desired levels of firm growth, managers often conduct acquisitions (Baum et al., 2000; Kim et al., 2011; Moeller et al., 2005). However, while constraints to organizational capabilities have been predicted (Alvarez & Busenitz, 2001; Ng, 2007), explaining limits to growth represents an area where additional theory development is needed (Lockett et al., 2011; Lockett, 2005; Shepherd & Wiklund, 2009). We argue that Edith Penrose's (1959) insights on managers as a limit to growth offer a useful theoretical vantage point for addressing this gap with respect to acquisitions.

Penrose (1959) held that managerial limits to growth extended to acquisitions, but the associated mechanisms enabling and constraining firm growth have not been developed. In the context of acquisitions, we define *organizational absorptive capacity* as the ability to coordinate activities to absorb resources from an acquired firm (Gaddis, 1987; Junni & Sarala, 2013; Reagans, Argote, & Brooks, 2005). In our application, we primarily examine managers as a limiting factor in organizational absorptive capacity as managerial action is needed to achieve desired coordination (Kitching, 1967; Laamanen & Keil, 2008), as performance falls when employees and organizations are at capacity (cf. Lukas, Menon, & Bell, 2002). We hold that this is distinct from the construct of acquisition capability (e.g. Zollo & Singh, 2004), as a capable person can still fail when overwhelmed by competing demands. In other words, an acquisition capability relates to codified knowledge that facilitate acquisitions, and organizational absorptive capacity relates to availability of processes and personnel to apply acquisition capabilities.

With our resulting theoretical framework, we contribute to acquisition literature by offering novel insights into predictors of acquisition performance. By drawing on Penrose's (1959) observations on managerial limits to growth, our first contribution lies in developing managers as important to organizational absorptive capacity. We use the metaphor of a road and the amount of traffic on it to help communicate the connections between organizational absorptive capacity and acquisitive growth. Organizational processes that support an acquisition depend on prior decisions (the number of lanes in a road and its proper maintenance) that impact the ability of managers to meet the increased demands of an acquisition. Second, we contribute to the acquisition literature by anticipating that different conditions influence a firm’s capacity for acquisitive growth. For example, reckless driving and bad weather reduce the capacity of a road to handle traffic, and better acquisitions require driving at the right speed and in designated lanes, as the road to complete integration is long and winding. Third, we outline how successful integration of target firm managers can facilitate growth. Finally, we begin to explain how variance in acquisition performance (Agrawal et al., 1992; King et al., 2004) relates to whether a firm has appropriate organizational absorptive capacity. We contend that organizational absorptive capacity is a crucial factor in determining acquisition performance, and we specifically develop how different contextual factors can increase or decrease the ability of firms to manage an acquisition.

2.2 THEORY DEVELOPMENT AND PROPOSITIONS

Management faces a continuous challenge of balancing between organic incremental growth, leveraging networks and alliances, and growing through acquisitions (Capron & Mitchell, 2010). It is well established that different strategic needs make different forms of growth more or less desirable (Moatti et al., 2015). However, a firm's environment often drives changes where growth options are limited and success depends on current resource endowments. For Penrose (1959), meeting these demands required balancing the rate and direction of firm growth with the capacity to manage it. As a result, organizational absorptive capacity applies to different types of acquisitions in different ways. When firm strategy drives an acquisition, we hold that a firm's availability of managerial talent determines whether its implementation is successful. Before developing our propositions, we discuss management challenges in acquisitions.

2.2.1 Managers and acquisitive growth

Acquisitions challenge managers in different ways and points of time and require multiple capabilities, including: evaluating targets; negotiating deals; coordinating integration, socialization, and acculturation of combining firms; and placing an acquisition within a firm's long-term growth strategy. Existing literature provides a guide on what is important across the different phases of an acquisition. For example, relatedness and complementarity have been found to be an antecedent of acquisition performance (Bauer & Matzler, 2014; Kim & Finkelstein, 2009; Stahl & Voigt, 2008) that influences the speed of integration (Homburg & Bucerius, 2006). This suggests that managing acquisitions is not only about finding the right target, but managing the acquisition process (Haleblian, McNamara, Kolev, & Dykes, 2012; Haspeslagh & Jemison, 1991).

Acquisitions are complex phenomena that evolve over time and early decisions can influence later outcomes. For example, post-acquisition performance is aided by the formation of joint routines, such as communication, during the pre-acquisition stage (Agrawal, Anand, Bercovitz, & Croson, 2012; Allatta & Singh, 2011). Once the deal is completed, management's ability to coordinate integration, socialization, and acculturation is of paramount importance, while at the same time the capacity to do so is largely fixed. Research reflects the importance of management in acquisitions with prescriptions to have adequate management available (Anslinger & Copeland, 1996), and recognizes that acquisitions limit the ability of managers to coordinate diverse activities (Zhou, 2011). Further, full integration to combine firm procedures and cultures can take as long as 5 to 25 years (Barkema & Schijven, 2008b; Cording, Christmann, & King, 2008; Covin, Kolenko, Sightler, & Tudor, 1997; Lu, 2014). Restated, acquisitions result in a changed organizational identity and work processes, and managers are responsible for those changes that take both effort and time to achieve.

While different acquisitions call for different integration approaches (Schweizer, 2005), acquisitions change the social context of firms and drive changes in employee identity that disrupt coordination. This makes creating a sense of continuity from the past to the present, and from the present to the future an integral part of acquisition integration (Hogg & Terry, 2000; Ullrich, Wieseke, & VanDick, 2005). One way to facilitate integration is to train and use integration managers, appointed by the acquirer, to support the acquisition process (Ashkenas, DeMonaco, & Francis, 1998; Ashkenas & Francis, 2000; Teerikangas, Véry, & Pisano, 2011). Another is to develop a “buddy system” that pairs current and target firm managers (Mayer & Kenney, 2004). Both of these solutions demand management attention and time to facilitate integration, when management time is limited and the window to complete integration finite.

Integrating people is fundamentally a question of socialization, or processes driving acceptance of desired values and norms (Van Maanen & Schein, 1979). The acquiring and acquired firms’ history of interactions, relatedness, and the integration approach all likely affect employee socialization into a combined firm (Larsson & Lubatkin, 2001; Melkonian, Monin, & Noorderhaven, 2011; Stahl, Larsson, Kremershof, & Sitkin, 2011). This relates to the concept of acculturation introduced by Nahavandi & Malekzadeh (1988) to capture cultural dynamics in acquisition processes. They distinguish between different modes of acculturation, including integration, assimilation, separation, and deculturation.

Overall, we view organizational absorptive capacity as balancing the feasibility and efficiency of managers implementing an acquisition (e.g., integration, socialization, and acculturation of a target firm) on top of pre-existing managerial demands. The concept of capacity relates to a firm's acquisition capability that resides in the knowledge and experience of a firm's managers. Referring to the road metaphor mentioned earlier, having an acquisition capability is associated with a firm having needed infrastructure, or established network of roads. Meanwhile, capacity represents the efficient use of a road where there is not an over investment in too many lanes for too few cars, or too many cars for too few lanes. Further, after a road is built, the underlying capability needs to be maintained.

Acquisition planning and implementation can grow organizational absorptive capacity by giving managers that are both old and new to a firm experience in working together (Penrose, 1955). Acquisitions also coincide with process development since growth creates gaps in skills and coordination that absorb management attention to solve mismatches in demands, structures, and systems (Garnsey, Stam, Heffernan, & Hugo, 2006; Nicholls-Nixon, 2005). Effective coordination requires that managers have experience working together, leading to acquiring firm managers experiencing less disruption to established routines and relationships that give them an advantage in managing change (Penrose, 1959; Reagans et al., 2005; Tan & Mahoney, 2005).

Considering the impact of acquisitions on managers is important, as even capable managers and coordination systems will display less capacity when confronting uncertain situations (Weick & Roberts, 1993). In general, managers from an acquiring firm experience less disruption and should thereby be able to help others move toward preferred definitions of organizational identity (Kavanagh & Ashkanasy, 2006). However, target managers involved with acquisition planning will also have an advantage from knowing change is imminent. Both groups of managers have a dominant influence on new employee socialization, or on the process of achieving desired task, social and organizational knowledge and behaviors (Bauer & Green, 1998; Tan & Mahoney, 2007; Weeks & Galunic, 2003). At the time of a given acquisition, our premise is that a firm can only grow as fast as it has an organizational absorptive capacity to oversee that growth that is largely dependent on managers in an acquiring firm. Existing research suggests this premise has merit, as the availability of management has been identified as the strongest constraint of firm growth (Penrose, 1959; Richardson, 1964). Determining a firm's organizational absorptive capacity likely relates to its past growth.

Founding conditions imprint the initial form of an organization and have enduring influence that limits change (Boeker, 1989; Marquis & Huang, 2010). The structures and processes adopted at the founding of a firm become the way to do things and significantly impact a firm's continued growth (Eisenhardt & Schoonhoven, 1990). One reason founding conditions have a lasting impact is that past experience influences aspiration for growth (Greve, 2008). The implication is that initial processes and growth provide a baseline experience that sets both conditions to manage growth and future growth expectations. In other words, past growth establishes organizational processes and expectations for growth (e.g., road conditions) that provide the infrastructure of organizational absorptive capacity.

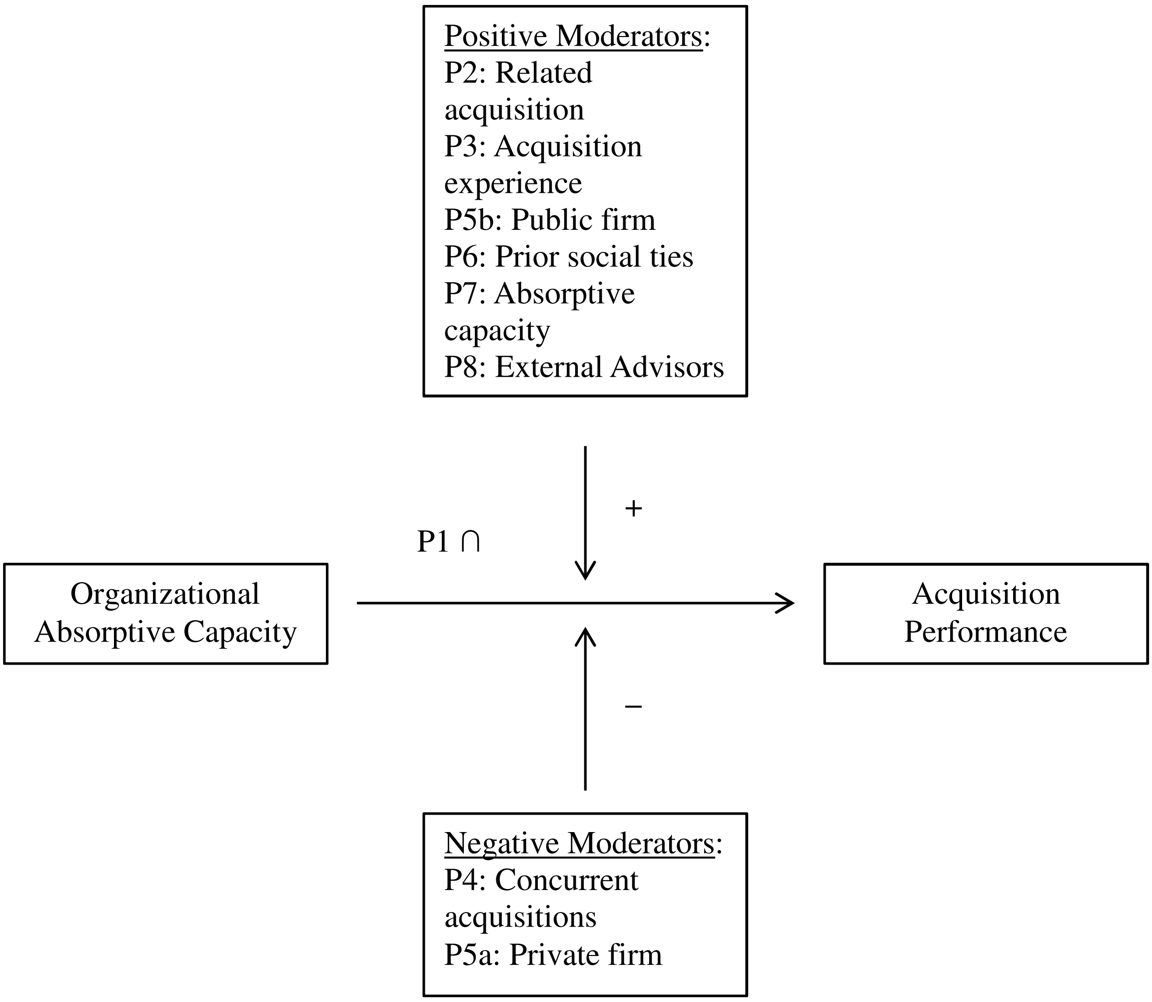
Even when socialized into the organization, target firm managers will likely be less effective in the short-term. However, there are likely to be benefits from adding experienced managers from a target firm. External managers may help refocus attention on explaining interrelations in a way that maintains awareness, which would otherwise be lost (Weick & Roberts, 1993). In other words, an acquisition, because it disrupts processes, may facilitate growth by driving new processes for coordination in a larger firm. Growth reduces the usefulness of prior routines and it requires further attention to update processes needed for coordination during implementation (Stensaker, Falkenberg, & Gronhaug, 2008). By implication, a benefit of acquisitions is that they drive changes to organizational routines that otherwise may display inertia.

A continued restraint on growth relates to a firm's ability to obtain experienced managers of sufficient quality at required rates (Slater, 1980). As firms grow larger this constraint becomes more problematic, as the need for experienced managers to maintain similar levels of growth increases. For example, when a firm has a 10 percent growth rate, the number of additional managers required for a firm with 100 employees is less than one with 10,000. Without additional experienced managers, firm growth likely reaches a constant or diminishing rate. Clearly, successful and growing companies often face staffing constraints. This is consistent with observations that management capacity is inelastic (Tan & Mahoney, 2005) or firm growth varies around a consistent average (Garnsey et al., 2006). For larger firms, adding experienced managers at a fixed rate will eventually result in reduced growth. As growth falls below expectations, acquisitions can offset shortfalls in organic growth. However, we argue that the success of an acquisition depends on sufficient organizational absorptive capacity.

2.2.2 Organizational Absorptive Capacity and acquisition performance

Acquisitions impact a firm and its performance. For managers, an acquisition involves an opportunity cost that keeps them from doing something else (Levinthal & Wu, 2010; Penrose, 1955). The value to be realized from an acquisition is likely higher when existing managers and organizational processes can absorb the additional demands an acquisition represents, or a firm has sufficient organizational absorptive capacity. While acquisitions require significant management attention, not every acquisition has the same potential to impact performance (Barkema & Schijven, 2008b). Just like road conditions can change the capacity of a road for traffic, we anticipate that different factors moderate organizational absorptive capacity for an acquisition. Our associated framework, which is based on a review of extant research, is shown in Figure 3 and discussed in the following subsections.

Figure 3: Organizational Absorptive Capacity and Moderators of Acquisition Performance



Organizational absorptive capacity

Again, organizational absorptive capacity for an acquisition relates to the metaphor of a road where the managerial demand of acquiring any firm (merging traffic) requires a minimal threshold of attention that distracts managers from other tasks. Assuming the demands of an acquisition correlate with the size of a target, then the relative size of an acquirer and its target will be an important consideration. For example, it is easier to merge onto a highway in a Mini Cooper than with a semi-trailer. Further, research suggests a target firm's size needs to be small enough relative to an acquirer to be integrated, yet large enough to influence performance in a combined firm (King et al., 2008). If a target is too small, the performance impact on an acquirer may be minimal or not meet expectations, and a contributing reason may be smaller acquisitions may not attract needed levels of management attention. Meanwhile, targets that are too large can exceed the ability of managers to integrate operations (merging traffic creates a traffic jam).

In other words, organizational absorptive capacity or the number of lanes and the efficiency of their use represents a constraint on acquisitive growth. Put another way, the amount of merging traffic (target size) relates to the integration challenge and whether performance will be impacted. The result is a management trade-off. On one hand, multiple acquisitions require similar levels of management attention or multiple on ramps can clog traffic, as each acquisition demands additional manager time and attention. On the other hand, a single large acquisition can exceed organizational absorptive capacity to integrate operations, or safely merge a large amount of traffic at one time. This logic is consistent with research that suggests one reason acquisitions are abandoned is that a target firm is too large (Wong & O'Sullivan, 2001).

The optimal situation likely involves having a target's relative size within an acquiring firm's established growth rate. There is limited research examining this issue, but Nolop (2007) found acquisition performance was highest when a target firm's size was under five percent of an acquirer's market capitalization. We argue that this may be due to acquirers choosing to stay within their established ability to integrate processes and to socialize new employees. In other words, successful acquisitive growth relates to the difference between an acquirer's organizational absorptive capacity (past growth or number of lanes on a road) and a target firm's relative size (amount of merging traffic). Assuming targets are smaller than an acquirer, the optimal condition will likely involve conditions where past growth exceeds a target firm's relative size. A theoretical optimum would exist when a target's size is just below an acquirer's past growth rate. This reflects that firms operate below maximum efficiency (Srinivasan & Mishra, 2007) and potentially desire maintaining some slack capacity. Further, an acquisition within a firm's organizational absorptive capacity will have clear status differences (Podolny, 1993) that enables integration of target firm employees. For example, drivers merging from a single lane that disappears into six lanes of traffic likely pay more attention than when they are driving in three lanes that join another road with three lanes to form a road with six lanes of traffic. Based on the preceding logic, we propose the following:

Proposition 1: Organizational absorptive capacity for an acquisition involves comparing an acquirer's past growth rate to a target firm's relative size where the difference displays an inverted-U relationship with acquisition performance.

Additional forces during the planning of the acquisition and integrating the target firm likely moderate organizational absorptive capacity for an acquisition, and we develop logic for the influence of multiple characteristics that enable acquiring larger targets without sacrificing performance. We also outline other acquisition characteristics that may negatively impact organizational absorptive capacity for an acquisition. We select moderators from variables commonly used in acquisition literature to explain acquisition performance (Hitt et al., 2012; King et al., 2004). We begin with a discussion of related acquisitions.

Related acquisitions

Literature suggests that common industry and technology experience make organizations increasingly similar (DiMaggio & Powell, 1983) and positively impact transfer of knowledge (Finkelstein & Haleblian, 2002). Organizational practices within an industry often converge from a desire to enhance legitimacy (Oakes, Townley, & Cooper, 1998), and integration should be less difficult when acquiring and target firms have similar practices and routines that result from dealing with a similar external environment. This is also likely true for organizational "cultures" that are influenced by the industry environment, as cultural distance has been found to increase the workload of managers overseeing growth (Hutzschenreuter, Voll, & Verbeke, 2011).

The organizational culture of firms is to some extent specific to industry and technology, as technology constrains variation by defining work routines (Brown & Duguid, 2001; Chatman & Jehn, 1994; Neffke & Henning, 2013). As a result, related acquisitions leverage skills and processes that each firm already possesses (Neffke & Henning, 2013). They may also be characterized by strategic and market complementarity that has been found to be an important antecedent of acquisition performance (Hitt et al., 2012; Kim & Finkelstein, 2009). Returning to our road metaphor, merging traffic will be easier when it is traveling at similar speeds and road signs are in a familiar language. When firms display enough commonality to facilitate coordination, such an acquisition should place less demand on organizational absorptive capacity. Therefore, we propose the following:

Proposition 2: Related acquisitions positively moderate the relationship between organizational absorptive capacity and acquisition performance.

Acquisition Experience

Research suggests that there is a positive relationship between task repetition and performance (Finkelstein & Haleblian, 2002), and firms with a wide scope of experience have been found to demonstrate superior capacity to absorb new technologies and procedures (Shipilov, 2009). Assuming this is true, managers with acquisition experience will be more prepared for acquisition integration and creating value (Barkema & Schijven, 2008a). For example, increased managerial experience with acquisitions and associated integration and restructuring can lead to better decisions in subsequent acquisitions (Barkema & Schijven, 2008b; Dillon & Lafley, 2011), reinforcing observations that prior acquisition experience enables capturing more value from subsequent acquisitions (Hitt et al., 2012). This relates to experienced acquirers being better at mitigating surprises during acquisition integration (Puranam & Srikanth, 2007). Relating this to the road metaphor, drivers travelling a familiar road have greater confidence in dealing with bad weather.

Still, managerial perception of success in previous acquisitions may be negatively related to the performance of the focal acquisition, and this effect may increase as managers accumulate experience (Zollo, 2009). This is likely less true if a firm performs similar (related and complementary) acquisitions. Research suggests that firms with a strategically motivated acquisition program increase the likelihood of developing their experience into relevant capabilities (Ellis et al., 2011), and an acquirer's program of acquisitions has been found to be an important predictor of performance (Laamanen & Keil, 2008). Acquisitions, then, need to be viewed as manageable processes rather than as unique events (Ashkenas et al., 1998). In other words, even experienced drivers must concentrate on their driving. Continuing this line of reasoning, it is reasonable to suggest that a firm with an acquisition program for sustaining growth can inoculate its employees to the uncertainty of acquisitions as well as the need to update work processes. Therefore, experience and associated learning can make successive acquisitions easier, and we propose the following:

Proposition 3: Acquisition experience positively moderates the relationship between organizational absorptive capacity and acquisition performance.

Concurrent Acquisitions

Concurrent acquisitions can help explain non-linear effects of acquisition experience on performance (Haleblian & Finkelstein, 1999). However, most research examines acquisition experience using simple count measures that ignore the potential for acquisitions to overlap, although some studies recognize that a characteristic of unsuccessful acquisitions is completing several at the same time (Hitt, Harrison, Ireland, & Best, 1998). We suggest concurrent acquisitions involve circumstances that overly strain a firm's organizational absorptive capacity. In keeping with the road metaphor, locations where multiple highways intersect over short distances, such as roundabouts, can cause merging traffic to cross multiple lanes to reach a needed exit. The complexity and high number of merging lanes invariably resulted in mile long traffic jams until the interchanges were redesigned.

The risk of multiple acquisitions is that managers can become overwhelmed by dealing with uncertain and complex information. For example, the demands of local operations in larger and complex firms likely creates locally rational decision making that negatively effects overall performance (Glazer, Steckel, & Winer, 1992). For road traffic, this means one person switching lanes to move ahead can create delays for others. Additionally, expectations that capacity limits do not apply may relate to managerial hubris motives for acquisitions that are associated with negative performance (Clougherty & Duso, 2011; Moeller et al., 2005). A growing reliance on acquisitive growth can create hubris that may lead to an overreliance on acquisitions for growth. When acquisitions are concurrent, the capability to manage operations can be exceeded by multiple acquisitions that increase complexity due to larger size, dispersion of operations geographically and across products, and the number of competing processes and employee perspectives. This likely contributes to lower capacity to improve performance as needed integration of processes and socialization of employees from multiple target firms increases the challenges of coordination needed for smooth operations (i.e., traffic jam). Therefore, we propose:

Proposition 4: Concurrent acquisitions negatively moderate the relationship between management capacity and acquisition performance.

Status of the target (public vs. private)

Literature on acquisitions has analyzed the impact of acquiring private or public firms on performance both from the viewpoint of acquiring and target firms (Bargeron, Schlingemann, Stulz, & Zutter, 2008; Capron & Shen, 2007). Target firms have been shown to receive higher premiums if the acquirer is a public firm (Bargeron et al., 2008). Still, most research focuses on the impact of public or private status of the target on acquirer performance. Higher performance for acquirers taking over private targets is attributed to negotiation conditions that drive lower premiums, such as fewer contested bids (Chang, 1998; Conn, Cosh, Guest, & Hughes, 2005; Draper & Paudyal, 2006). Prior investment using equity alliances can also reduce information asymmetry to enable better valuation that can lead to higher value for the acquirer (Folta & Miller, 2002; Fuller, Netter, & Stegemoller, 2002).

Extant literature suggests that acquisitions of publicly traded target companies elicit higher acquirer returns than acquisitions of privately held firms. For example, Ang and Kohers (2001), as well as Draper and Paudyal (2006), suggest that premiums paid for targets that are private exceed those of publicly traded targets. The reasoning is that private firms select when to sell and to whom they sell, or they enjoy a better bargaining position associated with a higher selling price that lowers available acquirer gains (Draper & Paudyal, 2006). Another reason is that (barring a prior equity investment) private firms have greater information asymmetry from having less information publicly available. Returning to our road metaphor, driving unfamiliar roads with a map (public information) is easier than driving with only road signs as a guide.

Capron and Shen (2007) argue that information asymmetries, associated with the private status of target firms, lead to higher target evaluation costs and thereby to a lower performance for the acquirer. Shen and Reuer (2005) make a similar argument that firms featuring highly intangible assets can lead to ex ante misinterpretations of those assets to lower acquisition performance. For example, taking a company public before an acquisition reduces information asymmetries and thereby search costs of the acquirer (Ragozzino & Reuer, 2007; Reuer & Shen, 2003). Further, for firms with intangible assets, such as for instance specific knowledge or intellectual property rights, the evaluation process is prolonged to increase the costs of assessment, lowering acquirer performance regardless of the purchase price (Coff, 1999). Based on greater information asymmetries for private firms, we contend that evaluating the value of a privately held target firm (versus a publicly traded company) influences the extent of evaluation, planning and coordination that are possible with corresponding reductions in organizational absorptive capacity. By extension, the reverse argumentation should be true for public targets. Therefore, we make opposing propositions:

Proposition 5a: The acquisition of a private target negatively moderates the relationship between organizational absorptive capacity and acquisition performance.

Proposition 5b: The acquisition of a public target positively moderates the relationship between organizational absorptive capacity and acquisition performance.

Prior social ties

Research has examined the impact of social ties and associated social capital in a variety of settings, such as relationships between companies and their suppliers (Asanuma, 1985; Baker, 1990; Uzzi, 1997), regional production networks (Romo & Schwartz, 1995), business units in intra-firm settings (Tsai & Ghoshal, 1998), corporate venture capital triads (Weber & Weber, 2011), improved information exchange between competitors (Ingram & Roberts, 2000), and information sharing and learning across organizations (Kraatz, 1998). Social ties have been shown to influence firm strategy, structure and performance (Mizruchi, 1996) by facilitating knowledge transfer (Hansen, 1999; Inkpen & Tsang, 2005; Tsai, 2001; Uzzi, 1997; Wijk, Jansen, & Lyles, 2008). In the acquisition literature, social ties between acquiring and target companies can impact negotiation decisions, and influence acquisition performance (Ishii & Xuan, 2014).

However, views differ on the consequences of social ties for acquisitions. On the one hand, social ties between acquirers and targets may negatively influence the acquisition performance. For example, Ishii and Xuan (2014) find that social ties between top managers and directors of merging companies, based on educational background and employment history, negatively affect acquisition performance of the combined entity. They trace these results back to a due diligence that is taken less seriously and circumstances where taking over more profitable targets are missed. On the other hand, studies argue that social ties between merging firms promote better information sharing and increase performance. Cai and Sevilir (2012) reveal that social ties between acquiring and target companies lead to improved knowledge transfer and understanding of a target firm’s operations and culture that is needed for improved performance. Improved knowledge transfer provides advantages associated with successful acquisitions (Cai & Sevilir, 2012). Since organizational absorptive capacity is dependent on coordination, we anticipate that firms with social ties to companies that become their targets perform better, as the information exchange between the two companies and the evaluation of the target is facilitated. Therefore, we propose:

Proposition 6: Pre-acquisition social ties positively moderate the relationship between organizational absorptive capacity and acquisition performance.

Absorptive capacity

In their seminal work, Cohen and Levinthal (1990) describe absorptive capacity as the ability of a company to acquire, integrate and monetize new external knowledge. Absorptive capacity is built over time, by congregating a relevant base of knowledge (Lane & Lubatkin, 1998), and is typically related to R&D expenditures (Cohen & Levinthal, 1990). Within acquisition research, absorptive capacity is not commonly considered.[2] An exception is offered by Zahra and Hayton (2008), who find a moderating effect of absorptive capacity on the impact of international venturing efforts of companies on financial performance. Specifically, they find that the anticipated relationship between acquisition activity and growth only manifests after absorptive capacity is added as a moderating variable. Lane and Lubatkin (1998) and Cohen and Levinthal (1990) make similar arguments; however, it is likely that knowledge not only needs to be related, but also complementary. In other words, knowledge of combining firms needs to be similar enough to facilitate understanding and diverse enough to add value (King et al., 2008). The integration of target firms, especially where tacit knowledge plays a role, is time consuming (Jemison & Sitkin, 1986) and it disrupts the operations of integrating firms (Ahuja & Katila, 2001). One of the challenges in acquisitions is combining organizational practices and knowledge that are often dissimilar. However, investment in knowledge creation and similarity of that knowledge should mitigate integration challenges to facilitate the assimilation and exploitation of external knowledge (Zahra & Hayton, 2008). Returning to the road metaphor, integration will be easier if traffic laws (i.e., values) and signage (i.e., routines) for merging organizations are similar. Therefore, we propose:

Proposition 7: An acquirer's absorptive capacity positively moderates the relationship between organizational absorptive capacity and acquisition performance.

[2] For a review of absorptive capacity research outside acquisitions, see e.g. Zahra & George (2002)

External advisors

Literature argues that external advisors are able to produce relevant information needed in the various phases of acquisitions. This includes fairness opinions on acquirers and target firms (Kisgen, Qjqian, & Song, 2009) and identifying synergies (Allen, Jagtiani, Peristiani, & Saunders, 2004). External advisors help to identify potential bidders and targets, complete offers, search for higher bids, defend against hostile offers, evaluate competing bids, and consult on price determination, or the acceptance or rejection of the offer price (McLaughlin, 1990). External advisors include management consultancies and accounting firms (Hayward, 2003), boutique advisors (Song, Wei, & Zhou, 2013), legal advisors, and investment banks (McLaughlin, 1990; Servaes & Zenner, 1996). The use of external advisors in general and investment banks in particular is extremely common in acquisitions (Agrawal et al., 2012; Francis, Iftekhar, & Xian, 2006; Golubov, Petmezas, & Travlos, 2012; Song et al., 2013). Again, applying our road metaphor, external advisors can be thought of as a GPS system that helps in navigating a new route.

External advisors offer up-to-date knowledge, new perspectives, extra resources, support of change initiatives, or legitimization (Czerniawska, 2002) that can ease management demands during an acquisition. The prevalence of external advisors has led to research that examines their impact on acquisition performance, whereby the evidence is inconclusive. In examining the effects of financial advisors on the performance of target companies, Kale, Kini, and Ryan (2003) find that the reputation of an acquirer's financial advisor negatively impacts the wealth gains accruing to the target firm. However, Bowers and Miller (1990) reveal that target firms gain when a prestigious investment bank is involved in the deal. This result is confirmed by Rau (2000) who illustrates that target companies earn higher premiums in transactions where prestigious investment banks are used.

The impact of external advisors on the performance of acquiring firms is also inconsistent. Similar to Rau (2000), Allen and colleagues (2004) find that the abnormal returns for acquirers are significantly lowered by prestigious advisors due to conflicts of interest. In contrast, Golubov and colleagues (2012) find higher performance when prestigious advisors counsel an acquirer. Bowers and Miller (1990) outline how external advisors help acquiring firm managers to develop skills to analyze target firms and investments during target selection, suggesting external advisors can reduce demands on managers. This is confirmed by Servaes and Zenner (1996) who identify reasons to use investment banks, such as finding and evaluating target companies and composing a bid at lower costs. Target evaluation costs become extremely relevant when acquisitions are more complex (Servaes & Zenner, 1996), such as technology acquisitions (Ahuja & Katila, 2001; Tsai & Wang, 2008). We hold that the use of external advisors (e.g., investment banks and consultants) can augment an acquirer's existing management and lower information demands to facilitate acquisitions. For example, investment banks lower information asymmetries between an acquirer and target leveraging their experience during takeovers of companies from similar industries (Servaes & Zenner, 1996). Therefore, we propose:

Proposition 8: The use of external advisors positively moderates the relationship between organizational absorptive capacity and acquisition performance.

2.3 DISCUSSION

Building on Penrose's (1955, 1959) seminal work on firm growth, we develop how managers limit acquisitive growth using the concept of organizational absorptive capacity, and we detail how associated constraints can help explain differences in acquisition performance. Specifically, we develop how a firm's direction and rate of growth is determined by the available organizational absorptive capacity and that ignorance of constraints can result in inefficiencies, missed opportunities, and growth constraints. We also offer a comprehensive framework for explaining how and why managerial challenges are the main reason behind poor acquisition performance (Lockett, 2005). Using the metaphor of traffic on a road, we highlight the multiple dimensions and interconnections that moderate acquisitive growth and acquisition performance.

2.3.1 Research implications

The logic developed here suggests that acquisitions may be motivated by the express purpose of disrupting an acquiring firm's organizational processes to enable continued growth. The addition of target firm operations and employees will drive an examination of processes for work coordination that updates routines needed for growth. For example, the integration of target firm managers can augment growth by adding experienced managers more quickly than internal development allows. This may help overcome the challenge of both coordinating work inside a larger firm and sustaining growth with a longer term implication that integrating target firm managers will expand organizational absorptive capacity. While acquiring firm managers have a temporary advantage (Richardson, 1964), successful integration of target firm managers will expand the pool of managers with experience in working together (Moldashl & Fischer, 2004; Penrose, 1955, 1959; Stensaker et al., 2008). To the extent that the integration is successful, this can explain Lockett and colleagues (2011) observation that acquisitive growth can leverage organic growth.

While we highlight organizational absorptive capacity as important to firm growth and acquisition performance, there is also research suggesting firm growth is random (Geroski, 2005; Sutton, 1997). These two views are largely incompatible and difficult to reconcile in that both likely play a role. However, in the specific context of acquisitions, we outline how organizational absorptive capacity varies and influences acquisition performance. The success of acquisitions largely depends on having sufficient managers to coordinate work, update and integrate organizational processes, and socialize acquired employees. Importantly, in addition to developing the concept and influence of organizational absorptive capacity on firm growth, we also show how it can be applied by comparing an acquirer's past growth rate to a target's relative size.

We also outline factors that moderate organizational absorptive capacity for acquisitive growth with related acquisitions and acquisition experience enhancing the ability of managers to oversee an acquisition and improve firm performance. Meanwhile, the impact of concurrent acquisitions likely constrains the ability of firms to complete acquisitions, and it may relate to managerial hubris. Considering the impact of concurrent acquisitions on firm managers suggests simple count measures of acquisition experience do not fully capture the impact of acquisitions on management attention. While the foundation for these relationships and others in our framework is grounded in existing research, the developed ideas are novel and require empirical testing.

The relationships we develop also help to explain some key findings in acquisition research. In contrast to target firm shareholders that receive a premium for their shares (Asquith, 1983; Bradley, 1980; Jensen & Ruback, 1983), performance implications for acquiring companies are mixed (Agrawal et al., 1992; King et al., 2004). Our propositions may help to structure and clarify these findings by possibly tracing losses for acquirers to factors that influence organizational absorptive capacity that relates to managerial demands associated with the relative size of combining firms. This can explain the dismal performance of mergers of equals. Information asymmetry can also increase management demands and lower organizational absorptive capacity when intangible assets are acquired or a target is private. However, the use of external advisors, such as investment banks or consultants, may help to lower information asymmetries and mitigate managerial demands to facilitate acquisitive growth. The reasoning of pre-acquisition social ties between the involved parties in the deal likely follows a similar pattern.

2.3.2 Managerial implications

Our framework and ideas support viewing management as a firm's most valuable resource (Lockett, 2005). We develop how management growth aspirations are related to acquisition activity to meet financial market expectations for sustained growth (Laurie et al., 2006). Assuming organizational absorptive capacity can be predicted from past firm growth, firms can use acquisitions to achieve more predictable levels of growth. Further, by identifying specific moderators, we demonstrate that organizational absorptive capacity for acquisitive growth can be broadened or narrowed like the lanes of a road. For example, acquirers should also take into account the status of the target to be acquired, due to the above mentioned information asymmetries that drive higher evaluation costs and increased demands on managers. Additionally, success on prior acquisitions may expand a firm's capacity to manage acquisitions, but it can also contribute to situations where managers pursue deals that are too large or overly concurrent. It is possible that employing external advisors can mitigate these problems.

Another important decision for the acquiring company involves target selection. Acquirers are encouraged to screen for targets in areas where they perform R&D for potential complementarities. These conditions can facilitate the transfer of relevant knowledge, lower managerial demands, and contribute to improved performance. Top managers need to be aware of organizational absorptive capacity in pursuing acquisitive growth, and understand that organizational processes to enact change depend on middle managers. This has a direct managerial implication, because ill-considered acquisitions are associated with increased senior management turnover (Walsh, 1988).

2.3.3 Limitations and future research

Identifying boundary conditions for theory strengthens its contributions (Feldman, 2004), so it is important to recognize limitations and identify promising areas for additional research. While Penrose (1959) proposed management limits to firm growth, we focus on clarifying capacity limits to acquisitive growth. As a result, we focus on how organizational absorptive capacity can influence acquisition performance. However, acquisitions may simply signal a lack of internal growth and the transfer of excess resources to suboptimal applications, or not be motivated by increased performance. We also expect that acquisitions by integrating experienced managers can help to generate a firm's capacity for acquisitions. Further, we anticipate experience with acquisitions can further this effort by making an acquirer's managers and employees more comfortable with disruptions to work routines. Still, we do not directly consider a relationship for a target firm's growth on organizational absorptive capacity and subsequent acquisition performance, and this can be examined by future research. We also do not account for reductions in organizational capacity from other non-routine planning activities, such as alliances. Other non-routine activities will absorb management attention, and we do not consider their impact on acquisitive growth. Case study research may be needed to examine how managers spend their time in planning and implementing acquisitions.

In closing, the accelerated pace of change confronting firms makes reconsideration of growth strategies important. Simply relying on internal growth may preclude meeting growth expectations and delay responses to dynamic markets. Acquisitions offer faster access to resources, and their use as part of a growth strategy may offer a method to generate organizational absorptive capacity and enable updating organizational processes needed to sustain growth. However, success in a given acquisition likely is influenced by contextual factors, such as the relatedness of an acquisition or the acquisition experience of a firm's managers, and avoiding concurrent acquisitions.

CHAPTER 3: EVALUATION OF IPO-FIRM TAKEOVERS: AN EVENT STUDY

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This article is published in ***Small Business Economics*** (Impact Factor: 1.795, JOURQUAL: B). The article has also been presented at the 34th Strategic Management Conference in Madrid, Spain, the 75th Annual Meeting of the Academy of Management in Vancouver, Canada and was nominated for the "Best Paper Award" within the scope of the 34th Strategic Management Conference in Madrid, Spain.

3.1 INTRODUCTION

Acquisition of high-tech firms is an important means to attract knowledge and know-how in pursuing a corporate entrepreneurship strategy (Audretsch et al., 2015; Ireland et al., 2003; Kuratko et al., 2015). While acquisitions of innovative and entrepreneurial firms are of great popularity in academic literature, there is only limited evidence available on acquisitions of high-tech start-ups and entrepreneurial firms by larger incumbents. Exceptions are Xiao (2015) and Cattaneo, Meoli, and Vismara (2015). Xiao (2015) explores whether acquisitions by multinational enterprises promotes the growth of new technology-based firms and concludes that only for a small subsample growth in employees is significantly positive. Cattaneo et al. (2015) show that the prestige and the internationalization of a university affect the propensity of affiliated spin-offs to be targeted in cross-border M&As.

Our study is concerned about how the acquiring company and how the stock market evaluates the acquisition of high-tech firms. In particular, we investigate stock market reactions to announcements of corporate takeovers of high-tech initial public offering (IPO) firms.

Our study also adds to the wealth of event studies investigating abnormal stock prices of large and established firms involved in corporate mergers and acquisitions (see e.g. Bruner, 2002; Datta et al., 1992; Haleblian et al., 2009; Siegel & Simons, 2010). While these studies almost all analyze whether there exist expected benefits for either the target or acquiring firm, our study is based on how these expectations depend on the targets assets and the specific ownership.

Most of the empirical work on M&A activities is done from a corporate governance perspective and a theory based on the principal-agent framework (Audretsch & Lehmann, 2014). One exception is Lichtenberg and Siegel (1989) who introduced matching theory to explain the performance of M&A activities. They argue that stock market should react positively on takeover announcements if the complementary assets brought into the firm by the takeover could be kept within the boundaries of the firm. If market participants are pessimistic that the complementary assets bought could be sufficiently integrated and thus anticipate a mismatch, stock market reactions on announcements of such takeovers should then be negatively (Lichtenberg & Siegel, 1989; Siegel & Simons, 2010).

An extensive literature in corporate entrepreneurship confirms the matching argument and highlights the importance of a targets intangible assets to become a takeover target (Duysters & Hagedoorn, 2000; Hagedoorn & Duysters, 2002; Lehmann et al., 2012; Tsai & Wang, 2008; van de Vrande et al., 2009). This literature almost relies on that firm specific knowledge is linked and bounded to the firm as a legal entity and could thus be totally integrated after the merger.

According to the matching theory of M&A, managers of the acquiring firm have to evaluate the tangible and intangible assets of the target firm in advance to realize a complementary fit with the own assets. Otherwise, a mismatch will occur if some critical intangible resources and assets could not be totally controlled and governed by the acquirer after the merger. We add to this literature analyzing if and how firm specific knowledge in entrepreneurial and high-tech firms linked to the founder chief executive officer (CEO) as the key inventor of the IPO-firm is evaluated in takeovers by stock market participants. Following arguments from matching theory (Lichtenberg & Siegel, 1989; Siegel & Simons, 2010) and incomplete contract theory (Brynjolfsson, 1994; Grossman & Hart, 1986; Hart & Moore, 1990) we postulate positive stock market reactions when market participants expect that the assets could be totally controlled by the acquirer ex post, and negative if expected that not.

Our study thus differs from previous research on M&A activities in our focus on the specific human capital of the founder CEO of the target company. We thus separate takeover announcements in two groups. One group contains targets that rather are independent of their initial owners with respect to having all critical strategic resources and innovative capabilities accumulated internally. And second targets that at least to some extent depend on the firm specific knowledge of their initial founder CEO. In the latter case we postulate a misalignment of interests, a mismatch, since those CEOs could be reluctant to be taken over if their specific human capital is strongly linked to the firm's tangible and intangible assets and may also lead to a hold-up problem for the acquirer after the merger (Foss & Klein, 2012; Gao & Jain, 2012; Hart & Moore, 1990; Lehmann et al., 2012; Rajan & Zingales, 2000).

We argue that abnormal announcement returns are unexpected returns caused by unexpected information on the planned takeover reaching the market (Haleblian et al., 2009). Using a short-horizon event study, our empirical results confirm that stock markets react to takeover announcement according the probability whether the complementary assets bought with the takeover could be kept after the takeover or not. Our results may have implications for both the acquiring and the target firm. The management of the target firms should carefully evaluate whether the founder and key inventor owns critical parts of the indispensable and intangible assets. The CEO and founder of the entrepreneurial firm should then credibly commit to the takeover announcement by transferring all patents to the firm in advance. Our findings may help to clarify the inconsistent evidence on abnormal returns earned by bidder shareholders that has been found in previous studies (Asquith, Bruner, & Mullins, 1983; Ben-Amar & André, 2006; Campa & Hernando, 2004; Goergen & Renneboog, 2004; King et al., 2004; Moeller, Schlingemann, & Stulz, 2003).

This study adds to research on the role of founder CEOs and the market for corporate control of IPO firms. A related study is Gao and Jain (2012), analyzing whether measures of CEO power moderates the relationship between founder management and target IPO wealth. While their study focus on CEO duality as a source of power in the bargaining process, our study draws on intellectual property rights linked to the founder CEO. In a previous study Lehmann et al. (2012) argue that founder CEOs cannot credibly commit to cooperate after the merger by investing in relationship specific investments and thus altering the post-merger performance of the acquiring firm negatively. As a consequence the likelihood of being taken over significantly decreases with the number of patents controlled by the founder CEO of the entrepreneurial firm.

This study also adds to empirical research drawing on event studies to analyze announcement effects. The overwhelming part of previous event studies on announcement effects is based on takeovers of large and established firms and often differs in their findings, according the type of shareholders (bidder or target) and the time horizon of the event study. Highly positive abnormal announcement returns are almost found in short-horizon event-studies (Bradley, Desai, & Kim, 1988; Bradley, 1980; Datta et al., 1992; Houston, James, & Ryngaert, 2001; Lang et al., 1989), while event studies with a broader time window often confirm lower abnormal returns (Asquith et al., 1983; Ben-Amar & André, 2006; Campa & Hernando, 2004; Goergen & Renneboog, 2004). While a few studies finds acquisitions to not enhance the value of the acquiring firm positively (Agrawal et al., 1992; Andrade et al., 2001; Asquith, 1983), others report significant losses to acquiring firms' shareholders following acquisition announcements (Chatterjee, 1992; Datta et al., 1992; Dodd, 1980; King et al., 2004; Moeller et al., 2003). Our overall results confirm previous results that stock market evaluates the acquisitions of young and high-tech intensive IPO firms positively, leading to positive and abnormal announcement returns for shareholders. Controlling for intangible and critical assets linked to the founder CEO, the opposite holds, leading to negative abnormal announcement returns for shareholders of the bidding company.

The rest of the paper is structured as follows: The next section develops our theoretic argument and derives our hypotheses. The third section describes our data samples and the event study approach employed in our analyses. The results of these analyses as well as potential drawbacks and corresponding robustness checks are presented and discussed in the fourth section, while the final section summarizes our main findings and concludes.

3.2 THEORY AND HYPOTHESES

3.2.1 Takeovers of entrepreneurial IPO firms as a win-win situation

A growing body of literature argues that the market for corporate control serves as a matching mechanism between large and established firms and smaller and entrepreneurial firms (Blonigen & Taylor, 2000; Bonardo, Paleari, & Vismara, 2010a; Grimpe & Hussinger, 2008; Hall, 1990; Jones et al., 2001; Junkunc, 2007; Lichtenberg & Siegel, 1989). With respect to the proposed specialization among technology-based start-ups and technology-seeking incumbent firms in the market for innovation, incumbent firms are said to enjoy competitive advantages in the commercial exploitation of innovations, while start-up firms enjoy advantages in their exploration (Gick, 2008; Granstrand & Sjolander, 1990; Henkel et al., 2015; Steffens et al., 2009). For incumbent firms, takeovers of start-up and entrepreneurial firms allow for acquiring innovations, such as new and sophisticated variations of products or services already offered by incumbents (Fabel, 2004; Henkel et al., 2015), that already have proven their viability and subsequently can be brought to the market by exploiting incumbents' advantages such as broader resource bases, sufficient funding, and economies of scale and scope in production and other value chain activities. The acquisition of technologies, competencies, and knowledge from external sources has thus become a major motive for corporate mergers and acquisitions in recent years (Dushnitsky & Lenox, 2005; Junkunc, 2007; Phan, Wright, Ucbasaran, & Tan, 2009; Tsai & Wang, 2008). Young and entrepreneurial firms' innovation endeavors are assumed to be more likely to create breakthroughs but these firms are not always able to bring their innovations to the market (Junkunc, 2007; Wright, Birley, & Mosey, 2004). While large and established firms are in funds to invest in new technologies, they often lack new and incremental innovations. Since start-up and entrepreneurial innovation is more radical than that of established firms, Granstrand and Sjolander (1990) suggest a division of scientific labor between entrepreneurial and established firms. Such a division of labor implicitly defines their roles as targets and acquirers so that takeovers may lead to a win-win situation for both parties (Gans & Stern, 2000).

Accordingly, literature suggests specialization in the market for innovations among young and entrepreneurial firms on the one and established incumbents on the other hand (Steffens et al., 2009). With respect to opportunity identification and exploration of promising innovations, environmental conditions seem to increasingly favor young and small entrepreneurial firms that are founded based on the belief in a new and widely untested invention or technology (Steffens et al., 2009). Specific human capital, technological know-how and employment systems now play key roles in these New Enterprises (Jennings, Jennings, & Greenwood, 2009; Rajan & Zingales, 2000) as they can allow for competitive advantages if successfully employed. Entrepreneurial firms provide both strong incentives to specifically invest in the innovation process and corresponding selection devices to identify opportunities more successfully as compared to incumbents (Fabel, 2004; Rajan & Zingales, 2001). Otherwise entrepreneurial firms lack managerial and financial resources to develop competitive advantages in the exploitation of their inventions (Ireland et al., 2003; Steffens et al., 2009).

Being taken over after IPO reflects and values not only the past performance of the top management team positively (Colombo, Mustar, & Wright, 2010; Gans & Stern, 2000; Grimpe & Hussinger, 2008, 2009) it also promotes and supports established firms to attract critical technological resources by taking over young and high-tech IPO firms, leading to a win-win situation or match for both firms (Blonigen & Taylor, 2000; Bonardo et al., 2010a; Hall, 1990; Jones et al., 2001; Lichtenberg & Siegel, 1989):

Hypotheses 1: The stock market evaluates takeover announcements of IPO-firms positively resulting in positive cumulative abnormal returns for the shareholders of the target and bidding firm.

3.2.2 Expected returns to IPO-firm shareholders

Takeovers of newly public IPO-firms can be an attractive means for initial owners of divesting their stakes in the target firm (DeTienne & Cardon, 2012). Since IPO- and entrepreneurial firms often lack the resource bases of established firms to commercialize their ideas and innovations, it may be favorable for the firm's current shareholders to have their firm being taken over by an established firm (Gans & Stern, 2000). The supply of acquisition targets is thus shaped by initial owners exit decisions and their expectations on future returns.

Acquirers usually pay premiums on a target's stand-alone value (Haleblian et al., 2009) resulting from higher returns extractable by the acquirer from a combination of the target's and their existing resources and capabilities as compared to the values that could be extracted from the target as an independent entity. High-tech start-ups are thus often taken over by larger firms early in their firm life cycles because these larger firms own the necessary resources and have a comparative advantage in bringing entrepreneurial firms' innovations to the market (Audretsch & Lehmann, 2007; Dai, 2005). Additionally, if there are advantages to be gained from access to complementary resources indispensable in developing a marketable product based on the target's innovation, incumbent firms typically enjoy competitive advantages over smaller start-ups (Audretsch, 2001). Their willingness-to-pay for the target might thus exceed the value that can be extracted by initial owners from running the firm independently. The market for corporate control accordingly can be expected to increase the value that can be created from a newly-public IPO-firm's resources and capabilities by reallocating ownership in the takeover target to the incumbent (Bonardo, Paleari, & Vismara, 2010b; Meoli, Paleari, & Vismara, 2013).

Firms with significant holdings in intangible and difficult-to-value resources are in particular faced with asymmetric information. Thus, the IPO market and the market for corporate control might be interrelated in that the IPO market alleviates inefficiencies in the M&A market if information asymmetries concerning the privately held target's intangible resources are prohibitively high (Ang & Kohers, 2001; Bonardo et al., 2010a; Shen & Reuer, 2005). Bonardo et al. (2010b) argue that investors generally have concerns about IPO-firm's legitimacy, especially if these possess few tangible assets only and do not command extensive track records, which can be alleviated by uncertainty-reducing signals, like an IPO. Taking the firm public prior to its eventual sale therefore can significantly increase returns to its initial owners by reducing information asymmetries and with that reducing corresponding bid price discounts. Accordingly, an acquirer's intention to acquire a newly public IPO-firm should signal their expectation of generating additional value from combining the target with their existing resources and capabilities and leads the market to expect increases in post-acquisition target value from efficient use of its resources and capabilities arising from the target's takeover.

Hypothesis 2: The stock market evaluates takeover announcements of IPO-firms positively resulting in positive cumulative abnormal returns for target shareholders.

3.2.3 Positive expected returns to bidder shareholders

A particular firm's success increasingly depends on its capability of innovating faster than its competitors (Phan et al., 2009; Ranft & Lord, 2002; Teng, 2007). Given the increasing pressure of timing innovations, the performance of established firms largely depends on novel technologies possessed by high-tech start-ups (Desyllas & Hughes, 2008). Mergers and acquisitions are viable vehicles in pursuing such a resource-based strategy as they allow for access to strategic and possibly otherwise not marketable resources that enable acquirers to create a sustainable competitive advantage (Barney, 1991; Wernerfelt, 1984). Given entrepreneurial start-ups' relative advantages in exploration of promising innovations and capabilities and incumbents relative advantages in their exploitation, the combination of corresponding resources and capabilities accumulated within entrepreneurial start-ups with those of an incumbent firm by means of mergers and acquisitions can be an efficient way for incumbents to innovate.

Stock markets will perceive these advantages associated with accessing external technology and innovation sources by means of takeovers of newly-public IPO-firms and will expect additional values to be generated for the acquiring firm resulting from the target's integration.

Hypothesis 3: The stock market evaluates takeover announcements of IPO-firms positively, resulting in positive cumulative abnormal returns for bidder shareholders.

3.2.4 Negative expected returns for bidder shareholders

While the first three hypotheses have been tested and analyzed intensively in the literature, the following section draws on countervailing effects, namely negative expected returns for bidder shareholders. While there exists ample theoretical and empirical evidence that expected returns are negatively for bidder shareholders, this kind of literature draws mainly on governance problems of large and established companies and focusses on entrenchment effects, take-over protections, golden handshakes, poison pills or the moral hazard behavior of minority shareholders among others[3] (see Andrade et al. (2001) for a survey). In the following we argue that also in the absence of such takeover hurdles which only increase the price for the target firm shares, expected returns for bidder shareholders may be negatively in some cases.

A firm's ability to derive competitive advantage from ownership of strategic resources critically depends on its ability to control those resources and capabilities that are indispensable for value creation (Ireland et al., 2003). Thus, post-merger success should strongly depend on how effective the acquired resources could be integrated and kept within the boundaries of the firm to control and exploit them. The scarce evidence available on acquisitions of high-tech

[3] Past research has identified several firm characteristics to have important influences on abnormal returns earned by bidder and target shareholders, such as for example past stock market valuation as evident by book-to-market ratios (Fama & French, 1993; Rau & Vermaelen, 1998), the decision between tender offers and mergers (Jensen & Ruback, 1983), or the relative sizes of bidders and targets (Agrawal et al., 1992).

start-ups and entrepreneurial firms by larger incumbents suggests that takeovers not always generate the expected results (Ernst & Vitt, 2000; Kapoor & Lim, 2007; Paruchuri, Nerkar, & Hambrick, 2006). These findings are being attributed to incumbents' post-merger integration decisions (Colombo et al., 2010; Kapoor & Lim, 2007; Puranam & Srikanth, 2007).

Young and knowledge based firms strongly depend on the specific investments made by its founders since these ventures closely develop around their skills and specific knowledge and require their continued availability (Arthurs, Busenitz, Hoskisson, & Johnson, 2009). Successful exploitation of an entrepreneurial firm's resources poses exceptional difficulties with respect to its ability to ensure optimal specific investments by the key inventors of the new venture and thus to provide efficient incentives for these individuals (De Clercq, Castaner, & Belausteguigoitia, 2011; Jennings et al., 2009). In particular it needs an incentive scheme to overcome the moral hazard and hold-up problem associated with relationship specific investments (Brynjolfsson, 1994; Hart & Moore, 1990). Such optimal investments in intangible relationship specific investments are non-contractible and an outside party cannot verify the extent of investments (Soubeyran & Stahn, 2007). Given this incompleteness, individuals face potential hold-up problems after having specified their human capital to a firm's value creation process which especially pertains to bargaining on ex ante non-contractible returns resulting from their specific human capital investments (Rajan & Zingales, 2000). Equity ownership can equip key individuals with both the right to decide on the use of assets in all instances not governed by contracts and the power to contradict unfavorable distributions of residual income by threatening to withdraw the assets they own in any ex ante not contractually specified situation (Brynjolfsson, 1994; Grossman & Hart, 1986; Hart & Moore, 1990). Residual rights of control derived from equity ownership thus can provide essential incentives for optimal specific investment (Lehmann, 2006; Rajan & Zingales, 2001).

A target's initial owners sell their equity ownership in the course of a takeover of their firm which leaves them without bargaining power in any not contractually specified situations after their firm's acquisition. If the initial owner has at least a fraction of the target's indispensable innovative knowledge and human capital complementary to the target's alienable assets inalienably accumulated, they can be held-up by the acquirer in bargaining for a fraction of the integrated firm's surplus. This hold-up risk will be increasingly severe the more initial owners invest in firm-specific human capital and capabilities, since they cannot derive any value from these without access to the complementary assets owned by the acquirer. Since initial owners can anticipate this potential hold-up, their incentives for continued post-acquisition specific human capital investments necessarily decrease. Given this specific investment being indispensable for the value creation process, these reduced incentives will be inefficient in maximizing total production value, since the joint value of the production relationship is positively related to the specific investments of all relevant individuals. The reallocation of ownership in a firm's assets in the course of a takeover then inevitably lowers the value extractable from the target's assets.

If initial owners have relevant and indispensable knowledge then there may be no need for these individuals to have equity ownership to have bargaining power (Rajan & Zingales, 1998). As long as their knowledge and human capital cannot be transferred to other parties within the firm but is indispensable for value creation and use of complementary assets they can exert power by the mere threat of withdrawal of or exclusion of others from their knowledge. If initial owners' specific human capital is required after a takeover of their firm, they can exert power over the acquirer by threatening to withhold their human capital and thus divert surplus from bidder's shareholders to themselves. This decreases the value that the bidder can finally extract from the target and thus decreases the share of revenues from the target's resources the bidder can appropriate. If stock market participants are sufficiently informed, they take these issues into account in evaluating takeover announcements of IPO and entrepreneurial firms:

Hypothesis 4: Shareholders of bidders targeting IPO-firms with intangible strategic resources inalienably bound to their initial owners correspondingly earn lower cumulative abnormal returns as compared to shareholders of bidders targeting IPO-firms that are independent of their initial owners.

3.3 METHODOLOGY

3.3.1 Event studies and announcement effects

To test our hypotheses, we assess the stock market reaction to public takeover announcements targeted at German IPO-firms by employing the standard event study methodology. Event studies rely on the assumption that capital markets are at least semi-efficient, they assess the significance of the intended takeover as well as the degree to which the market perceives the event and prices the information conveyed in the underlying announcement (see e.g. Armitage, 1995; Brown & Warner, 1980; Kothari & Warner, 2007; MacKinlay, 1997; McWilliams & Siegel, 1997). With respect to takeover announcements, event studies allow for an assessment of the market's evaluation of the impact that a reallocation of ownership in the target from target to bidder shareholders will have on the wealth of both of these groups of shareholders.

3.3.2 Data sample

Our data sample compiles corporate takeovers targeting German IPO-firms that had been floated in the ten-year period from 1997 to 2007. 83 of the total of 411 non-financial initial public offerings by German issuers in segments of the German Stock Exchange (Deutsche Boerse AG) received publicly announced takeover bids between their dates of IPO and December 31, 2007. IPO-firms were identified from Deutsche Boerse AG's official primary market statistics, takeover announcements from several publicly available sources, most importantly the German Federal Financial Supervisory Authority (BaFin). Historic stock price information for bidders and targets was obtained from Thomson Reuters Datastream and in a limited number of cases supplemented with information from Ariva.de, an independent German supplier of financial information. Due to limitations in the availability of historic stock prices, our final samples contain information on 59 of this total of 83 takeover targets as well as on 42 bidders.[4] The majority of cases where we could not obtain bidder stock price information entail takeovers of IPO-firms by privately held bidders where there naturally is no corresponding stock price. Missing target stock price information is mainly caused by deletion of historic daily stock prices from our data sources due to a delisting of the corresponding target subsequent to its successful takeover and applies foremost to the earliest takeovers in our initial sample. While these issues in data availability generally could bias our results, however, we do not have any reason to expect our final data sample to comprise an adverse selection of all IPO-firm takeovers.

We additionally divide these full samples of 59 targets and 42 bidders into two groups each. The first groups (*“entrepreneurial firms”*) are comprised of bidders and targets, respectively, involved in transactions targeting IPO-firms that have inalienably bound intangible strategic resources to their initial owners, while the other groups (*“independent firms”*) contain those transactions targeting firms that have directly accumulated all these intangible strategic assets. We proxy an initial owners’ holdings in inalienable and intangible strategic resources by them being (partial) owners of patents so that a takeover transaction was classified as involving an entrepreneurial firm if the target’s initial owners are mentioned as applicants for at least one patent, either alone our together with the target as a legal entity.[5] Information concerning an

[4] Increasing the time period from 1995 until 2010 does not increase the number of observations. Starting in 1990 (or before) will only marginally increase the dataset but lead to other adverse effects biasing the results.

[5] The analysis of patent ownership shows that the owner CEO is almost the sole owner of the patent. However, if they are jointly owned then the separation or availability of access the patent knowledge for its use may remain unclear. We are grateful to an anonymous referee for this point.

individual's patent ownership was manually extracted from the patent database of the German Patent and Trademark Office (*www.depatisnet.de*) by searching for individuals' names as patent applicants. Patents retrieved from this database are not limited to those registered at the German Patent and Trademark Office or valid in Germany only but also include patents with a broader scope of protection and those registered at several foreign patent offices.

Table 2 gives an overview of all takeover announcements considered in our full data samples as well as in the entrepreneurial and independent firm groups by year of IPO and of their coverage relative to all 83 takeovers in the respective time period.

Table 3 summarizes all takeover announcements considered in our full data samples as well as in the entrepreneurial and independent firms groups by target industries and of their coverage relative to all 83 takeovers in the respective time period.

Table 2: Takeover announcements and relative coverage by years of takeovers

Takeover	**Takeovers**	**Targets**						**Bidders**					
years	**Totals**	**Full Sample**		**Entr. T.**		**Ind. T.**		**Full Sample**		**Entr. T.**		**Ind. T.**	
1999	1	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
2000	5	3	60%	1	20%	2	40%	2	40%	0	0%	2	40%
2001	7	1	14%	0	0%	1	14%	3	43%	0	0%	3	43%
2002	10	3	30%	1	10%	2	20%	4	40%	2	20%	2	20%
2003	15	11	73%	1	7%	10	67%	6	40%	1	7%	5	33%
2004	12	10	83%	3	25%	7	58%	5	42%	1	8%	4	33%
2005	10	9	90%	3	30%	6	60%	6	60%	2	20%	4	40%
2006	10	9	90%	1	10%	8	80%	7	70%	1	10%	6	60%
2007	13	13	100%	2	15%	11	85%	9	69%	2	15%	7	54%
Total	**83**	**59**	**71%**	**12**	**14%**	**47**	**57%**	**42**	**51%**	**9**	**11%**	**33**	**40%**

As table 2 depicts, the relative coverage of all takeovers targeting German IPO-firms in our samples in general increases the closer the respective IPOs are to the end of our observation period on December 31, 2007.[6] Table 3 shows that the relative coverage of all corporate takeovers overall is higher for IPOs in technology and human capital intense industries than it is for those in traditional industries such as consumer goods. Announcements of takeovers of firms in technology-based industries and announcements from more recent takeover years might therefore be slightly overrepresented in our final samples.

[6] The number of entrepreneurial firms is rather low – Germany is by far no IPO country. Increasing the time period to 20 years, from 1992 until 2012 will not increase the number of entrepreneurial firms as defined above.

Table 3: Takeover announcements and relative coverage by industries

Target industries	**Takeovers Totals**	**Targets**						**Bidders**					
		Full Sample		**Entr. T.**		**Ind. T.**		**Full Sample**		**Entr. T.**		**Ind. T.**	
Medtech	1	1	100%	0	0%	1	100%	1	100%	0	0%	1	100%
Biotech	3	3	100%	3	100%	0	0%	3	100%	3	100%	0	0%
IT & TC Hardware	4	3	75%	0	0%	3	75%	3	75%	1	25%	2	50%
Consumer Goods	4	1	25%	0	0%	1	25%	2	50%	0	0%	2	50%
Other Technologies	5	2	40%	1	20%	1	20%	2	40%	1	20%	1	20%
Trad. Industries	6	4	67%	0	0%	4	67%	2	33%	0	0%	2	33%
E-Commerce	7	6	86%	1	14%	5	71%	6	86%	1	14%	5	71%
Trad. Services	8	6	75%	1	13%	5	63%	5	63%	0	0%	5	63%
Media & Entertainment	11	8	73%	1	9%	7	64%	2	18%	0	0%	2	18%
IT & TC Service	34	25	74%	5	15%	20	59%	16	47%	3	9%	13	38%
Total	**83**	**59**	**71%**	**12**	**14%**	**47**	**57%**	**42**	**51%**	**9**	**11%**	**33**	**40%**

3.3.3 Computation of average and cumulative average residuals

An event study is based on analyzing abnormal returns to a firm's shareholders, this is, returns that are unexpected as the underlying event is unexpected and accordingly has not yet been priced by the market.

Our analyses employ the standard event study methodology (see e.g. Armitage, 1995; Brown & Warner, 1985; MacKinlay, 1997; McWilliams & Siegel, 1997) and use the market model[7] to estimate the returns that could have been expected without the respective takeover announcement. This accordingly leads us to derive each individual bidder's and target's abnormal announcement return $AR_{i\tau}$ at day τ in event time relative to the takeover announcement day, which is labeled $\tau = 0$, according to

$$AR_{i\tau} = R_{i\tau} - E(R_{i\tau}) \tag{1}$$

where the expected return to firm $i's$ stock follows from

$$E(R_{i\tau}) = \alpha_i + \beta_i R_{m\tau} \tag{2}$$

and where $R_{i\tau}$ is the realized return on firm $i's$ stock and $R_{m\tau}$ is the return investors would have earned on a market portfolio. Each return is computed as the percentage change in stock and market portfolio prices, respectively, from day $\tau - 1$ to day τ. We employ the CDAX as the value-weighted market index of all stocks traded in regulated market segments of the German Stock Exchange to approximate daily returns on a market portfolio.

In a next step we need to define event windows (i.e. periods of time around the day at which the intended takeover is publicly announced) during which we expect the market to take note of and accordingly evaluate the proposed acquisition, i.e. the period during which we expect to

[7] We additionally checked for robustness of our results with abnormal returns derived from the market adjusted model. See our discussion of drawbacks and robustness checks below for details.

observe abnormal returns. While it is hard to justify theoretically any specifically chosen event window, research employing short-horizon event studies typically considers several event windows of different length assuming that market participants become at least partially aware of an event some time before the announcement. Thus, part of abnormal stock price behavior will take place before the event day. We chose three different event windows [t_1, t_2]: the lengthiest one investigates abnormal returns across a symmetric 21-days window around the takeover announcement day $\tau = 0$, this is, the period [-10, +10], thereby following studies like (Markides, 1992) or (Wright, Ferris, Hiller, & Kroll, 1995). This symmetric window around the announcement of the event is chosen for several reasons. First of all, if too long event windows are chosen, this will severely reduce the power of the test statistic used, which in turn will lead to wrong conclusions about the significance of the abnormal returns caused by the event (Brown & Warner, 1985, 1980; McWilliams & Siegel, 1997). Second, too lengthy event windows entail the danger that other events than the investigated takeover announcement could bias abnormal returns attributed to this specific event by causing abnormal stock price behavior themselves (Betton, Eckbo, & Thorburn, 2008; Kothari & Warner, 2007; Oler, Harrison, & Allen, 2008). And third, it can be stated that the nature of the event being studied should determine the length of the event window (McWilliams & Siegel, 1997; Ryngart & Netter, 1990), for example capturing possible information leakage some days in advance of the event announcement. For that reason two asymmetric 6-day event windows finally investigate cumulative average residuals earned by target and bidder shareholders due to rumors preceding eventual public takeover announcements or other reasons for anticipation. They were chosen to cover the event windows [-10, -5] and [-5, 0].

We now can derive individual firm $i's$ abnormal returns $AR_{i\tau}$ for each of the event window days by estimating its intercept and slope, α_i and β_i, by regressing historic pre-event window returns on its stock against corresponding market portfolio returns and subsequently computing expected returns for the event window days according to equation (2). While estimation periods of at least 100 trading days of length seem appropriate to derive accurate estimations of α_i and β_i from the market model (Armitage, 1995), we employed estimation periods of the 250 trading days[8] preceding each of our event windows. Finally, abnormal returns are obtained by subtracting these expected from actually observed returns, as expressed by equation (1) above. Subsequently, these abnormal returns $AR_{i\tau}$ are aggregated cross-sectionally to bidder average residuals and target average residuals across all *N* bidders and targets, respectively, according to

$$AR_{\tau} = \frac{1}{N}\sum_{i=1}^{N} AR_{i\tau} \qquad (3)$$

Time-series aggregation of bidder average residuals and target average residuals according to

$$CAR_{(\tau_1,\tau_2)} = \sum_{\tau=\tau_1}^{\tau_2} AR_{\tau} \qquad (4)$$

finally yields the corresponding cumulative average residuals for the portfolios of firms under consideration for each time period [t_1, t_2].

3.4 RESULTS

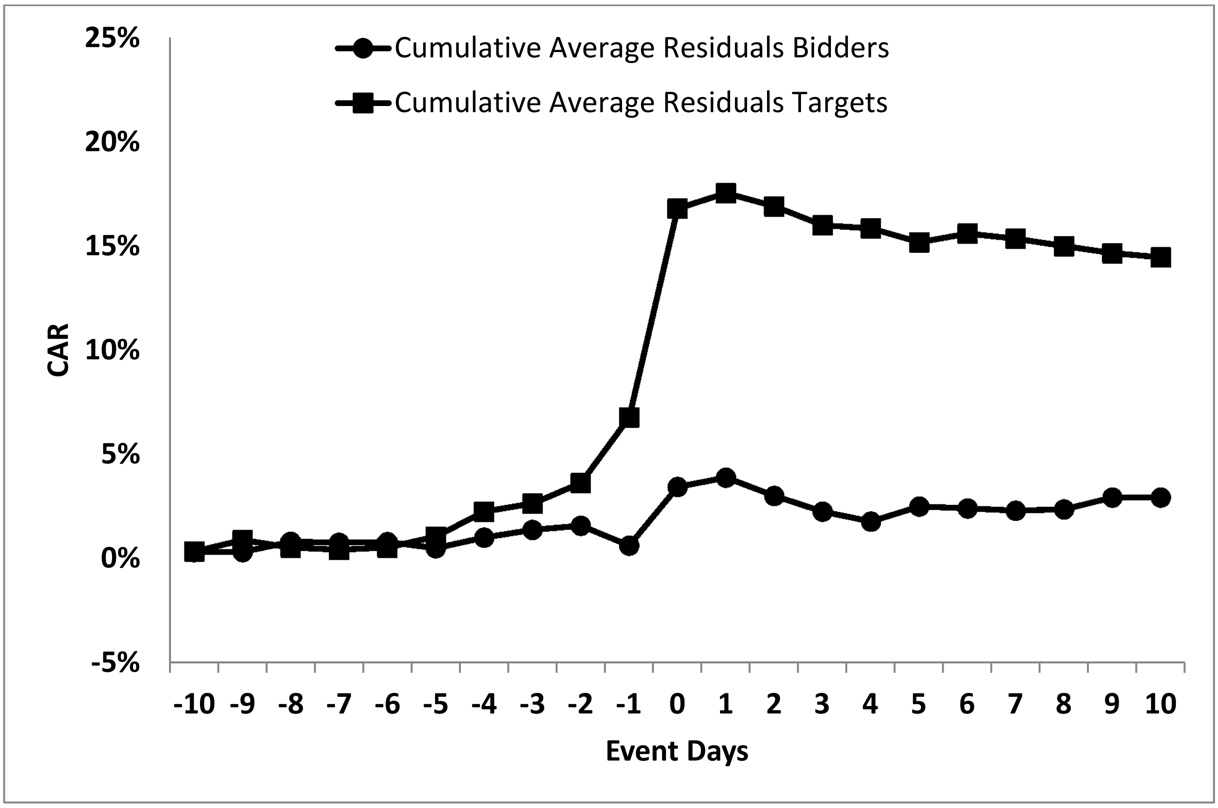
Figure 4 below plots cumulative average residuals for our portfolios of bidder and target firms for our lengthiest (21-days) event window against event window days[9]. As such, it exhibits the development of cumulative abnormal returns earned by investors in our bidder and target firms' portfolios, respectively, relative to those earned by investors in the market portfolio.

[8] With the exception of one target firm which was publicly quoted for 160 trading days only prior to the announcement of its takeover.

[9] Appendix 1 exhibits average as well as cumulative average residuals for the full samples of bidders and targets across all the individual days of our event windows.

Figure 4 suggests several preliminary conclusions. Firstly, the market seems to anticipate takeover announcements at least for takeover targets since the corresponding cumulative average residuals begin to notably increase well before the actual announcement day, which is event day 0.

Figure 4: Cumulative average residuals for 21 days event window



Our plot of cumulative average residuals suggests a notable increase in abnormal returns earned by investors in the targets portfolio around day -4 relative to the day of the public announcement of the targets' takeovers. Secondly, the information that the rumored event in fact takes place seems to already get to the market one day before the public takeover announcement, which leads to a clearly visible drop in bidders' and to a pronounced increase in targets' cumulative average residuals. We could fix the announcement dates with certainty, the actual event date in its sense with respect to an event study, however, seems to be fixed incorrectly. Thirdly, already about two days after the takeover announcement cumulative average residuals seem to begin a steady decline. These observations point to a considerably fast incorporation of information conveyed with a public takeover announcement into bidders' and targets' stock prices and thus suggest an efficient working of the stock market.

In a next step, we assess the cross-sectional distribution of the cumulative average residuals aggregated across our event windows for both the full samples of bidders / targets and for bidders / targets divided according to their involvement in takeovers of entrepreneurial and independent targets, respectively. We test our hypotheses by testing whether mean cumulative abnormal returns are significantly different from zero and exhibit the hypothesized signs. Table 4 below presents our results for the bidders and targets full samples as well as divided into the two groups covering takeovers targeted at entrepreneurial and at independent firms respectively. In testing whether observed cumulative average residuals are significantly different from zero we employ standard t-tests[10] (Kothari & Warner, 2007). Comparisons among the two groups of takeover targets were obtained from two-tailed tests of mean comparisons, with adjustments for differences in individual firm cumulative abnormal returns' variances among both, if applicable.[11]

Hypotheses 1 which postulates positive abnormal expected returns for both the shareholders of the target and the bidding firm could be confirmed. The coefficients for all three windows are positively and in particular statistically significant in the [-5,0] window.

[10] We additionally checked for robustness of our results with the specific t-test proposed in (MacKinlay, 1997).

[11] Assume an investor buys a portfolio of the 12 entrepreneurial targets 10 days before the official takeover announcement occurs and sell the shares exactly 10 days after the announcement. Then s/he would receive a return of 16.158 percent within this 20 day buy-and-hold period compared to an investment in the underlying benchmark, the CDAX. Investing in the 9 bidder companies within the same time window and selling then after 20 days will not lead to an abnormal return compared to the benchmark. Although this investment could lead to a loss of 4.407 percent compared to the benchmark, this difference is not statistically different from zero.

Table 4: Cumulative average residuals for bidders and targets

	Window	Entrepreneurial Targets	Obs.	Independent Targets	Obs.	T-Value	All Targets	Obs.
		Subsamples					Full Sample	
Targets								
	[-10, -5]	-0.324%	12	+1.436%	47	+0.715	+1.078%	59
	[-5, 0]	+16.816% *	12	+16.082% ***	47	-0.075	+16.232% ***	59
	[-10, +10]	+16.158% **	12	+14.033% **	47	-0.182	+14.465% ***	59
Bidders								
	[-10, -5]	-5.430% ***	9	+2.154% *	33	+3.082 ***	+0.529%	42
	[-5, 0]	+0.187%	9	+3.325% ***	33	+1.144	+2.653% **	42
	[-10, +10]	-4.407%	9	+4.952% *	33	+1.698 *	+2.947%	42

* / ** / ***: cumulative average residuals for sampled targets / bidders significantly different from zero to 90% / 95% / 99% levels of confidence. Column "T-Value" reports the results of two-tailed tests of mean comparisons among the entrepreneurial and the independent targets groups.

Hypothesis 2, which postulates positive abnormal returns to target shareholders, can also be confirmed for two of our three event-windows. The market seems, as is already suggested by figure 4, to notice the takeover attempt some days before its public announcement so that target shareholders earn significantly positive abnormal returns during the 6-days pre-event window ranging from event day -5 to the takeover announcement day and during our lengthiest 21-days event-window ranging from day -10 to day +10. We do not observe any significant abnormal returns during the earliest of our pre-event windows, however. During the [-5, 0] event window, investors in the full sample of takeover targets earned an abnormal 16.232 percent return relative to the market portfolio, during the lengthiest window they earned significantly abnormal 14.465 percent. While investors in the entrepreneurial target portfolio seem to earn slightly higher abnormal returns as those in the independent target portfolio, these differences are not statistically significant to any reliable level of confidence.

Hypothesis 3, which states that shareholders of bidders targeting newly public IPO-firms should earn positive abnormal returns in the time period around the takeover announcement, can partly be confirmed. During the 6-days event window from event day -5 until the announcement day, investors in the full portfolio of bidders earn statistically significant positive returns (2.653 percent as compared to the overall market portfolio). During the earlier pre-event window and across our lengthiest event-window which also covers post-announcement days, however, we find positive but not statistically non-zero abnormal returns. These results overall are in line with those found in (Kohers & Kohers, 2000, 2001). Investigating acquisitions of high-technology firms, they report an average significantly positive short-period gain of 0.92 percent accruing to bidder shareholders at the time of the merger announcement which pertains for both, cash and stock offers. However, for the three year period subsequent to the takeover they report significant losses to bidder shareholders of -17.45 percent. In Kohers and Kohers (2000) they exhibit positive cumulative abnormal bidder returns of 1.26 percent in a two day event-window surrounding the announcement of high-tech firm takeovers which leads them to attribute the observed significantly positive bidder shareholder returns to investors' optimistic forecasts on bidders' announcements of takeovers of young and innovative firms.

Finally, our results derived from dividing the full sample of bidders into the two groups of those bidding for entrepreneurial and those bidding for independent targets, respectively, allows us to test hypothesis 4. While we do not find any statistically significant abnormal returns for investors in the entrepreneurial target acquirers group across the lengthiest 21-days and the 6-days event-window from days -5 to 0, these investors earn significantly negative -5.43 percent abnormal returns as compared to the market portfolio across the [-10, -5] event-window. This partly confirms hypothesis 4: across the earliest 6-days event-window and across the lengthiest event-window, investors in the entrepreneurial target acquirer's portfolio earn significantly lower abnormal returns than investors in the independent target acquirer's portfolio. The latter group of investors consistently earns significantly positive abnormal returns as compared to the market portfolio, namely 2.154 percent across the earlier and 3.324 percent across the later 6-days event window (although not significantly different from those earned on the entrepreneurial target acquirers portfolio), and finally an abnormal return of 4.952 percent across the lengthiest event-window considering a symmetric 21-days period around takeover announcements.

3.5 DISCUSSION

3.5.1 Patent analysis and the merger process

The positive perception of stock market participants pertains to both target and bidder shareholders and, with respect to the latter, is in line with previous event studies on high-tech firm takeovers (Kohers & Kohers, 2000, 2001). Shareholders of bidders targeting firms whose resources and capabilities can readily and without exploitation impediments be exploited by incumbents earn significantly positive abnormal returns even surpassing those found in Kohers and Kohers (2000, 2001).

However, our results also point to a potential explanation for previously inconsistent findings on negative abnormal returns earned by bidder shareholders. Although in our full sample we find overall slightly positive abnormal returns, shareholders of bidders targeting firms that depend on their initial owners' specific knowledge and assets significantly lose wealth. As mentioned before, negative abnormal returns to bidder shareholders are often observed in the case of large and established companies where managers tend to invest in takeover protections. This should not be the case in high-tech and entrepreneurial firms where takeovers are often seen as a reward for past effort instead of a punishment of a weak management. Referring to property rights theory we argue that these findings could be explained by the incompleteness to control all relevant assets after the merger. This, however, raises the question which could not be answered by our study: If the management of the bidding company has the same information as the market participants, why should they then start a takeover announcement for companies where the CEO owns some substantial assets which could not totally be owned and exploited after the merger?

The merger process is often divided into the phases, targeting, due-diligence, technological compatibility and valuation. While Breitzman and Thomas (2002) argue for large mergers that the insights from patent analysis and its use in M&A targeting and due-diligence is still the exception rather than the rule, this should be also hold for small entrepreneurial firms. In this process, identifying the strength and weaknesses and in particular identifying the key innovators and inventors is one of the most important but also time and cost consuming tasks. Targeting refers to the identification of a target firm that will fill a particular R&D or technology gap. Our overall results point out that bidders tend to select their targets by the number of patents owned by the firm. Due diligence however involves verifying that a target company`s infrastructure, technology and inventors are as good as expected. This involves ensuring that all intellectual property rights are retained and that the key innovators for the target would remain with the company (see Breitzman & Thomas, 2002). Our results indicate that acquiring companies may at least fail in parts in this process. While indicating the CEO as a key innovator of a high-tech and entrepreneurial firms is rather easy, verifying and ensuring that his/her intellectual and firm specific assets could be absorbed after the merger remains an open question. Successfully acquiring high-tech and entrepreneurial firms as a part of a large firm's corporate entrepreneurial strategy means that the target company's technology complements the acquiring company's technology. Firms may either be too optimistic, compared to the stock market participants, that the CEO and founder as a key innovator remains with the merged company and if then does not tend to underinvest in relationship specific investments. Acquirers may also be too optimistic that, in the case the CEO as a key innovator leaves the company after the merger, all firm specific knowledge is bounded in the patents of the firm and the employees which remain after the merger.

Patent analysis should thus be an important and necessary aspect of M&A activities in all phases of the process, not only in targeting firms but more important in due-diligence, compatibility, and valuation. The identification of ownership rights and valuing the importance of key innovators not only shapes post-merger performance, it may also save costs in advance.

The market not only seems to perceive and positively evaluate the value creation potential of takeovers of small innovative firms but also their initial owners' decisive role in actually deriving value from the target's resources and capabilities and their potential to divert part of generated values away from bidder shareholders. Thus, CEOs as key innovators in high-tech and entrepreneurial firms which are not reluctant being taken over should ensure that their specific knowledge and patents are transferred to their firm in advance and thus could be explored and absorbed by the acquirer after the merger.

3.5.2 Drawbacks and robustness checks

As for all studies some drawbacks apply to our study. These need to be discussed subsequently along with our robustness checks. Most importantly, the data samples employed in our study are quite limited in size. However, due to the type of event we are interested in, namely acquisitions of newly public IPO-firms, our options in gathering a larger number of observations were naturally quite limited. While our sample sizes, however, are not uncommon for event studies, especially for those investigating relatively rare events, as for example the studies summarized in McWilliams and Siegel (1997) reveal, small observation numbers might negatively impact the reliability of event study test methods. Especially the power of tests employed in event studies[12], this is, tests' abilities to detect significantly abnormal performance if it is present, is highly sensitive to sample sizes while test specification is generally not a major concern in studies of short event-windows (Kothari & Warner, 2007). To check our results for robustness with respect to identified significantly non-zero cumulative average residuals, we conducted specific t-tests as proposed in MacKinlay (1997) for the large samples of bidders and targets in addition to the classic t-tests employed so far. Consistent with previous research we do not find any major qualitative differences as compared to our results derived from standard t-tests[13].

A closely related issue in determining significantly non-zero abnormal returns results from the joint-test problem since reliable results from tests of significantly non-zero abnormal returns do not only depend on well-specified and powerful tests but also on the correctness of the assumptions made concerning the process generating expected returns. Event study tests

[12] For a detailed discussion as well as comparative studies of several of these tests, thorough discussion of potential issues in test reliabilities and powers, and influences of sample sizes and volatilities of sampled securities, see e.g. (Patell, 1976), Armitage (1995), Brown & Warner (1985, 1980), Kothari & Warner (2007), MacKinlay (1997), and McWilliams & Siegel (1997).
[13] Corresponding results are not reported in detail in this paper, but are available on request.

accordingly do not only test for non-zero abnormal performance but also for the correctness of the employed expected returns model. Event studies have been found to deliver qualitatively similar results largely independent of the estimation model employed in determining expected returns (see e.g. Brown & Warner (1985, 1980), and the market model employed in our study seems to be one of the prevailingly used models (Armitage, 1995). Nonetheless, as robustness check of our results we additionally derived expected returns for the large samples of bidders and acquirers from the market adjusted model[14]. As compared to our results reported in this study and consistent with past research we did not find any major qualitative differences in results, neither when testing with the classic nor when testing with the specific t-tests.

Given the selection of our final set of observation our issues experienced in data collection could potentially bias our results. However, we do not have any reason to expect our selection of investigated takeover announcements to be a somewhat adverse selection of all 83 takeovers that were announced during our investigation period, this is, we do assume our samples to contain the least promising or least valuable takeover targets or acquirers of the overall population. As tables 2 and 3 above suggest, takeover announcements of targets in technology-based industries and announcements from more recent takeover years might be slightly overrepresented in our final samples. However, especially with respect to our research interest we do not expect these potential issues to severely bias our results. As a more bank-based then market-based country, the results could be biased towards a less developed stock market.

3.5.3 Suggestions for future research

A common but nonetheless important potential drawback to our study is the limited data sample sizes we could employ in this study due to the relatively rare event of interest. Future

[14] The market-adjusted model assumes an individual firm's stock on average to earn the return on the market portfolio for any given point in time. See for example Brown & Warner (1985, 1980) for details. Results are of course available on request.

research might want to consider our research question in the context of larger-scaled event studies which could improve overall quality and reliability of event study tests. Following the same line of thoughts, it would be also of interest to conduct our analyses by grouping the targets and bidders in our sample industry wise and then analyze if the results differ between those groups. All in all our samples, especially the sample of entrepreneurial firms, is fairly small for a split, which does not allow us to make a convincing point regarding group-specific effects.

Furthermore, bidders and targets involved in takeover announcements arguably are much more heterogeneous than can be covered by discriminating among only a limited set of distinct groups as we did in differentiating takeovers of entrepreneurial from those of independent firms. The outcomes of takeovers of young and IPO-firms with significant dependence on intangible strategic assets also might be influenced by the degree of decision autonomy granted to acquired key inventors after an acquisition of their firm (Colombo et al., 2010) or by the respective IPO-firm's and its key inventor's origins such as university affiliations (Bonardo et al., 2010b; Bonardo, Paleari, & Vismara, 2011), all of which can be expected to influence takeover announcement abnormal returns. Similarly, the strategic intend of an acquirer finally determines the relevant performance threshold as well as the degree to which target resources are to be combined with those of the bidder. Accordingly, one might expect issues in bidder-internal exploitation of acquired resources to be more important for strategic than for financial (i.e. portfolio) investments. Future research might wish to consider these potential influences of firm characteristics on abnormal returns to individual firms in the context of cross-sectional tests.

Another important issue for future research would be the role of venture capitalists within this takeover process. When investing in new ventures, the venture capitalists might force the key inventors to transform the patents towards the firm as a legal entity. The same may also hold for the CEO as the key inventor.

Finally, employing regression analyses to determine potential influences of several firm characteristics on abnormal returns to individual firms would then allow to also improve on our approximation of relevance and importance of intangible strategic resources allocated to IPO-firms' initial owners by not only considering patent ownership but also patent counts and ratios as well as a measure of (economic) value such as a respective patents cross-citations with patents directly owned by the respective firm. This suggestion taken a step further, inclusion of patent citation patterns and especially cross-citations among bidder, target, and target initial owner patents would allow for better assessing complementarities among and relatedness of these intangible resources as well as of whether the new list's takeover is only one step in a longer process of integrating target and bidder resources (see e.g. Ahuja & Katila, 2001; Mowery, Oxley, & Silverman, 1996; Schildt, Maula, & Keil, 2005).

3.6 SUMMARY AND CONCLUSION

This event study of public takeover announcements focuses on acquisitions targeted at public IPO-firms from German Stock Markets. We focus on the specific trade-offs that incumbent firms face in taking over young and innovative IPO-firms with respect to potential issues in successfully exploiting acquired resources and capabilities. In particular, this study accounts for the relevance of firm-specific human capital and innovative capabilities inalienably bound to a takeover target's initial owners which might impede the post-acquisition exploitability of acquired resources and capabilities. By discriminating among founder-dependent and independent targets, the results show that stock market negatively perceives and prices impediments to successful exploitation of an acquired target firm's resources and capabilities but positively evaluates the advantages associated with takeovers of innovative IPO-firms by larger and established incumbents. Thus, takeover announcements that involve targets with at least a fraction of indispensable intangible strategic resources inalienably bound to initial owners as key innovators lead bidder shareholders to earn significantly lower and obviously negative abnormal returns.

To the extent that bidder managers are concerned with and respond to developments of their firms' stock prices, our results might advise bidder managers to postpone a potential takeover target's acquisition and to choose different organizational arrangements in accessing its intangible strategic resources if an important fraction of these is inalienably bound to the target's initial owners. Additionally, potential issues in exploiting a target's resources and capabilities might demand for being proactively addressed and communicated. Major shareholders of entrepreneurial firms such as founder managers and venture capitalists that plan to divest their stakes in the ventures in turn can be advised to credibly make their ventures independent of founder-specific intangible assets as early as possible in the firm life cycle.

CHAPTER 4: GOVERNANCE BUNDLES – THEIR IMPACT ON ACQUIRER RETURNS IN ACQUISITIONS

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This article will be under review at ***European Management Journal*** (Impact Factor: 1.437, JOURQUAL: B). This article was also under review within the selection process of the Academy of Management Conference, Anaheim, California.

4.1 INTRODUCTION

Literature on M&As has long been engaged with the investigation of variables influencing the performance of the involved companies, thereby reporting mixed findings especially for acquirers (see Haleblian et al. (2009) for a seminal meta-analytical overview of antecedents, moderators and outcomes of acquisitions). Results on acquirers' post-acquisition performance are by now contradicting (Agrawal et al., 1992), with acquirer performance found to be positive (Healy et al., 1992), negative (Eckbo & Thorburn, 2000) or insignificant (King et al., 2004). Thereby various theoretical lenses have been applied to the M&A context such as social network and social capital theory (Briscoe & Tsai, 2011; Ishii & Xuan, 2014), organizational learning theory (Barkema, Bell, & Pennings, 1996; Bruton, Oviatt, & White, 1994) or institutional economics (i.e. principal agent theory). Within the latter field, corporate governance research understands takeovers as vehicles for the market for corporate control, disciplining ineffective target managers (Morck et al., 1989). Besides other questions, this stream of research is concerned with the influence of shareholder activism on firm performance (Goranova & Ryan, 2014) by analyzing the influence of varying types of investor proposals on different performance outcomes like share prices (Klein & Zur, 2009). Findings of those studies using share prices as performance outcome are inconsistent, showing positive (Greenwood & Schor, 2009), negative (Cai & Walkling, 2011) and constant (Agrawal, 2012) share price reactions. These mixed results recently lead research to state that the evidence of the effects of single governance mechanisms is discouraging (Misangyi & Acharya, 2014) and to call for studies which address "…the heterogeneity of shareholder activism and the potential interrelations among different types of activism" (Goranova and Ryan, 2014, p.27). Literature has hereby just begun to analyze combinations between various governance mechanisms on firm performance (Aguilera, Filatotchev, Gospel, & Jackson, 2008).

With this study we add to this research gap and integrate corporate governance research into M&A research. We argue that specifically combined governance mechanisms, reflected within shareholder proposals, are causal for mixed acquirer findings. We reason that if shareholders submit shareholder proposals to change acquirers' corporate governance, the stock market will, anticipate advantageous or less advantageous changes in corporate governance at acquiring companies at the announcement of a takeover and will, subsequently, react either positively or negatively – according to its evaluation of this proposal. More precisely, we expect the stock market to prognosticate whether the changes in acquirers' corporate governance are beneficial for those firms to successfully manage the newly formed company after the takeover or not, and to react respectively.

Integrating Goranova and Ryan (2014) insights that shareholderactivism is highly heterogenous and that those types of activism potentially interrelate, we reason that single shareholder proposals will only have minor or no effects on the share price reaction of acquirers at takeover announcement. Instead, we expect the combination of specific investor proposals, this is (bundles of proposals) to play a key role in the reaction of the market to announcements of takeovers. We hence venture the following research question: How are acquirers' individual governance mechanisms and the combination of these governance mechanisms perceived by the financial market at the announcement of the takeover? We test our hypotheses by analyzing the share price reactions of 722 shareholder proposals submitted to 170 acquirers. Our results demonstrate that specific proposal types have significant positive and negative effects on acquirers' share prices around the takeover announcement. Especially the combination of proposals as complements – the governance bundles – give rise to acquirers' share prices effects.

We contribute to M&A literature calling for greater research on how corporate governance issues influence acquisitions (Haleblian et al., 2009).We partially explain the mixed acquirer findings reported in the literature (King et al., 2004; Moeller et al., 2004) by showing that governance proposals and their combinations indeed effect corporate performance in acquisitions.

We further advance corporate governance literature in general and shareholder activism literature in particular by answering the call by Goranova and Ryan (2014) on how different types of shareholder activism affect firm performance differently. Our results clearly demonstrate that governance bundles have a greater influence on firm performance – especially in acquirers' share price reactions in takeovers – than individual actions. These results contribute to enlighten the mixed evidence which exists on the effects of each single governance mechanism on performance (Dalton et al., 2007; Misangyi & Acharya, 2014). In addition, we reveal that specific governance mechanisms do not substitute (Dalton, Daily, Certo, & Roengpitya, 2003) but rather complement each other, displaying different effects when issued individually or in combination, thereby strengthening the effect on firm performance.

Furthermore we add to corporate governance literature by showing that shareholder proposals as specific forms of governance mechanisms are perceived by the market. By anticipating the future capabilities of acquirers to manage the acquired company, the market either values or punishes the governance structures at acquirers. By being able to show that shareholder proposals and therewith the inherent governance mechanisms themselves influence the share price reaction of acquirers, our research supports studies which reveal an awareness and an anticipated implementation of those proposals (Ferri & Sandino, 2009). This can be assumed as shareholder proposals are shown to be accepted by the board of directors with increased regularity (Ertimur, Ferri, & Stubben, 2010) influencing various organizational outcomes (Guo, Kruse, & Nohel, 2008).

The remainder of this paper is structured as follows: Section II presents our theoretical argumentation of the markets anticipation of the governance mechanisms at acquiring companies on their abnormal returns at takeover announcements and presents the development of our hypotheses. Section III describes our data set and our method. Section IV reveals the results of our regression analysis. Finally, section V presents our discussion and conclusion.

4.2 THEORY AND HYPOTHESES

4.2.1 Acquisitions and the market for corporate control

Literature on M&As is concerned with the analysis of a richness of variables influencing the post-acquisition performance for acquirers in takeovers. Results regarding acquirers' post-acquisition performance are still contradicting (Agrawal et al., 1992), showing acquirers to win (Healy et al., 1992), to lose (Eckbo & Thorburn, 2000), or to break even (King et al., 2004; Lang et al., 1989). Previous literature has attributed mixed acquirer findings for instance to the payment of too a high premium by the acquirer for the target, management hubris, an incapability to accomplish synergies or the selection of targets with a strategic or organizational misfit (Hitt et al., 2012), the post-acquisition integration process (Angwin & Meadows, 2014) or various strategies and decisions the acquirer enforces during this process (Hitt et al., 2012; Puranam & Srikanth, 2007).

The selected antecedents for acquisition success or failure are thereby the result of various theoretical lenses which have been applied to the acquisition context like social network and social capital theory (Ishii & Xuan, 2014; Rogan & Sorenson, 2014), the resource based view (Uhlenbruck, Hitt, & Semadeni, 2006), or behavioral theory (Barkema & Schijven, 2008b). A further theory which is oftentimes applied to the acquisition context is corporate governance theory, whose theoretical foundation can be found within the agency perspective (Dalton et al., 2003). In general corporate governance research is concerned with the separation of ownership and management in companies (Jensen & Meckling, 1976), whereby the underlying agency perspective follows the assumption that problems occur, if managers (agents) deviate from the interests of shareholders (principals) (Dalton et al., 2007). In order to assure that these problems are cushioned, literature deals with mechanisms to control actions of managers (Connelly, Hoskisson, Tihanyi, &

Certo, 2010). These mechanisms can be divided into internal and external ones, whereby the former contain actions by the board of directors (Certo, Covin, Daily, & Dalton, 2001) or executive ownership (Dalton et al., 2003). The external dimension of corporate governance incorporates the market for corporate control (Hitt, Hoskisson, Johnson, & Moesel, 1996), namely the acquisitions and its disciplining facets on the management of the respective targets (Morck et al., 1989; Shleifer & Vishny, 1997). The aim of the market for corporate control is to avoid misconduct of the management like shirking and spoils of office as well as the pursue of vested interests of managers (Morck et al., 1988). The replacement of the target company's underperforming management through the acquisition has been shown to lead to a better performance, as the acquirer is better able to manage the assets of the respective target firm (Jensen, 1988).

In the sense of the market for corporate control, we will argue that there would not be a takeover attempt, if other external corporate governance mechanisms of the target were beneficial for its shareholders. We thus consider the takeover to be some kind of last resort for the target's shareholders as their corporate governance endeavors seem to have been unfruitful (Jensen, 1993). Thus our argument from an agency theory perspective is that acquirers initiate takeovers to control a badly performing management of the target.

4.2.2 The influence of shareholder proposals on firm performance

Another stream of literature which is located in the field of corporate governance focuses on shareholder activism which can be understood as: "…actions taken by shareholders with the explicit intention of influencing corporations' policies and practices" (Goranova and Ryan, 2014, p.3). Driven by activist investors (Haleblian et al., 2009), this practice has dramatically increased in the past years (Greenwood & Schor, 2009; Renneboog & Szilagyi, 2011). Shareholder activism research has been undergone a divarication into financial activism, based on agency theory (Gillan & Starks, 2007) and social activism focusing on stakeholders (David, Bloom, & Hillman, 2007; Guay, Doh, & Sinclair, 2004).

Studies on shareholder activism have thereby embraced a diverse set of topics ranging from antecedents (Karpoff, Malatesta, & Walkling, 1996; Zajac & Westphal, 1995), to processes (Gantchev, 2013), to outcomes (Klein & Zur, 2009; Ryan & Schneider, 2002). Shareholder activism can encompass actions like taking influence on firm behavior through meetings and negotiations between shareholders and the management (David et al., 2007), launching hostile media campaigns (Connelly et al., 2010) or direct interventions by shareholder proposals through proxy statements. These proposals allow shareholders to initiate specific actions, thereby reflecting their concerns about corporate governance (Gillan & Starks, 2000).

The influence of varying investor proposals in the financial activism context has been investigated on performance outcomes like share prices (Klein & Zur, 2009) and generates inconsistent results, showing positive (Greenwood & Schor, 2009), negative (Cai & Walkling, 2011) and constant (Agrawal, 2012) share price reactions. These mixed findings lead scholars to state that the evidence of the effects of single governance mechanisms is discouraging (Misangyi & Acharya, 2014) and to call for studies which address "…the heterogeneity of shareholder activism and the potential interrelations among different types of activism" (Goranova and Ryan, 2014, p.27). M&A research is thereby far away from understanding the influence of corporate governance mechanisms on acquisition decisions and outcomes (Haleblian et al., 2009), and strategy and financial researchers have a lot to learn about how different corporate governance mechanisms and their combinations influence company performance in general (Goranova & Ryan, 2014).

Grounded in agency theory we try to answer these calls by bringing together acquisitions as the main vehicle of the market for corporate control on the one hand and the controlling mechanism of shareholder proposals as form of investor activism at acquiring companies on the other. More precisely, we analyze acquirers' share price reactions at the takeover announcement in consequence of submitted shareholder proposal bundles at acquirers. We can show that these bundle-effects differ from those of the individual governance mechanisms and argue that the mixed results, concerning the effectiveness of governance mechanisms mentioned in the literature, are the result of the disregard of those governance mechanisms occurring in bundles.

Studying the share price reaction of acquirers in the context of acquisitions is fruitful, as the stock market at this point will direct its specific attention to the governance structures of acquirers. The market will perceive the acquisition as a mean to discipline target managers (Jarrell, Brickley, & Netter, 1988) and will predict if those acquirers will be able to more efficiently manage the target after the takeover (Jensen, 1988) whereby the performance of the new company would increase. An upcoming takeover should also be a good situation in which shareholder proposals gain acceptance. This should be the case, as the board of directors, as representative of the shareholder base, should be interested in appointing an acquirer management, which is capable to better manage the target after the acquisition. This argumentation is in line with literature which assumes that shareholder proposals will experience support by other shareholders, as they are accepted by the board of directors with increased regularity (Ertimur et al., 2010; Thomas & Cotter, 2007). Shareholder proposals will thereby indeed impact various outcomes like for example the disassemblement of staggered boards (Guo et al., 2008) or the expansion of stock options (Ferri & Sandino, 2009).

4.2.3 Hypotheses

Say on pay proposals

Say on pay proposals as one type of shareholder proposal enable shareholders on an annual basis to influence the compensation of executives such as bonuses, salary revisions, stock options or retirement benefits (Cai & Walkling, 2011; Jensen & Murphy, 1990). Argued from a governance theory perspective, say on pay proposals in general are used to mitigate the principal – agent problem between managers and shareholders (Karpoff et al., 1996), as their justification lies at best in an obligation of the board to negotiate better aligned executive contracts, but at least in a better communication between the shareholders and the management (Brunarski, Campbell, & Harman, 2015).

Literature dealing with the effects of say on pay proposals on the value of companies is rather scarce and is divided regarding the question whether or not those compensation related proposals create value for companies (Ferri & Maber, 2013). The respective studies find either no significant (Gillan & Starks, 2000; Thomas & Cotter 2007), negative (Brunarski et al., 2015; Larcker, Ormazabal & Taylor 2011; Cai & Walkling 2011), or positive market reactions (Cai & Walkling 2011; Ferri & Maber 2013) of compensation related proposals on shareholder wealth.

Literature dealing with positive market reactions as a result of changes in executive compensation for instance, shows that say on pay proposals lead to a positive market reaction of companies, when the CEOs of these companies are inefficiently paid, as agency costs are reduced and the interests of shareholders and managers are better aligned (Cai & Walkling, 2011). Ferri and Maber (2013) confirm this positive impact of say on pay proposals on the share price reaction of companies, if the CEO is overpaid and the company under investigation exhibits poor performance. According to the authors those results can be attributed to an improvement in monitoring mechanisms which align the interests of the shareholders and the management and lead to an increase in value. Cai and Walkling (2011) argue that say on pay proposals will better adjust the interests of shareholders and the management of a company those proposals are submitted to, thereby reducing agency costs and improving corporate governance. This line of thought should by transferrable to the context of M&A. If shareholders try to influence executive compensation before an upcoming acquisition via shareholder proposals, our argumentation from an agency theory perspective is, that their intention should be to better align managements' interests with their own, especially with respect to the management of the target company after the acquisition. This line of thought holds as literature shows that conflicts between managers and shareholders strengthen in M&A situations (Jensen & Meckling, 1976). The reason is that managers do not always undertake value maximizing acquisitions and oftentimes try to maximize their own benefit at shareholder's expense (Masulis, Wang, & Xie, 2007). The capital market, which reacts to the alignment of shareholder and manager interests also in the Non-M&A case (Ferri & Maber, 2013), evaluates the information inherent in an intended takeover announcement (MacKinlay, 1997; McWilliams & Siegel, 1997) and is expected to perceive this assimilation of interests and thereby the improvement in corporate governance at acquirers' positively. The market is, in turn, expected to anticipate this enhanced and more homogenous corporate governance structure to help the acquirer in better managing the new company after the takeover. As conflicts of interest between both parties rise in a takeover situation (Jensen & Meckling, 1976) acquirers' share price reaction should be even stronger and better observable in an upcoming acquisition attempt, when governance mechanisms are better aligned. We therefore propose:

Hypothesis 1: The issuance of say on pay shareholder proposals at the acquirer leads to a positive acquirer's share price reaction.

Independent auditors

Independent auditors are defined as firms which deliver an unbiased estimation of companies' financial statements, based on standard accounting principles (Goldman & Barlev, 1974; Levinthal & Fichman, 1988), whereby their fair value assessment of those companies' assets is their main duty (Griffin, 2014). The independence of auditors requires a certain distance between auditor and audited company (Dogui, Boiral, & Heras-Saizarbitoria, 2014) and is of high importance within the process of auditing, as shareholders' demands for reliable and trustful information is high (Antonio & Bassetti, 2014). Research on auditor independence has shown that auditors face potential conflicting interests. On one hand they are legally encouraged to deliver objective fair value assessments of companies (Griffin, 2014). On the other hand they are hired by the management of the company they audit (Levinthal & Fichman, 1988) and are thus economically dependent, receiving their auditing fees from those companies (Dogui et al., 2014). Thereby the jeopardy exists, that the management tries to influence the auditor's report to present the company in a proper light towards third parties like investors and to impress shareholders, as these parties evaluate managements' performance based on the auditor's report (Goldman & Barlev, 1974). To mitigate these governance failures, shareholders issue proposals to replace the auditor in case they believe that the management performance is misrepresented.

Transferring this agency theoretical reasoning to the M&A setting, the financial market's reaction to the announcement of a takeover in which the acquirers' shareholders issue proposals concerning the appointment of new independent auditors should be positive. This argument should hold, as acquirers' shareholders usually know about an upcoming acquisition attempt, which should cause them to make an independent auditor proposal. Those independent auditors in turn, will help the acquiring firms' managers to develop their skills to analyze target firms and investments during target selection. This argument seems reasonable as external advisors can reduce demands on managers (Bowers & Miller, 1990), thereby lowering information asymmetries between shareholders and acquirers' managers to facilitate acquisitions (Servaes & Zenner, 1996), which eases the assessment of companies' performance (Antonio & Bassetti, 2014).

By deploying a new independent auditor, whose assessment reflects the management performance, is expected to signal to the market, that acquirers' shareholders will do everything in their power to assess the quality of the organization's management (Levinthal & Fichman, 1988). Given that takeovers are understood as main vehicles for the market of corporate control, the performance of acquirers' management is the determining factor to make the shareholders believe that the acquirer will manage the new company more successfully after the acquisition. Thereby the efforts to effectively assess acquirers' management seem to be especially important as literature on auditors in takeovers shows that managers tend to manipulate their earnings before the acquisition (Gong, Louis, & Sun, 2008). Further arguments which underline this reasoning are that the switching of an auditor often occurs when companies need a change, which is the case with an acquisition (Levinthal & Fichman, 1988). We hence hypothesize:

Hypothesis 2: The issuance of shareholder proposals on the appointment of new auditors at the acquirer leads to a positive acquirer's share price reaction.

Employee stock options

Employee stock options (ESO) as payment components of employees and managers' salaries have gained increasing popularity within companies (Core & Guay, 2001), whereby those stock options account for the main part of CEO compensation (Yermack, 1995). Besides research which investigates antecedents of ESO like market based incentives (Kato, Lemmon, Luo, & Schallheim, 2005), limited external financing opportunities ((Babenko, Lemmon, & Tserlukevich, 2011), or difficulties in controlling the management (Yermack, 1995), research on ESO concentrates on its implications. This research reveals that such ESO vehicle of payment leads to a better long-term orientation of the management (Ferri & Sandino, 2009). Moreover, research shows that employee stock options are used to better align the interests of shareholders and employees in companies as well as to attract, reward and retain employees (Bergstresser & Philippon, 2006; Guay, Kothari, & Sloan, 2003; Kato et al., 2005).

A further area in the field of ESO effects brings to light that ESO are used extensively (Bodie, Kaplan, & Merton, 2003), lead to management manipulation of earnings (Bergstresser & Philippon, 2006), and elicit opportunistic choices of grant dates (Yermack, 1997). This development has prompted regulating authorities to introduce regulations that compel companies to incorporate stock options as expenses with their fair value into their income statements at the date of option granting (Ravenscroft & Williams, 2009).

We argue from an agency standpoint that the stock market reaction to the submission of ESO for the acquirer's management should be negative during M&A. The common argument is, that shareholders submit those proposals at acquirers in the belief of an associated increase in the long-term orientation of the management (Ferri & Sandino, 2009) and an associated improved alignment of the interests of shareholders and executives (Guay et al., 2003). We, however, expect the stock market to anticipate in the case of an upcoming acquisition that managers are above-average driven by the temptation to manipulate earnings (Gong et al., 2008) and to curtain their inferior performance in order to raise share price performance. Thus, if those proposals are submitted at acquirers upfront an M&A announcement, the market will anticipate managements' camouflage tactic in covering their real performance, and will assume that the management of such companies will be less able to successfully manage the new entity after the acquisition:

Hypothesis 3: The issuance of shareholder proposals to establish employee stock options at the acquirer leads to a negative acquirer's share price reaction.

Interaction between independent auditor and ESO proposals

We have argued for several singular relations between governance mechanisms expressed via shareholder proposals and acquirers' share price reaction. In this section we contend that the combination and interaction of different governance mechanisms (referred to as governance bundles), expressed via shareholder proposals, delivers a partial solution to the mixed findings of effects of governance proposals reported in the literature so far (Dalton et al., 2003, 2007).

We argued, that the issuance of ESO proposals at acquirers may result in negative acquirer share price reactions, as the market will anticipate the potential of the managers to disguise their inadequate performance by rigging the financial numbers of the acquirers upfront the upcoming acquisition (Gong et al., 2008). Our reasoning concerning the market reaction to call for new independent auditors via shareholder proposals however was, that it should be positive, as the acquirer will do everything in its power to assess the quality of its management in successfully managing the new company after the acquisition (Levinthal & Fichman, 1988).

Turning to the perception on the interaction between the information about the issuance of employee stock option and the appointment of a new independent auditor, we argue that the influence of this governance bundle on acquirers' share price reaction will be positive. If the financial market considers the potential of managers to manipulate financial numbers as high, as acquirers' shareholders vote in favor of an enhanced proportion of stock options in the management compensation (Gong et al., 2008), the nomination of a new independent auditor upfront the upcoming acquisition should be perceived positive. The new auditor will lower information asymmetries between shareholders and acquirers' managers, thereby delivering more transparency in assessing the financial performance of the acquirers' management (Antonio & Bassetti, 2014). The financial market is thus expected to cherish this governance bundle more positively than in a single governance proposal, as it is even more an indication of how the management will be able to manage the new company after the acquisition:

Hypothesis 4: The issuance of shareholder proposals to establish employee stock options in combination with shareholder proposals to appoint a new independent auditor at the acquirer leads to a positive acquirer's share price reaction.

Interactions between say on pay and independent auditor proposals

We argued that the stock market will react positively to the announcement of takeovers by companies in which shareholders submit say on pay proposal upfront acquisition announcement. The market will do so as those proposals will better adjust the interests of the shareholders and the management at the firm they are submitted to. Thereby agency costs will be reduced and corporate governance improved, leading to a better performance of the company (Cai & Walkling, 2011; Ertimur, Ferri, & Muslu, 2011; Ferri & Maber, 2013) as well as a more successful management of the new company after the takeover (Wang & Xie, 2009).

The market reaction to the announcement of takeovers by companies which have received the advice by their shareholders to appoint new independent auditors, should also be positive due to the before mentioned better management performance evaluation a superior transparency between shareholders and management (Antonio & Bassetti, 2014).

If shareholders submit proposals on say on pay and on the appointment of a new independent auditor as a governance bundle, we expect the market to react negatively. We argue that when shareholders of acquirers solely request the board to appoint a new independent auditor, the market will value the efforts of acquirers' shareholders in suggesting a new independent auditor with higher transparency and a better assessment of the true performance of the acquirers' management, resulting in a positive market reaction. However, when acquirers' shareholders want to change both, the compensation of the management (say on pay proposals) and the performance evaluation of the management (independent auditors), we argue that this governance bundle is inefficient, as shareholders signal an extreme dissatisfaction with the payment of the management and are highly insecure about the performance situation of the company. Especially in the context of an acquisition, shareholders need clarity about the real performance of the management to estimate if managements' performance is good enough to manage the new company after the acquisition (Antonio & Bassetti, 2014). By understanding takeovers as vehicles for corporate control, this dissatisfaction about executives' compensation in combination with the uncertainty about the true management performance should the market let react negatively, as the financial market should perceive the acquirer to be less capable to successfully manage the new company after the acquisition. Hereby the stock market within the acquisition context should react even more positive than in other market reaction settings, as the market will even more emphasize to ascertain managements' ability to manage the new company after the acquisition:

Hypothesis 5: The issuance of say on pay shareholder proposals in combination with shareholder proposals to appoint a new independent auditor at the acquirer leads to a negative acquirer's share price reaction.

4.3 METHODOLOGY

4.3.1 Data Set

As our intention is to analyze the stock market reaction of acquiring companies as a function of their governance mechanisms at the time the takeover is announced, we started our data collection by tapping the M&A database Zephyr, provided by Bureau van Dijk. It is one of the most comprehensive M&A databases with more than 1.2 million takeovers and takeover rumors. We concentrated our endeavors on takeovers of U.S. acquirers and targets listed at NYSE and NASDAQ to analyze share price reactions and shareholder proposals of acquirers, who undertook acquisitions between 2005 and 2015. This left us with more than 5000 acquisitions. After adjusting our original sample by acquirers, which were not listed at the above-mentioned stock exchanges and by acquirers without our main interesting shareholder proposals described in the measurement section (we started with 925 proposals), we were left with a final sample of 170 acquisitions with more than 366 shareholder proposals submitted. Share prices of the acquiring companies as well as the two mentioned benchmark indices for the calculation of the abnormal returns in our event study were compiled from different independent suppliers of financial data like ARIVA.de AG *(www.ariva.de),* OnVista Media GmbH *(onvista.de),* and the German stock exchange *(deutsche-boerse.com).* Shareholder proposals of the acquiring companies, called DEF 14A reports were obtained from the U.S. Securities and Exchange Commission *(www.sec.gov).*

4.3.2 Measures

Dependent Variables

As dependent variable we used the cumulative abnormal returns (CARs) of each acquirer. To receive CARs we calculated the abnormal returns of the acquirers by using standard event study methodology. The abnormal returns (ARs) were cumulated over two event windows to receive two CARs for each acquirer. The calculations for the ARs as well as those for the CARs will be described in detail within the method section.

Independent Variables

Our main independent variables encompass the shareholder proposals derived within our theory section. These proposals gathered from www.sec.gov are "say on pay", "independent auditor", and "employee stock options (ESO)". We chose those independent variables as literature shows that they are the most influential ones in influencing performance outcomes of companies (Cai & Walkling, 2011).To receive our independent variables, we analyzed DEF 14A reports of all of our acquirers in the initial sample. Those companies, which had none of the above-mentioned proposals in their DEF 14A reports, were excluded. Concerning say on pay proposals, we counted the number of those proposals, submitted at each acquirer. The same holds for the number of employee stock option plans at the acquiring firms, where we counted the number of employee stock option proposals submitted by the shareholders. Each firm in the data sample, whose shareholders submitted proposals calling for a new independent auditor, received a 1 and 0 otherwise.

Control Variables

As control variables we included size and sector. Size might play a role, as bigger acquirers will be generally evaluated worse by the financial market, as those companies make bigger acquisitions and thereby receive higher losses, whereas smaller acquirers will be evaluated better by the market (Moeller et al., 2004). The size variable was included as a metric variable, comprising the total assets per acquirer in our sample.

We also controlled for the sectors the acquiring companies are based in as higher acquirer returns in our sample could also be due to a sector or industry effect. Literature shows that accumulations of acquisitions in certain industries, which are the result of industry shocks, can lead to higher acquirer returns in those industries (Andrade, Mitchell, & Stafford, 2001;). Every sector was included as a single variable where a company was assigned a 1 if it belonged to a specific sector and 0 otherwise. Table 5 displays all sectors derived from *bloomberg.com*, which we included in our analysis as well as the distribution of the companies within the sectors and their mean.

Table 5: Sectors and distribution of the companies within the sample

Company sectors	**Distribution of companies within the sectors**	**Distribution of companies within the sectors (%)**
Financials	27	15.88
Consumer Discretionary	25	14.70
Consumer Staples	8	4.70
Materials	13	7.64
Health Care	22	12.94
Communications	9	5.29
Technology	43	25.29
Industrials	19	11.17
Energy	3	1.76
Aerospace & Defense	1	0.58
N	170	
Percentage		100%

4.3.3 Method

To calculate abnormal acquirer returns as function of the governance proposals submitted at acquirers', we applied standard event study methodology and used the market model ($R_{i,t} = \alpha_i + \beta_i \cdot R_{m,t} + \varepsilon_{i,t}$) (Brown & Warner, 1985; McWilliams & Siegel, 1997). Event studies analyze influences of economic events like an acquisition on the returns of the companies involved in the event. The underlying assumption is, that the emerging information about the event – if the capital market is efficient in that it incorporates the emerging information in a timely manner – will be immediately reflected within the share prices of the concerned firms (McWilliams & Siegel, 1997). To trace back the share price reaction to the information of the submission of acquirers' shareholders proposals at takeover announcement, we chose only takeovers in which there was no annual- or quarterly report between those two dates.

We chose the market model[15] as other models, which could also be applied to calculate the abnormal returns, assume α as 0 and β as 1, which turns out to be relatively imprecise. In a next step, we fixed the announcement day 0 of all takeovers in our sample. Afterwards we specified two event windows, one from day [- 5;+5] one from $[-10;+10]$ in which we want to observe the abnormal stock market returns of each acquirer in the sample (event period). We chose event windows which are bigger than [- 1;+1] days around the announcement of the acquisition following studies like by Asquith *et al.* (1983) to assure that the information about the governance proposals reaches the market but not too long to run the risk of confounding events. Following, we determined calculation windows for the computation of the market parameters α_i and β_i in the market model (estimation period). Therefore we took every company in the sample and went 250 trading days backwards in advance of the respective takeover announcement, as it is common in the literature on event studies (Brown & Warner, 1985; McWilliams & Siegel, 1997). The choice of 250 trading days in advance of the event to calculate the parameters of the market model guarantees, that there will be no bias in the parameter calculation (Keown & Pinkerton, 1981). The result where two estimation periods from $[-250;-6]$ and $[-250;-10]$ and respectively two α_i and β_i resulted, one for the smaller estimation period and one for the bigger one. By only including the upstream period of measurement and not integrating the two event window periods into the estimation of the

[15] We also calculated the abnormal returns for the acquirers with the "constant mean return model" and the "market adjusted model" to check if differences arise. Reinforcing results from the literature on event studies (Brown & Warner, 1980), the results did not differ from those calculated by the market model.

parameters, we prevent a distortion of those parameters, as otherwise both the normal and the abnormal returns would portray the impact of the event, resulting in biased outcomes (MacKinlay, 1997). For the calculation of abnormal stock market returns of the acquiring company we chose benchmark indices to compare the daily stock prices of the respective acquiring companies with (Dennis & McConnell, 1986). Therefore, we selected only companies that are either listed at the NYSE or the NASDAQ. Share prices of the acquiring companies as well as share prices of the benchmark indices NYSE and NASDAQ in our sample were compiled from different independent suppliers of financial data like ARIVA.de AG (*www.ariva.de)*, OnVista Media GmbH (*onvista.de),* and the German stock exchange *(deutsche-boerse.com)*. Every share price i on day t $(R_{i,t})$ for each acquirer was then regressed against every respective daily value of the benchmark index m on day t $(R_{m,t})$ for both estimation periods mentioned before.

Our regressions resulted in 11 abnormal returns (ARs) for the smaller event window and 21 abnormal returns for the bigger event window for each acquiring company in our sample. Those abnormal returns were than cumulated for each of the two event windows, resulting in two cumulative abnormal returns (CARs) for each acquirer in the sample, one for the smaller and one for the bigger event window. In a final step CARs were subsequently deployed as dependent variables in the following main OLS-regressions. We run two regression analyses for each acquiring company with respectively one CAR as dependent variable. As independent variables, we used each time two types of shareholder proposals and their respective interaction. Furthermore we deployed all of our control variables in each regression. We checked if and affirmed that all requirements for using OLS-regressions were fulfilled. We also run bootstrapping regressions for control reasons, which revealed no differences in our results.

4.4 RESULTS

Table 6 gives an overview of our independent and control variables in our study as well as the Pearson correlations between those variables. No significant correlations between our variables can be detected, except two correlations which are close to 0.5. Those exist between independent auditor and the interaction between independent auditor and say on pay proposals as well as between ESO and the interaction between ESO and independent auditors. After checking for variance inflation factors (VIF) we can space out multicollinearity, as our highest VIF is 1.65 (VIF maximum: 10). Values near 1 (which almost all our VIFs exhibit) are indicative of non-existent correlations. Table 7 shows the results of our regression analysis with both dependent variables CAR 1 and CAR 2. No variable in our CAR 2 regression becomes significant, which is most likely the result of the size of the event window around the announcement day of the acquisition. This assumption is underpinned by comparing the CAR 1 model with the CAR 2 model, whereby the financial market seems to become aware of the acquisition only within our shorter event window.

First, we turn to the effects of individual governance mechanisms. Our first hypothesis which stated a positive acquirer share price reaction at the announcement of takeovers by companies, in which the shareholder submitted say on pay proposals, cannot be confirmed by our data, at no statistical significance level. Thus the market does not seem to worship an alignment of interests between shareholders and the management upfront an acquisition. Our results for the acquisition context are in line with studies who report no influence of say on pay proposals on the performance of companies (Gillan & Starks, 2000; Thomas & Cotter, 2007).

Table 6: Descriptive statistics and Pearson correlation coefficients

Variable	Mean	Standard deviation	Say on pay	Independent auditor	ESO	ESO x independent auditors	ESO x Say on pay	Say on pay x Independent auditor	Size
Say on pay	0.06	1.01	1						
Independent auditor	0.06	0.24	-0.17	1					
ESO	0.00	0.46	0.04	0.06	1				
ESO x Independent auditors	0	0	0.05	-0.23	0.48	1			
ESO x Say on pay	0	0	0.00	0.03	0.04	-0.10	1		
Say on pay x Independent auditor	0	0	0.03	0.48	0.03	-0.05	0.11	1	
Size	9.56e+08	6.14e+09	0.11	-0.03	-0.07	-0.02	-0.05	0.11	1

N = 170; ***p<0.01; **p<0.0; variable values are rounded to two decimals

Table 7: Regression analysis with acquirers' CAR 1 and CAR 2 as dependent variables

	CAR 1	CAR 2
Say on pay	0.00	-0.02
	(0.88)	*(0.12)*
Independent auditor	0.09***	0.03
	(0.00)	*(0.57)*
ESO	-0.03**	-0.01
	(0.02)	*(0.75)*
ESO x Independent auditors	0.24***	0.21
	(0.00)	*(0.14)*
ESO x Say on pay	0.01	-0.01
	(0.59)	*(0.63)*
Say on pay x Independent auditor	-0.05***	0.00
	(0.01)	*(0.97)*
Size	3.48e-13	3.98e-13
	(0.69)	*(0.81)*
Constant	-0.03**	-0.03**
	(0.02)	*(0.12)*
Industry Dummies	Yes	Yes
R^2	0.24***	0.15
	(0.00)	*(0.07)*
Adjusted R^2	0.16	0.06

N = 170; ***p<0.01; **p<0.05, based on two-tailed tests, robust standard errors; significance levels in parentheses; variable values are rounded to two decimals

The second hypothesis which expected a positive acquirer share price reaction to takeover announcements of acquisitions, in which shareholders proposed the appointment of new independent auditors, is highly significant at p<0.01 percent. This result is in line with the argumentation that acquirers' shareholders seem to know about the upcoming acquisition, which, in turn, should cause them to make a proposal to appoint new independent auditors, who might help acquiring firms' managers to develop skills to analyze target firms and investments during target selection, thereby lowering information asymmetries between shareholders and acquirers' managers to facilitate acquisitions (Servaes & Zenner, 1996).This signals to the market that the acquirer will do everything in its power to assess the quality of its management (Levinthal & Fichman, 1988), to assure that the new company is successfully managed after the acquisition.

Our third hypotheses about a negative influence of employee stock option shareholder proposals on acquirers share price reaction can be confirmed at the $p<0.05$ percent level of significance. This result can be interpreted in line with our argumentation that, although shareholders submit those proposals in the belief of an associated increase in the long-term orientation of the management (Ferri & Sandino, 2009) and an associated improved alignment of the interests of shareholders and executives (Guay et al., 2003), the stock market expects something different. It should anticipate that – especially in the case of an upcoming acquisition – managers are driven by the temptation to manipulate earnings, curtaining their worse performance and presenting the acquirer in a proper light, to raise share price performance (Gong et al., 2008). As a result, the market will give those firms credit for less successfully managing the new company after the acquisition, as it will anticipate managements' camouflage tactic, if those proposals are submitted upfront the announcement of a takeover.

In hypothesis four, we stated that if shareholders of acquiring firms submit governance bundles to establish ESO in combination with shareholder proposals to appoint new independent auditors, a positive acquirer's share price reaction should appear at takeover announcement. Our results reveal that there is, indeed, a highly significant positive acquirer share price reaction at the $p<0.01$ percent significance level to the announcement of takeovers including this governance bundle at acquirers. Actually the information about the potential of acquirers' managers to manipulate the financial numbers should lead the financial market to react negative, if acquirers' shareholders argue in favor of an enhancement of the proportion of stock options in the management compensation. However, the submission of proposals demanding the nomination of new independent auditors upfront the acquisition should let the market react positive, as the new auditor might lower information asymmetries an bring a higher transparency in assessing the financial performance of the acquirers' management.

Our last hypothesis five stated that there should be a negative relation between the governance bundle consisting of say on pay proposals and proposals suggesting the appointment of new independent auditors submitted by acquirers' shareholders and the acquirers share price reaction at acquisition announcement. This hypothesis can be confirmed by our data at a high significance level of $p<0.01$ percent. We argued that in the situation in which acquirers' shareholders want to change both the management compensation (say on pay proposals) and its performance evaluation (independent auditor), shareholders seem to be extremely unsatisfied with the payment of the management and are highly unsecure about the performance situation of the company. Especially within the acquisition context, shareholders need clarity about the real performance of the management to estimate if the managements' performance is good enough to manage the new company after the acquisition. Thus this dissatisfaction about executives' compensation in combination with the uncertainty about the true management performance will lead to a negative market reaction.

4.5 DISCUSSION

With our research we contribute to several streams of literature. First, we add to M&A literature which calls for more research on how corporate governance issues influence acquisitions (Haleblian et al., 2009). By not only showing that *there are* effects of governance mechanisms on companies' share price performance in acquisitions but also, and most importantly, that these governance mechanisms impact corporate performance differently when they come as bundles as opposed to their individual impacts. We thereby partially explain the mixed acquirer performance findings in takeovers reported in the acquisition literature (Agrawal et al., 1992; Haspeslagh & Jemison, 1991). Furthermore, we uncover that the importance of shareholder proposals in the context of acquisitions increases, as the financial market perceives those proposals and does react.

Second and most importantly, we contribute to governance literature in general and to the literature on shareholder activism in particular by answering the call by Goranova and Ryan (2014) on how different types of shareholder activism affect firm performance differently. We do so by demonstrating that bundles (combination of governance mechanisms) have a much greater influence on share price reactions of acquiring firms in takeovers than individual proposals. With our results we contribute our share to the enlightenment of the mixed evidence on the effects of each of the governance mechanisms on performance (Dalton et al., 2003, 2007; Misangyi & Acharya, 2014). We furthermore support previous research which understands specific governance mechanisms as complements by delivering another study on governance bundles. We argue in line with Aguilera et al. (2008) and Misangyi and Acharya (2014) that corporate governance mechanisms act as complements in influencing firm performance and not, as often assumed in previous research, as substitutes, in mitigating the agency problem (Dalton et al., 2003; Zajac & Westphal, 1994). In addition to previous studies we go one step further in demonstrating that the performance implications for companies hinge upon the types of governance mechanisms applied, as sometimes these mechanisms unfold their impact individually and sometimes only in bundles. Then again, while the singular governance mechanisms seem to only partially influence firm performance, their interaction becomes highly significant. Again, others bundles seem to be inefficient, as they do not become significant.

Our study differs from previous governance research that also investigated the combination and interaction of different governance mechanisms and their influence on corporate performance (Aguilera et al., 2012, 2008; Filatotchev & Boyd, 2009; Tosi, 2008) by addressing the specific context of acquisitions. This specific context allows us to isolate and thereby to better observe performance implications of share price reactions at acquirers. At the announcement of an acquisition the market will raise specific attention to the governance structures of acquirers, evaluating its capabilities to manage the new company after the acquisition. The market will do so as changes in corporate governance at the target by an acquirer with good governance leads to better performing acquisitions (Wang & Xie, 2009).

Our second contribution to governance literature lies in revealing significant influences of shareholder proposals on firm performance, in our case the share price reaction of acquirers. In contrast to various studies which report non-significant results of those proposals on performance (e.g. Agrawal, 2012), our research suggests that the market does anticipate the subsequent implementation of those proposals, as it otherwise would not react at all (Ferri & Sandino, 2009). We therefore add to research showing that shareholder proposals will be supported by other shareholders as they are with increased regularity accepted by the board of directors (Ertimur et al., 2010; Thomas & Cotter, 2007).

Our results might be context specific as shareholders in acquisitions place particular importance on information about acquirers' governance mechanisms. Shareholders' assessment seems to be especially important in acquisitions as the performance of the acquirers' management is the determining factor for the shareholders to think that the acquirer is capable to better manage the new company after the acquisition.

Our study has various implications for theory and future research as well as practical implications. First, by recalling the fruitful insights from our study we encourage more research which analyzes how various corporate governance mechanisms influence different facets in acquisitions. Thereby literature would more fully understand how different shareholder proposals influence acquirers' performance in acquisitions and how various governance bundles impact the acquirers' performance differently. Furthermore it might be perfectly possible that varying governance mechanisms and thereby shareholder proposals not only influence acquirers' share prices or other performance outcomes of acquirers, but also a firm's decision to become a target in an acquisition and its subsequent performance. Thus, varying and opportunistic interests by different investor groups at companies may lead to misalignments between these various shareholder groups and certain types of investors like hedge funds or activist investors, who may push companies into takeovers (Haleblian et al., 2009). Also, conflicting proposals from various parties could trigger unintended effects, which contradict the specific proposal by one party. In addition, the above mentioned context specificity of our results might lead researchers to test if shareholder proposals and the governance bundles behind also gain acceptance in other settings and to analyze the specific characteristics of these contexts.

A second implication emerges for the corporate governance literature. Thus, this stream of research should view governance mechanisms more as governance bundles being complements and not substitutes and their influence on various performance outcomes. Thus, our study can probably act as a starting point for a typology of governance mechanisms. This could be comparable to the KANO model of customer satisfaction serving the financial market in perceiving the governance mechanisms of those companies as promising for successfully managing the new entity after the acquisition or not. Thus it could be possible that specific shareholder proposals at acquirers are taken for granted and lead to dissatisfaction and thereby to a negative financial market reaction when they are not present (Kano's "must-be quality factors"). Other proposals and thereby governance mechanisms might lead to positive market reactions when being present, but to dissatisfaction when not (Kano's "one-dimensional quality factors"). Again other governance mechanisms can lead to a positive market reaction when they are present but not to dissatisfaction when they are not present (Kano's "attractive quality factors").

Our study also presents implications for practitioners. By demonstrating that one can expect different outcomes depending on which bundles of governance mechanisms are observable at the acquirer, our study might help to dismantle information asymmetries between acquirers and the financial market. This would allow investors to structure their portfolio of proposals according to their interests. Furthermore, our results, which showed that specific combinations of shareholder proposals led to higher acquirer announcement returns, present an opportunity for shareholders to coordinate themselves in order to achieve their intended goals. Thus, if shareholders, instead of just working together to achieve the majority for one specific proposal, make an arrangement on which proposals to submit in combination, those shareholders or investors may achieve the desired outcome.

CHAPTER 5: THE VALUE CREATING ROLE OF INTEGRATION MANAGERS IN M&A INTEGRATION PROCESSES – A SOCIAL NETWORK PERSPECTIVE

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This article will be under review at ***European Management Review*** (Impact Factor: 1.75, Ranking: Management, 78 out of 192, JOURQUAL: B). This article has been presented in different forms at the 5th Annual Conference of the EuroMed Academy of Business, Montreux, Switzerland, the OMT Dissertation Proposal Workshop during 74th Annual Meeting of the Academy of Management, Philadelphia, USA, the 34th Strategic Management Conference, Madrid, Spain, the 33rd EGOS Colloquium, Athens, Greek and the 75th Annual Meeting of the Academy of Management, Vancouver, Canada and was nominated for the "Best Practical Implications Award" within the scope of the 34th Strategic Management Conference in Madrid, Spain.

5.1 INTRODUCTION

Literature on M&As has long been engaged with the investigation of a richness of variables influencing the post-acquisition performance of the involved companies, thereby reporting mixed findings especially for acquirers (see Haleblian et al. (2009) for a seminal meta-analytical overview of antecedents, moderators and outcomes of acquisitions). Results show that target firms almost always win in acquisitions (Asquith, 1983; Jensen & Ruback, 1983). In contrast, acquirers' post-acquisition performance is, up to date, still contradicting (Agrawal et al., 1992; Haspeslagh & Jemison, 1991). Some studies show acquirers to win, whereas others find them to break even (King et al., 2004; Lang et al., 1989), and others again show acquirers to loose (Bradley, 1980). Previous literature has attributed these mixed findings to the payment of too a high premium by the acquirer for the target, management hubris, an incapability to accomplish synergies, or the selection of targets with a strategic or organizational misfit (Hitt et al., 2012). Still others have assigned those mixed results to the acquirers' post-merger integration process and the various strategies and decisions the acquirer enforces during this process (Angwin & Meadows, 2014; Hitt et al., 2012; Puranam & Srikanth, 2007). Besides various factors impacting the integration process success shown in the literature (see e.g. Ellis et al., 2009; Monin et al., 2013; Zollo & Singh, 2004), one of the key factors is knowledge transfer between the parties involved (Bresman et al., 1999). In turn, for successful knowledge transfer to occur, literature has pointed to the antecedent of social capital (Inkpen & Tsang, 2005). Social capital has been investigated in different types of relationships (Baker, 1990; Tsai & Ghoshal, 1998; Uzzi, 1997; Weber & Weber, 2011) and has been shown to be of high importance in enabling and facilitating knowledge transfer in or between companies (Hansen, 1999; Inkpen & Tsang, 2005; Tsai & Ghoshal, 1998; Wijk et al., 2008). In this paper we define social capital according to Nahapiet and Ghoshal (1998) as "…the sum of the actual and potential resources embedded within, available through and derived from the network and relationships possessed by an individual or social unit" (p.243).

Within the context of acquisitions social network research is still in its infancy. Thus literature has for instance analyzed the influence of common board members between target and acquirer (Cai & Sevilir, 2012), existing director-senior executive network ties (Ishii & Xuan, 2014), client sharing between acquirers and targets (Briscoe & Tsai, 2011), or of indirect common client ties of acquirers and targets on acquisition performance (Rogan & Sorenson, 2014). With the exception of Graebner (2009) who investigates how trust asymmetries between both parties involved in the deal originate, develop and, subsequently, influence their behavior, literature on social capital in acquisitions is sparse. With our research we help filling this gap by applying a social network perspective to the M&A context, focusing on the post-merger integration process as main lever for acquirers to enhance value in acquisitions. We argue that IMs as central individuals within this integration process can act as knowledge brokers between acquirers and targets. Therefore our arising research questions are: How do IMs strategically develop their social network ties during post-merger integration process? How exactly and by means of which mechanisms does the arising social capital between IMs and target actors facilitate knowledge transfer, which in turn positively influences integration process performance? Which potential other effects influence the ability of IMs to successfully act as knowledge brokers?

We examined those questions by applying multiple case studies with a grounded theory approach (Eisenhardt, 1989; Yin, 1984), conducting in-depth interviews with IMs, target managers and target employees, complemented by company data, to understand the processes, mechanisms and logics within the integration process from a social network perspective. Our results revealed that IMs are not by the very nature of their network position as potential brokers successful, but that instead only those IMs are successful who wisely use and exploit their brokering position. Beyond the mere bridging of structural holes it is about strategically establishing (trustful) social ties to the “right” target employees. Our interviews demonstrated that the resulting social capital helped IMs to connect otherwise unconnected individuals and allowed them to transfer important knowledge between the two companies, leading to a more successful integration process. Furthermore it turned out that IM’s previous integration/change process experience and the experience of having been at a target company (we call this “victim” experience), impacted knowledge transfer and subsequent integration process performance. Finally, we qualitatively discovered moderating implications from IM’s industry experience on the effect of previous integration/change process experience on knowledge transfer.

With our research we contribute to two fields of literature: M&A and social network theory. First, we add to M&A research by adding one of the few empirical studies investigating the complex and underexplored integration process in acquisitions (Graebner, 2009, 2004; Teerikangas et al., 2011), based on an inductive qualitative approach. We further expand M&A research by applying a social network perspective to the integration process, which allows us to better understand underlying processes, mechanisms and errors which emerge within this process. We demonstrate that bridging social ties and the arising social capital are key success factors of acquisition performance as they positively influence knowledge transfer, thereby leading to a more successful integration process. Moreover, we advance M&A research by highlighting the important role of IMs within the integration process. We carve out IMs as knowledge brokers who bridge structural holes and strategically develop social ties between actors of acquirers and targets, thus initiating and implementing knowledge transfer between the organizations, which in turn impacts the integration process performance. By doing so and by applying a social network lens, we outline underlying mechanisms in the integration process that help us understand the yet underexplored “black box” of the “how” and “why” of the integration processes.

Second, we contribute to social network and social capital literature. In particular we answer the recent call by Fang et al. (2014) who request research dealing with how individuals actually construct their social networks and how their networks emerge and develop. The authors further call for studies which deal with an associated question, namely how individuals then make use of their social networks and how the consequent social capital is exploited. In analyzing how IMs strategically construct their social networks and how they exploit their social capital within the integration process, our study is one of the first at the intersection of social network and M&A research which answers those two important questions. By showing that there is quite a variance among IMs in their ability to bridge structural holes and in building both individual and mutual social capital with target employees, we demonstrate that brokers are not necessarily by their very construction or initial network position equally capable of building and utilizing their social capital. Thereby we seize Kwon and Adlers' (2014) cognition argument which implies that equal nodes and relationships in a network can be perceived dissimilar by individuals, whereby this varying cognition in turn influences social capital formation. We were able to exactly observe this diverse perception when IMs in our study differently recognize important individuals at targets during integration, which in turn influenced their social capital development. Furthermore, we thereby tie on research which shows that there can be a difference between *having social capital* and *using social capital* in the way that individuals will not equally well take advantage of their networks (Smith, 2005). We do so in showing that IMs although being in the same brokering position are not equally able to mobilize their social capital uniformly well (Kwon & Adler, 2014).

Furthermore we partially add to the underdeveloped research area on social liabilities in networks. Previous literature has demonstrated that previous positive relationships between actors in a network can become harmful over time (Gargiulo & Benassi, 2000; Portes & Sensenbrenner, 1993). We revealed structural lock-ins, as also IMs during the pre-closing stage in general were only allowed to establish ties to a couple of top managers at the target firm and were not able to build ties to relevant actors of the target network, some IMs were able to overcome this lock-in. This circumstance hindered knowledge transfer before the closing of the deal which would have been important for the success of the whole integration process.

5.2 THEORETICAL GROUNDING

Jemison and Sitkin (1986) were among the first who explicitly stated that the acquisition process itself is important in determining activities and outcomes in acquisitions. Subsequent work by Haspeslagh and Jemison (1991) uncovered the importance for companies to carefully select their targets, to negotiate the deal, and to decide how to manage the post-acquisition integration process. The authors summarized that the integration process represents the main value enhancing vehicle in acquisitions, as nearly all value creation takes place during this very process (Haspeslagh & Jemison, 1991; Puranam & Srikanth, 2007).

Previous integration process literature reveals several factors which play a decisive role for the success of the integration process, like e.g. the level of integration (Pablo, 1994; Zollo & Singh, 2004), the actors perceptions of (in) justice (Monin et al., 2013) and informal or procedural justice (Ellis et al., 2009), the target autonomy (Datta & Grant, 1990; Zollo & Singh, 2004), the influence of cultural differences between target and acquirer on capability transfer (Björkman et al., 2007), or the extent of resource redeployment after the acquisition (Capron, 1999). Most importantly, knowledge transfer (Bresman et al., 1999) influences the success of the integration process and subsequently the organizations' performance (Wijk et al., 2008). For successful transfer of resources like knowledge to occur, literature has emphasized social network structures and the potentially arising social capital as important antecedents (Inkpen & Tsang, 2005). Thus social capital represents the positive network effects like trust or shared norms, whereas social liabilities are understood as negative social network effects like mistrust between or avoidance of people in working relationships (Labianca & Brass, 2006).

Originating in sociology, social networks and social capital and their implications for success have been analyzed from different scientific viewpoints like political science (Coleman, 1988), economics (Portes & Sensenbrenner, 1993) and management (Adler & Kwon, 2002). Management literature has investigated social capital in company-supplier relationships (Baker, 1990; Uzzi, 1997), between business units in intra-firm settings (Tsai & Ghoshal, 1998), or in corporate venture capital triads (Weber & Weber, 2011). In all these settings social capital is highly important in enabling and facilitating the combination and exchange of resources in general (Tsai & Ghoshal, 1998), and to ease knowledge transfer in particular (Hansen, 1999; Inkpen & Tsang, 2005; Wijk et al., 2008). The three dimensions of social capital – structural, relational, and cognitive (Nahapiet & Ghoshal, 1998) – thereby feature distinct impacts on knowledge transfer (Weber & Weber, 2011). For instance, the number of network ties and the configuration of networks (structural dimension) can ease knowledge transfer by influencing the scope of contacts and the reachability between network members (Inkpen & Tsang, 2005; Tsai, 2001). Trust and the strength of ties (relational dimension) play a key role in the willingness of individuals to share knowledge (Zaheer, McEvily, & Perrone, 1998). A common language or shared narratives (cognitive dimension) of a business unit or a company influence the transfer of tacit knowledge (Nahapiet & Ghoshal, 1998). Furthermore social capital helps firms to create sustainable competitive advantage (Argote & Ingram, 2000) and raises organizational performance (Lane, Salk, & Lyles, 2001; March & Sutton, 1997).

Within the context of acquisitions social network research is in the early stage of its development. Rogan and Sorenson (2014) demonstrate that indirect social network ties in the form of common clients of acquirers and targets negatively impact the performance of the merged companies, as clients get lost and fewer products are sold to existing clients. Further literature has shown that a shared venture capitalist (Gompers & Xuan, 2008), or mutual board members between acquirers and targets (Cai & Sevilir, 2012) lead to a decrease in information asymmetries, which in turn positively influences acquisition performance. Ishii and Xuan (2014) highlight that already existing network ties between senior executives of acquirers and targets negatively impact acquisition performance of acquirers and the combined entity due to poor decision making. Turning to post-acquisition integration, Briscoe and Tsai (2011) reveal that the sharing of clients in mergers between law firms leads to greater inter-unit sharing but also to the cutting of existing intra-unit ties. Although the authors offer interesting insights with their findings on client sharing between merging companies, their work focuses on the structural dimension of social capital and it remains quite unclear whether and in how far the other two dimensions of social capital influence the integration process. However, the different dimensions of social capital are highly interdependent and a better understanding of the multi-dimensional construct of social capital and its respective impact in the integration process might help to capture the complexity of the whole picture of integration process success. Notwithstanding, literature remains largely silent, when it comes to social capital in acquisitions, with one exception by Graebner (2009) who concentrates on one facet of social capital – namely trust as main characteristic of the relational dimension. She analyzes how trust asymmetries between both parties involved originate, develop and influence the two parties' behavior. Expanding Graebners' (2009) study, our research does not only focus on trust as a key variable between acquirers and targets but also investigates the two other dimensions. Based on the insights by Weber and Weber (2011) that the different dimensions of social capital differently impact organizational knowledge transfer and creation, we consider the M&A context as a fruitful research ground for additional and deeper analyses in this field. We believe the M&A context to be, on the one hand, sufficiently similar to Weber and Weber's CVC context to be able to build on their findings and, on the other hand, to be sufficiently different to be able to add new and more generalizable insights to the social capital literature. This holds as the integration of a target in an acquisition features several unique attributes such as the integration of corporate cultures or the role of IMs that do not occur in CVC settings.

In this research, we specifically focus on IMs as knowledge brokers and analyze how they bridge structural holes, how they strategically develop and subsequently use their social ties to the employees of the target company, and how the different dimensions of their social capital resulting from these social ties eventually influence the integration process success. While Graebner (2004) highlights that the leaders of target companies play a crucial role within the integration of the company as they can create expected and serendipitous value, we rather focus on IMs as envoys of acquiring companies and their role within this very process, as they are, according to our insights, the key individuals within this very process.

5.3 METHOD

By conducting initial exploratory interviews with acquirer employees in hierarchically outstanding positions, we tried to receive a first impression of the role of social networks and social capital in the integration process and who the individuals are that set up those ties. Hereby three important points turned out. First, IMs seemed to be the central individuals during the integration process, due to their exposed position in the network. To reflect this important insight, we decided to concentrate on IMs and considered them potential knowledge brokers or boundary spanners between the merging organizations. Second, only a few top managers at the acquirer and the target knew about the forthcoming acquisition and were involved in decision making processes concerning the integration, expressing the very sensitive nature of this corporate event. Third, during these first initial interviews, we were already pointed to most of the IMs as well as to some other important individuals we should talk to in the respective acquisitions. Hence, in every acquisition case, we started our primary interviews by talking to the IMs appointed by the acquirers, then other integration team members and, in addition, target employees who were in contact with the integration team during the integration process.

As research design we apply multiple case studies with a grounded theory approach (Eisenhardt, 1989; Yin, 1984) by conducting six in depth case studies and applying a "replication logic". Hence, the implications of every previous case are validated or not by the following case, whereby the experiences from the respective preceding interview(s) help researchers to put important questions into place for the subsequent interview(s) (Yin, 1984). Case study methodology is appropriate as it allows scientists to investigate settings where "how" and/or "why" questions dominate the research endeavor (Yin, 1984). In our setting we want to understand the role of IMs within the integration process opening the black box of both successful and unsuccessful integration processes and carving out relevant antecedents as well as moderators. Furthermore, the deployment of a so called embedded design (Eisenhardt, 1989; Yin, 1984) allows the present study to examine different levels of analysis within the companies like for instance the individual level (interviews with IMs and target employees) and the organizational level (integration process performance). Such a design helps researchers to develop sound and comprehensive research models (Yin, 1984).

5.3.1 Data Sources

The investigation started in the middle of 2013 and lasted until the end of 2014. We executed 30 interviews with IMs and leading managers of six acquisitions of two multinational high-tech companies, as well as with top managers and employees of the respective targets, with those the IMs had interacted during the integration. Our choice of high-tech multinationals makes sense, as first in those two high-tech organizations corporate M&As have become a major means for accessing knowledge, competencies, technologies, and innovations from external sources (Dushnitsky & Lenox, 2005; Phan et al., 2009; Tsai & Wang, 2008). Second, in such high-tech industries the transfer of tacit knowledge as a source of innovativeness is key (Kohers & Kohers, 2001). Thus, displaying a lot of acquisition experience, these companies have learned from past acquisitions that the deployment of IMs is highly important for the integration process and the acquisitions to be successful (Ashkenas et al., 1998; Ashkenas & Francis, 2000). Notwithstanding, our sample also encompasses acquisitions which were, in spite of having IMs deployed, less successful than others regarding their integration processes as one of our aims was to find out if there were differences in the establishment of social ties by IMs. Third, all takeovers in our data set were strategic acquisitions with a main focus on the strategic fit between the acquirer and the target. This is relevant, because solely in those acquisitions it is of high importance to manage the integration process in a way that the expected synergies can be realized, in contrast to financial acquisitions, in which the involved companies mostly have no business overlap. While we kept our sample explicitly homogeneous in terms of these criteria, it explicitly differs in terms of M&A success, consisting of four successful and two less successful acquisitions. Table 8 summarizes characteristics of the six acquisitions.

Table 8: Variables characterizing the sample of the study

Acquirer	Target	Target Industry	Transaction Value (Mio. $)	Number of Employees	Year of Takeover
Zeus	Adonis	High-Tech	180	550	2004
Achilles	Aphrodite	Automobile Supplier	17,2	10,000	2007
Zeus	Apollon	High-Tech	not specified	100	2007
Zeus	Athene	High-Tech	not specified	60	2008
Zeus	Dionysus	High-Tech	3,2	5,300	2011
Achilles	Herakles	Manufacturing	1,4	9,000	2014

For our data collection we extracted several data sources, following the notion of data triangulation (Flick, von Kardorff, & Steinke, 2009). In addition to our introductory interviews mentioned above, our main data source was qualitative expert interviews with IMs and managers from the acquirers, target managers and employees. Table 9 gives an overview of the different individuals we chose for analysis. Second, we performed emails and phone calls to follow up the interviews, if things turned out to be unclear or additional questions arose. In addition, we collected archival data like company web sites, business publications, materials provided by informants as well as company reports.

Our interviews lasted 60-120 minutes and followed a partly structured interview guide which was slightly adapted for the IMs, the integration team members, and the target employees. Furthermore, the interview guide was adjusted every time questions became obsolete or new important questions crystallized from the previous interviews.

Table 9: Acquirer and target companies and their respective interviewees

No.	Acquirer	Target	Interviewees
1	Zeus	Adonis	**Acquirer:** IM; **Target:** CEO, Three employees
2	Achilles	Aphrodite	**Acquirer:** IM; CEO; Head of HR; **Target:** CEO
3	Zeus	Apollon	**Acquirer:** IM; **Target:** Sales Person, Head of Finance, Technology Leader
4	Zeus	Athene	**Acquirer:** IM; **Target:** Seven employees
5	Zeus	Dionysus	**Acquirer:** IM, HR IM, Integration Team Staff Member; **Target:** Head of HR
6	Achilles	Herakles	**Acquirer:** IM, CEO IM; **Target:** Four target employees

The interview guideline was structured as follows: First, the interviewer(s) shortly introduced the topic to the informants. This introduction was followed by asking the interviewees to report about the development of the integration process starting from the very beginning of their involvement. We concentrated our investigation especially on the role of IMs of the respective acquisition. We thereby asked IMs questions about their role within the integration process, how this role developed throughout the integration process, how and why they built their social capital to the target employees they did, which barriers and difficulties they faced during this process and how they coped with them, how and which type of knowledge was transferred and how this knowledge transfer impacted the integration process success. We concluded the interviews with some questions about the position of the IMs before they joined the respective acquisition and their potential previous acquisition experience, about some hard facts of the company under research, and about the transaction itself (transaction value, friendly or hostile acquisition, etc.). Finally we asked each respondent at the end of the interview to name additional potential interview partners, people who were relevant during the respective integration process and from whom we were likely to receive additional, valuable information about the acquisition and the integration process. All interviews were tape recorded and transcribed.

To minimize respondent biases in our research, we took several steps. First, as outlined above, we always interviewed different persons from the acquirer and the target side. As it is implied by their respective status and role in the respective company, the interviewees should have differing views and opinions on the integration process. Researchers must be aware of the fact that past events like an acquisition can bias results, as answers from respondents might be distorted due to retrospective sensemaking (Huber & Power, 1985). If our results were biased by retrospective sensemaking, we would have seen major differences in the basic description of the critical event by several respondents. However, we did not observe differences in those answers, whereby we can space out this bias. Moreover, an acquisition is an incisive event that the parties involved remember very well. The advantage of retrospective data lies in the fact that it allows the researcher to increase the number of cases and thereby the efficiency of data collection (Graebner & Eisenhardt, 2004).

Second, as mentioned before, we focused on the most influential and proficient persons in the integration process. These key persons are the most reliable when recalling important information from particular events (Graebner & Eisenhardt, 2004; Huber & Power, 1985). Furthermore, in our interviews we also always touched the facts of the integration process. For example, we asked questions concerning the number of established ties by the IMs to target employees during the integration process, about the type and amount of knowledge transferred or performance outcomes. This proceeding leads to a reduction in impression management and cognitive biases (Graebner & Eisenhardt, 2004; Huber & Power, 1985; Miller, Cardinal, & Glick, 1997). Notwithstanding, subjective interpretations and differing meanings were often added by the informants. Third, another point which could have influenced our results from the interviews would have been the risk that the interviewees "glamour up" their firms, which means that they present their company better than what it really is and thereby change their answering behaviors (Eisenhardt & Graebner, 2007). By anonymizing respondent names and companies, this bias should also be restricted (Miller et al., 1997). Another potential bias could have been occurred if the interviewee's answers would have been affected by the structure of the interviews and the underlying interview guidelines (Bailar, Bailey, & Stevens, 1977). As leading questions and influencing means were avoided and the interview partners were not hustled into their statements, this bias should also be negligible. To get the allowance to conduct the interviews as well as to motivate the informants to answer we set up and signed a nondisclosure agreement together with the involved parties, thereby assuring sensitivity of the data (Graebner & Eisenhardt, 2004; Huber & Power, 1985; Miller et al., 1997).

5.3.2 Data Analysis

In keeping with qualitative research methods, we used overlapping data collection and analysis (Glaser & Strauss, 1967). We first analyzed single cases individually (Graebner & Eisenhardt, 2004). After the within-case analysis we continued with cross-case analysis. The within-case analysis focused on the development of constructs, emerging from the respective integration process of a single acquisition. These arising constructs were then compared between the cases in cross-case analyses (Eisenhardt, 1989), to identify similar or divergent patterns of how IMs developed and structured their social networks, how knowledge transfer occurred through the established ties, and how the emerging social capital, if it than did develop, allowed IMs to structure the integration process more or less successfully. Our construct building approach was inductive as we allowed the constructs to emerge from the interviews during the coding of the interviews. In a replication logic proceeding we elaborated our conceptual categories, every time new information arose from the data (Eisenhardt & Graebner, 2007; Graebner & Eisenhardt, 2004). To reduce a potential coding bias, both authors coded independently and checked the interview codings for possible divergent interpretations, thereby assuring intercoder reliability. Table 10 gives an overview of the emerging constructs from our interviews.

Table 10: Constructs emerging from the interviews and their respective measurement

Emerging construct	**Measurement**
Structural dimension	Number of ties (Nahapiet & Ghoshal, 1998), diversity (Burt, 1992), centrality and frequency (Freeman, 1979; Tsai & Ghoshal, 1998)
Relational dimension	Strength of ties (Coleman, 1988) and trust (Barney and Hansen, 1994; Tsai and Ghoshal, 1998)
Cognitive dimension	Shared norms (Nahapiet & Ghoshal, 1998), common identification (Nahapiet & Ghoshal, 1998)
Structural lock-out	Legal barriers to the establishment of network ties
Structural lock-in	Wrong investment decisions (Maurer & Ebers, 2006; Weber & Weber, 2011)
Integration/change process experience	IMs experiences from previous acquisitions or change processes, they have been involved in
"Victim" experience	IMs experiences of having been at a target company in an previous acquisition
Integration Process Performance	Self-reported success of the integration process as result of the social capital of integration managers and the knowledge transferred

5.4 RESULTS

The result section is structured along our research questions as well as our main findings. Accordingly, we start with answering the question of how IMs established social ties during the integration process, how social capital developed through these ties over time, and how this social capital allowed IMs to structure the integration process more or less successful. During our analysis of the IMs' emerging social capital it became apparent that the integration process had to be subdivided into two distinct phases: (1) a pre-closing stage from the first negotiations up to the point where the deal is closed and (2) a post deal closing phase from the closing until the point where the integration ended. This distinction seems to be quite evident at a first glance as the integration process shouldn't start until the closing of the deal. However, our investigation revealed that this is not necessarily the case. Some IMs thought of the pre-closing stage as the point in time at which the integration process already started, whereas others took the closing of the deal as integration starting point. This differentiation turned out to have significant effects for the development of social capital and social liabilities and the subsequent knowledge transfer between IMs and target actors. Therefore, we will distinguish those two stages for the rest of the paper and develop two differing figures, which display the emerging social ties within these two stages (Figure 5 and 6). We will reinforce our argumentation with additional quotations (see Table 11).

5.4.1 Pre-Closing Stage

Structural dimension of social capital

The structural dimension is concerned with the pattern of relationships between the members of a given network (Inkpen & Tsang, 2005; Nahapiet & Ghoshal, 1998). Thereby, this pattern features different aspects like the number of direct and indirect network ties between network actors (McFadyen & Canella, 2004; Nahapiet & Ghoshal, 1998) and the network configuration, which manifests in constructs like hierarchy, density, and connectivity (Inkpen & Tsang, 2005). In our research we follow Burt (1992, 1997) in regarding networks as rich in structural holes, which offer the possibility for brokering information and knowledge. We thereby consider IMs as knowledge brokers, who operate at the intersection between two companies and bring together individuals who were otherwise disconnected (Rost, 2011). Literature shows that knowledge brokers can be companies as well as individuals who bridge different markets, branches and organizational barriers. They link otherwise unconnected groups and distract knowledge from areas where it is known, applying it to areas where it is not known (Hargadon, 2002, 1998), thus linking know-who, know-how, know-why and know-what (Meyer, 2010). As units in organizations themselves develop their own local norms, values, and languages, the task of knowledge brokers or boundary spanners is "to speak both languages" and translate at the interface of social systems (Tushman & Scanlan, 1981).

Throughout all cases our results show, that during the pre-closing stage IMs were deployed as potential knowledge brokers being in the position to potentially set up social ties between yet unconnected actors (see Figure 5).

Figure 5: Situation IMs faced during the pre-closing stage

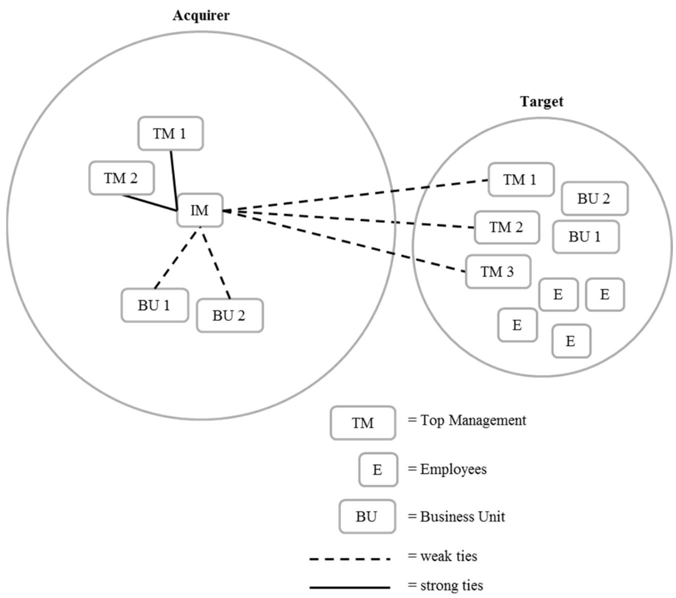


Table 11: Additional quotations from the pre-closing stage and the post-acquisition phase

	Pre-Closing Stage	Post-acquisition
Structural dimension	*Structural lock-out:* "I only was allowed to talk to a handful of mostly marketing people during due diligence to understand basic market dynamics and how products were positioned in different markets. It was very concentrated to 3-4 people" (Integration Team Staff Member 5) "It is absolutely common, that you only have contact to the formal leaders. Having contact to the other employees is not allowed" (IM 6)	*Number of ties:* "As soon as the closing happens, the gates are open and you can talk to a number of employees" (IM 6) *Frequency:* "I didn't have enough time and opportunities to connect with entry level junior people. I mean we had things like roundtables. But during those events you don't really built trustful relationships" (Integration Team Staff Member 5) "Frequency definitely plays a role, although we recognized that 'the more the better" not really holds" (IM 6) *Centrality:* "Myself, I fly to our new site relatively often, once a month for week, so that I am on site. I am located at the headquarter. All the other sites are visited by the business unit IMs. There is dramatic traffic at the moment. It is definitely a success factor that the integrators show up on site" (IM 6)

Relational dimension	<ins>*Trust:*</ins> "The building of trust starts, when you have signed the deal and it is closed" (CEO IM 6)	<ins>*Trust:*</ins> "To be honest matters even more as people watch the integration and decide really whether they should trust this mechanism or not it is very important that we follow through and we do what we say we gonna do" (Integration Team Staff Member 5) "Something [an action], which can be put into action during the first two or three month, so that they say: 'oh, he did listen to us, he did understand, he did act on that, and we notice it is getting better'. If you have one or two of those things during the first two or three month you establish trust very fast" (IM 4)
Cognitive dimension	*Norms:* "We could have done much more work with the people, in the sense of seminars or workshops. We could have done this by sure" (CEO 2)	*Norms:* "We have regular newsletters and newspaper, which take place once a month, were the employees receive an update, what happens at the moment. We also have a portal where we as the acquirer present ourselves, the different subunits, the integration, the strategy" (IM 6) "The way in which manner you choose your words, how you choose your speeches impacts if you create or break down barriers" (IM 4) *Values:* "So we conduct cultural workshops to get the employees acquainted to the values and the culture which constitute us" (IM 6)

Integration process/ Change process experience	„In the acquisition of Y [acquisition of prior firm] we were too fast laying down the names of the people on the organization chart. […] we were too hectic and had to correct a lot afterwards" (CEO IM 6) "I was extremely fortunate that one colleague of mine did an integration before and that I benefitted a lot from the plans he has, from the procedures and experiences which he had and which I could flow in" (IM 4)
Industry experience	"So you look for somebody that has a previous experience. That somebody has to have a broad business understanding but also specific industry knowledge. That is the integration leader profile" (HR IM 5)
"Victim" experience	"I think, it is a good precondition, if one is able to slip into the shoes of the respective counterpart" (IM 4)

It thereby became evident that in this phase IMs only had sparse contacts: “During due diligence there was regular communication with the three major decision makers, who were the two owners and one chief executive, who was responsible for sales” (IM 1). The reason for this was that during this pre-closing stage IMs and their teams faced legal barriers to the establishment of ties as well as a prohibition of making decisions regarding the acquisition.

Previous literature has demonstrated that when observed from a process perspective former positive relationships between actors in a network can become harmful over time (Gargiulo & Benassi, 2000; Portes & Sensenbrenner, 1993). Maurer and Ebers (2006) show that former social capital of young biotechnology firms can turn into social liabilities if the employees of the organization are no longer capable to adapt the configurations of their networks to changing resource needs. Maurer and Ebers (2006) as well as Weber and Weber (2011) identify different forms of social liabilities like a structural lock-in (strategic misfit or strategic reorientation between the actors), a relational lock-in (norms of reciprocity together with a dense network), or a cognitive lock-in (high degree of similarity in actors identities together with frequent relations with restricted amount of actors). A structural lock-in can arises if “[…] the actor’s possibilities of exploiting the theoretically fruitful configuration of new external ties” (Weber & Weber 2011, p.267) are constrained. Such a structural lock-in for example exists if a wrong investment decision of an actor is made upfront an investment, so that it isn’t possible for the actor to exploit the potentially rewarding new network ties. This in turn leads to a restraint in the building of social capital (Weber & Weber, 2011). In our M&A context we were also able to observe such a structural lock-in in the form of a strategic misfit. A strategic misfit occurred when one of the acquirers bought a target which had its business in totally different segments than the acquirer: “It became very clear during due diligence that Y (the target) was in a totally different segment. At the point of the acquisition, 80% of their volume was in electronics and R&D, both segments which we were not heading for. This means that we artificially bought new segments, which is never a good idea. Eventually the desire to acquire and the hunger for this technology prevailed. At the end I retrospectively have to say that I pointed at that fact but ultimately we ran into it with one's eyes open" (IM 3). In addition to this structural lock-in we could observe another type of lock-in which is on closer consideration rather a lock-out. As mentioned before IMs reported that due to legal restrictions during the due diligence it was explicitly forbidden to autonomously establish connecting ties with target employees, this is to broker the structural holes. "[…] any communication exclusively occurred between manager A at X (acquirer) and the top manager at Y (target). No other communication was allowed" (IM 3). As a consequence IMs were not able to access and benefit from the potential advantages of the employees' network ties leading to limited knowledge transfer which would have been highly important in that stage to understand the business of the target acquired. Our results lead us to our first proposition:

Proposition 1: In case IMs face structural lock-ins/lock-outs during the pre-closing stage, knowledge transfer will be restricted, jeopardizing the success of the integration process.

Relational dimension of social capital

The relational dimension of social capital is concerned with the quality of a relationship (Tsai & Ghoshal, 1998). Within this relational dimension, the focus lies predominantly on trust and trustworthiness as core elements as well as on the strength of ties, consisting of intensity and frequency of communication (Tsai & Ghoshal, 1998). Trust can be understood as a characteristic of a relationship between actors, whereas trustworthiness is seen as property of actors themselves (Barney & Hansen, 1994; Tsai & Ghoshal, 1998). These two constructs represent a critical component in influencing the knowledge transfer between companies and play a key role in the willingness of individuals to share knowledge (Inkpen & Tsang, 2005; Zaheer et al., 1998). Previous research demonstrates that in relationships where trust is in place, individuals are generally more prone to interact socially and cooperate (Nahapiet & Ghoshal, 1998), and are more willing to listen to others and absorb knowledge (Levinthal & Cross, 2004; Mayer, Davis, & Schoorman, 1995).

During the pre-closing stage, due to the structural constraints which are reflected in the limited amount of target managers involved and often the explicit prohibition to officially communicate decisions to other target employees, trust didn't play a decisive role, as it could only develop between IMs and those few target managers. One IM in a Zeus acquisition explained: "Before the closing you are in a twilight zone, in which you have to be very careful. You are not allowed to reveal or babble internals as the possibility exists that afterwards, in case of doubt, you will be competitors on the market again" (IM 4). Our data revealed that this the pre-closing stage phase was characterized rather by mistrust between the target employees and IMs as ambassadors sent by the acquirers: "We thought: 'They (the integration team) arrive and want to change everything" (HR IM 5). As a consequence, as a staff member of an integration team stated, it became highly important for IMs to signalize trustworthiness and to act in a way that employees would not feel dumbfounded. "Mostly I would say it was listening as opposed to sort of coming in with 'This is the way we do things at X (acquirer) and that's what we need to change'. You have to be very sensitive around the value of their (targets) totally unstructured approach to innovation. I tried to be unbiased to make the best of their ways of doing things, and our way, which brings rigor and more reliability into the process" (Integration Team Staff Member 5). How unsatisfying situations could become when IMs annoyed target employees was expressed by a sales manager. "We had a European meeting. An American came in. The language was English, necessarily. She was the IM. They didn't bring someone speaking local language. She presented how awesome the company (acquirer) is and what is going to happen during the next 30, 60, 90 days. And that this is awesome. And that everybody, who doesn't find that awesome, can go. […] she did provoke a whole European Sales Team by doing so" (Sales Manager 3). This dissatisfaction of target employees was supported by the fact that the relationship between the concerned parties during that stage had more the character of providing the acquirer with information it needed to advance the pre-closing stage: “It was circulated that there are people from X (acquirer) around, who will ask you questions. They would leave their business cards with their email addresses and you are allowed to send them the respective data” (HR Manager 5). This unemotional and matter-of-fact proceeding was confirmed by the IMs themselves. For instance, one IM mentioned that the relationships at that time were predominantly based on the obligation of the target to endow the acquirer with the required information: “The communication was really based on facts, to simply examine documents, to receive information, who does what, who has which role, how do the products look like, how does the production process look like, which customer relationships exist” (IM 4). Due to the skepticism target employees disapproved of the acquirer and due to the absence of trust the requested information was sometimes deliberately held back: “I must say that, from a financial point of view, I only gave away what I had to. I did not release certain things, whereby I was asked to do so” (Head of Finance 3). Besides these restrictions, we were able to observe in our four successful integration processes that IMs and their team were able to lay the foundation of trust building already during this stage: “…we demonstrated that we were interested in them [the target] by holding small talk with the employees […], by discussing things and giving casual workshops on how we understand teamwork […] not only with the management but also with the employees on the shop floor level” (IM 6). Another IM stated: “I have been on site at location X and talked to the people and also accepted their questions. And this is exactly the first trust building” (IM 6). Thus, in one of the successful integration processes one IM revealed that the early trust building within the pre-closing phase speeded up the eventual integration process and helped the acquirer to save money, as for example less workshops had to be established after deal closing and employees of the target started earlier to transfer important knowledge. As this early establishment of trust happened in all of our four successful integration processes but less in the less successful ones, it seemed that early “investments” in trust building during the pre-closing stage helped the integration process to become more successful. Besides these early efforts to lay the foundation of trust, the level of trust within the pre-closing stage remained low, which lead to limited knowledge transfer between IMs and target managers and was, as a rule, limited to explicit knowledge such as financial figures. “[…] we intensively worked together with the CEO to collect the necessary data. We had to submit regional market shares of both companies and had to do the whole data coordination” (IM 3). Summarizing, because IMs were not allowed to contact target employees before deal closing, trustful and strong ties had no chance to be established.

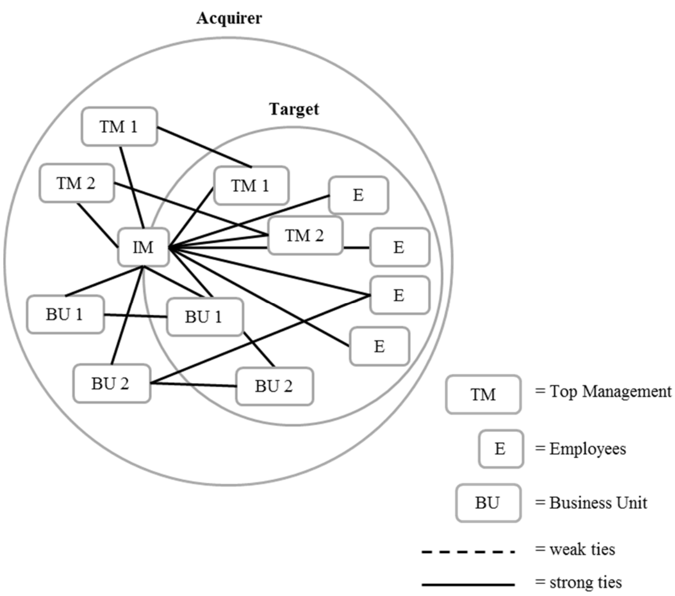
5.4.2 Post-Acquisition Stage

Structural dimension of social capital

At the point of deal-closing, the situation for IMs and employees changed fundamentally. Having only been able to talk to executives during the pre-closing stage, IMs were now allowed to live their potential brokering role by intensifying their networking in terms of increasing the number of ties to employees: “At the moment you are allowed to talk, you face a totally different situation […] you can talk to the employees in a different way and you can talk to all employees, as you are as IM part of the company and able to display a different openness” (IM 4). In trying to develop their networks by establishing own social ties IMs used the few target executives to whom they were connected since the pre-closing stage, as “door openers”. Thereby IMs gained entrance to additional managers and target employees and were able to locate individuals or organizational subunits that had the potency to act as multipliers of the integration. These individuals did not necessarily have to be key figures on the organization chart: “We were able to identify change agents or informal leaders that did not belong to the top management and from those we hoped that they ‘infect’ others” (IM 6). Moreover, in this phase IMs tried to convince the initial target executives to support the change intention: ”I concentrated most extensively on A, who came from the executive board of Aphrodite. He was a kind of a corner stone for me during my integration work. I knew that if I didn't win this leader over, I would have had no chance" (IM 2).

Our data revealed that the diversity of ties to different target employees also became an important antecedent for knowledge transfer. By talking to these different functions of the value chain, IMs were enabled to capture the whole picture of the organization, which was previously only fragmented (see Figure 6): "[…] I realized that the more you talk to as many people as possible, and the more you are withal open for the big picture, the more the specific pieces of the puzzle connect" (IM 4). IMs who established more and more diverse ties performed better than those IMs who put less emphasis on this task. Our findings therewith allow to convey results from previous social capital research to the M&A integration context: the mere establishment of ties to target employees during this phase, especially of non-redundant ties, which are said to lead to the transfer of diverse knowledge (Adler & Kwon, 2002; Burt, 1992; Rost, 2011), had an impact on performance, namely the integration process performance.

Figure 6: Situation IMs faced after the closing of the deal (post-acquisition)



Besides this establishment of diverse ties, the sheer number of ties was not necessarily promising. Thus during communicating to diverse actors, it was a key task for IMs to quickly find out the “right” individuals to which they had to talk to, to understand where decisions are actually made and thus where the relevant knowledge rests: “It was important that he (IM) talked to as many employees as possible, to understand what the essential structures in the company are. In fact the real structures, not the ones on paper. […] to know as much as possible about the status quo, to understand how decisions are operated” (Employee 1, Athene). When IMs didn’t succeed in understanding the underlying essential, sometimes informal structure of the company and weren’t able to timely figure out key individuals for central decision making, knowledge transfer crucial for leveraging potential synergies such as complementary products and processes was obviously hindered: “Who makes decisions, why does he make decisions, which information do I get? It is important to talk to a sufficient amount of individuals to get a true image and to integrate this knowledge into the new structures and ways in which decisions flow. These structures weren’t broken up […] this did hurt us very much in different situations, concerning product development, staff development. The focus in product development was very much on “developing”, without getting the sales department on board. What does the market really want? Things happened, which were not in the sense of market development” (Employee 3, Athene).

At this stage in the process it already turned out that IMs differed in how successful they were in establishing diverse ties to important target actors: “[…] then you recognize, like in normal day life, this person pushes the business and you should sit down with that person and work on it. Then you can begin to identify who the ‘leader of the pack’, who the informal leaders really are” (IM 6). Another IM stated: “That was a massive misjudgment on my part with whom I built my network with” (IM 3). The IMs who were more successful in recognizing that the target actors they were tied with were not the key individuals in terms of important knowledge and managed to identify the rewarding ties: "You did recognize that you were not able to receive the information, or you noticed that in some places, specific questions were not answered, as we (as acquirer) would answer it. So you felt that, if you went one layer deeper, you would get the answers" (IM 2). Another IM brought up: "There were two persons from HR to whom we talk a lot and who transfer a lot of important knowledge to integrate the HR business. Of course the HR leader pushes it but those two employees are much more important" (IM 6). Summarizing, the IMs who were able to identify the important target employees equipped with knowledge important for successful integration, were all deployed in our four successful integration processes. Our findings concerning the structural dimension let us therefore propose:

Proposition 2a: The higher the number of ties IMs establish after the closing of the deal, the more the knowledge transfer is facilitated, leading to a more successful integration process.

Proposition 2b: The greater the diversity of ties IMs establish after the closing of the deal, the more the transfer of knowledge is facilitated, leading to a more successful integration process.

Besides the number and diversity of ties, our data revealed that successful IMs invested substantial efforts to occupy a central position within the newly established network with the target employees: "From then on I was on site four days a week" (IM 3). Centrality is said to influence the efficiency of groups in solving problems, to impact the awareness towards leadership and to lead to a higher satisfaction of individuals (Freeman, 1979). Thus, previous findings show that knowledge brokers like IMs are well advised to occupy central positions in establishing relationships and bridge different local norms, values and languages of different organizations (Tushman & Scanlan, 1981). This was also observed in our cases. A strong presence on site was consciously applied by many of the IMs to generate awareness and closeness: "Besides my current office, I had another office at the end of the hallway. There is a desk, and when you keep the door open everyone who walks in the hallway virtually is heading for the table" (IM 4). The more IMs positioned themselves in a central and unequivocal position, the more attention and power was attributed to them: "Suddenly there is somebody who is on an equal footing as the CEO" (IM 3). These actions of being central and close to the employees had a significant impact on the perception of IMs as approachable individuals in the eyes of the employees. "He (IM) took up things we told him, discussed them and tried to implement them" (Employee 2, Athene).

How important centrality became for the communication between IMs and employees, which strong signal a non-central position of IMs sent out, and which implications this had for the success of the integration process, was expressed by a Zeus IM. "I was put in a marginal office at the end of the production hall, at the farthest end, at the end of the gallery. […] The signal couldn't have been much stronger. It would have been right to put me directly next to the CEO. It took me one and a half year to establish my network with the target employees" (IM 3). Summarizing our results regarding centrality within the integration process, we propose:

Proposition 2c: The more IMs occupy central positions within the integration process, the more the knowledge transfer is facilitated, leading to a more successful integration process.

Relational dimension of social capital

As mentioned before, after the deal closing, IMs were allowed to establish ties not only to managers, but to any employees of the target. This allowance functioned as a precondition for the successful transfer of explicit and implicit knowledge from the target to the acquirer and vice versa. Regarding the relational dimension it became apparent that frequency and intensity of communication between IMs and target employees were key antecedents to unfold trustful relationships: "I often visited the production area to talk to the people individually. We also had regular meetings at least once a month with the whole workforce to inform them about the proceedings of the integration and to listen to the topics and problems they faced" (IM 4). This increased frequency in communication was very well perceived by the target employees and interpreted as means of openness as well as transparency: “We then had quarterly meetings. In these meeting, business numbers, outlooks, and current issues which concern the location were presented by the management to all employees. In this way all people are informed. In former times that happened may be once a year at the Christmas party. They try to create a good transparency for the individual employee. You feel esteemed” (Employee 2, Athene). Our further analysis showed this frequency of communication combined with openness to be at the very core of trust building between the parties: “As we go along, I did build up very trustful relationships with the employees in the course of the one and a half years, because I communicated a lot, when I was allowed to. I helped the people to understand how we do things” (IM 4).

The intensity of communication as the second construct within the strength of ties (Tsai & Ghoshal, 1998) also became crucial during that phase. The employees of the target mentioned that besides subject-specific questions, they also had the chance to approach IMs with non-functional questions which led to an intensification of ties: “I became the reference person, how it works at X (acquirer), how one has to get along. I occupied a mentor-coaching-role for many of the executives. Many of them who had questions approached me” (IM 3).

From the target employees’ perspective the main antecedents for establishing trustful relationships were reliability, transparency and predictability. First, target employees highlighted as one of the most crucial points that the acquirer in general and IMs in particular act on what had been promised before: “Something (an action), which can be put into action during the first two or three month, so that they say: ‘oh, he did listen to us, he did understand, he did act on that, and we notice it is getting better’. If you have one or two of those things during the first two or three month, you establish trust very fast” (IM 3).

Second, transparency and the reduction of arbitrariness as a very similar construct further persuaded the target employees to trust IMs: “[…] they did understand that we were quite consistent and straightforward. That meant that employees who performed well and contributed positively were appreciated, and the ones who did not, weren't honored. […] this meant, they knew that I either say nothing or if I say something they can trust me" (IM 3). The meaningfulness of IMs to be transparent in the eyes of the target employees and to stick to their words to gain trust was also emphasized by one target employee. "I highly esteem him, because he takes up things you tell him, discusses them and tries to implement them" (Employee 2, Adonis).

In another case we could observe what happened when promises were broken and a trustful relationship was destroyed. In that acquisition a well esteemed IM was unexpectedly replaced during the integration and trust which had been built between the target employees and this IM over the years somewhat instantly disappeared: "After two years of being here the (IM) left. Then person A came as the site leader. It wasn't possible to work with him in this consequent way. We faced a vigorous depression. Now since January he (the former IM) is back as site leader. We were able to stabilize the status through working consequently, through the analysis of problems and because he cared about the people" (Employee 7, Athene). Another IM faced a very similar problem: "I was removed from the integration to work in my old function at X. In my opinion, that was way too early and disrupted most of the trustful ties that I had established" (IM 3).

Considering the type of knowledge transferred between IMs and target employees, our data showed that unlike the mainly explicit knowledge transferred during the pre-closing stage, the knowledge in this stage had a more implicit character: "They (acquirer) thought a production process could be described by instructions, by measuring criteria, in fact so precise that the production could be run anywhere else. You can't always foresee the right results of the production, as you are not able to distinctly and formally codify the physical backgrounds.

There is a degree of voodoo added. This is why we kept those people, to transfer the knowledge" (IM 4).

By turning to the performance implications of IMs' social capital and the knowledge transferred through the trustful ties, our interviews unveiled that those IMs who managed to successfully establish trustful ties with the relevant target employees significantly facilitated the crucial transfer of knowledge which, in turn, led to a more successful integration process in terms of speed of integration, employee retention, achievement of strategic goals such an increase in product development or the attainment of more customers. "The acquisition was strategically a great success. The site became headquarter of the global X-ray range. If you have a look at how many products we produce and how many customers we reach with these products, this was a strategic success" (IM 3). Moreover, employee retention through trustful ties was another measure for success: "I focused on retaining those employees who really have the market know-how and the technological know-how. I succeeded concerning this task" (IM 3).

Recapitulating the above, our results support previous findings and provide additional empirical evidence within the integration context that social capital, particularly the relational dimension, is highly causal for valuable knowledge transfer to occur which, in turn, impacts organizational performance (Inkpen & Tsang, 2005; Tsai & Ghoshal, 1998; Weber & Weber, 2011). Summarizing the results above, we postulate the following propositions:

Proposition 3a: The frequency of communication between IMs and target actors during the integration process positively impacts the transfer of explicit knowledge.

Proposition 3b: A higher intensity of communication between IMs and target actors during the integration process leads to the transfer of more implicit knowledge.

Proposition 3c: A higher number of trustful ties between IMs and target actors during the integration process leads to the transfer of more implicit knowledge.

Proposition 3d: If IMs are removed during the integration process, trustful ties are destroyed, negatively impacting knowledge transfer.

Cognitive dimension of social capital

In the post-acquisition phase the IMs in our study set up several influential mechanisms which were meant to establish shared norms and to motivate the target company's individuals to share their knowledge. One of the most successful mechanisms established to explicitly encourage and maintain the norm of reciprocity during the integration process originated at the Dionysus acquisition: "We have an award program: 'Hey you helped me last week. That was a tough meeting but you worked overtime, you really helped me prepare that.' So we have a very formal way of acknowledging that: 'Here is a hundred dollars' or whatever it is. And that goes from a 'dinner for two voucher' to really a thousand Euros" (HR IM 5). This mechanism of developing shared norms of reciprocity led to the aspired disclosure of knowledge between the target individuals and their counterparts at the acquiring company. Throughout almost all interviews IMs mentioned that they had set up sustainable mechanisms aiming to encourage shared norms between the target and the acquirer: "We invented a standardized ritual, which takes place at every location of X (acquirer), the so called "Quarterly Employee Meetings". […] we also implemented compliance guidelines where the employees sit together with their supervisors and discuss if they have any questions or concerns" (IM 3).

Another powerful mechanism pointing into the same direction was an initiative to help target employees identify with the merged company. Successful IMs launched especially designed team events to foster cohesion within the new company: "When the factory ships a new product for the first time, we throw a party. When we lounge a new process or we get rid of an old process that didn't work or everybody get bored about it and here is the new one, we have a small party. We really say: 'Let's celebrate the small successes, because the world is tough enough'" (HR IM 5). Our data also revealed that reaching a common vision between the employees of the acquirer and the target within the newly merged company helped the integration process to become successful: "I would say the integration has been successful in a way that everybody understands that vision" (HR IM 5). Summarizing our data concerning the cognitive dimension of social capital let us propose:

Proposition 4: Shared norms and a common identification between IMs and target actors during the integration process facilitate the transfer of knowledge, leading to a more successful integration process.

IMs' previous experience

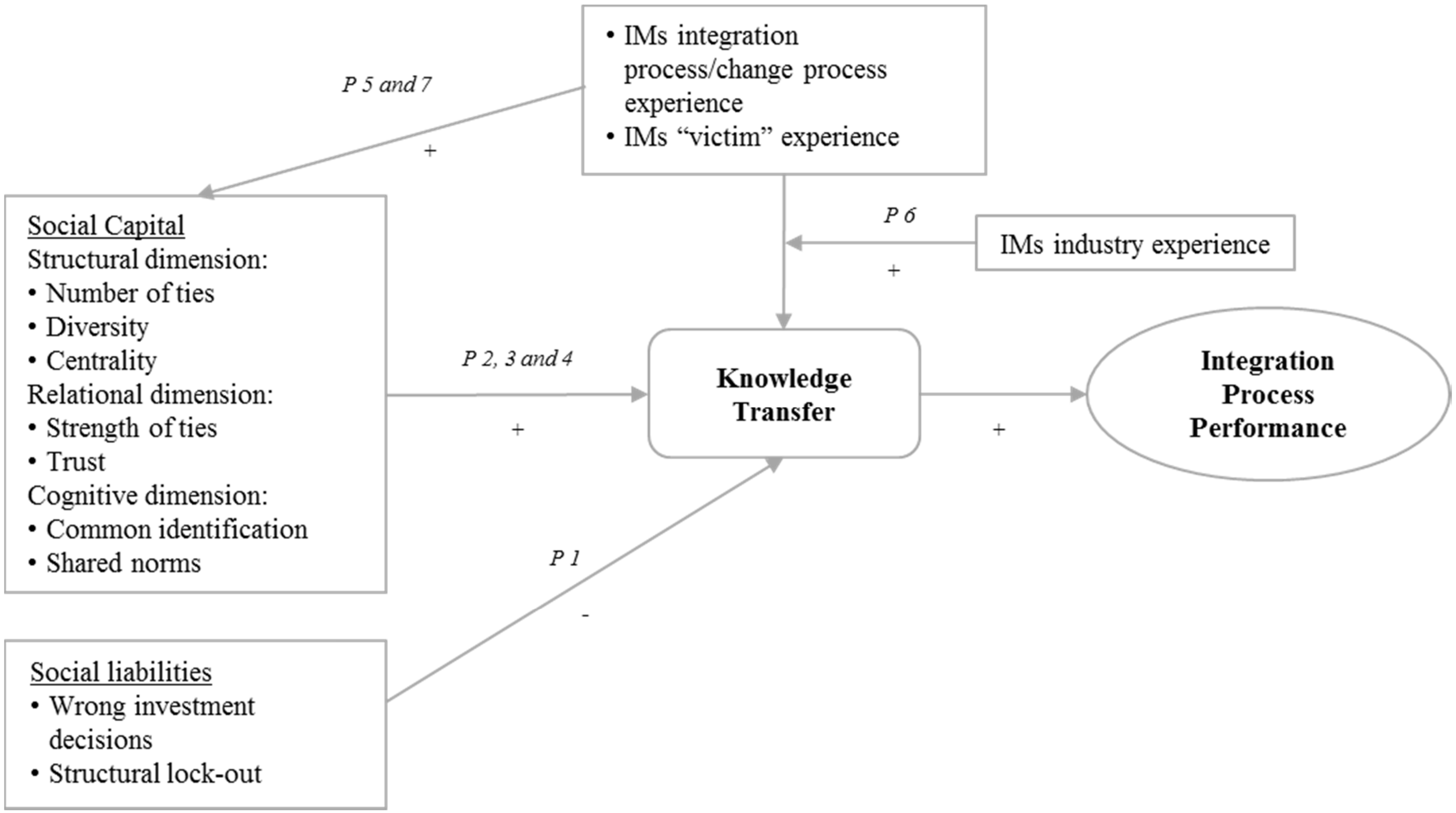
Besides the discussed three dimensions of social capital and their effects on knowledge transfer and the subsequent performance implications for the integration process, it became apparent that IMs' previous change and integration processes experiences impacted knowledge transfer and subsequent integration process performance. In addition, IMs' personal experience of having been at a target company when it got acquired, this is having been a "victim" himself, was also observed to play a major role. Moreover, we discovered moderating implications of IMs' industry experience on the relationship between integration process/change process experience and knowledge transfer (see Figure 7).

IMs' integration process/change process experience

Our interviews revealed that IMs previous experiences from change processes in general and integration processes in particular, played a major role in explaining the emergence of trustful ties, a shared identification between IMs and target actors, as well as knowledge transfer.

Literature shows that acquisitions are not singular events but are most of the time rather parts of a whole acquisition strategy of a firm (Laamanen & Keil, 2008). Thereby acquisition experience acquirers gain in previous acquisitions is shown to impact subsequent acquisitions (Barkema & Schijven, 2008a; Haleblian & Finkelstein, 1999). Similarly the replication of tasks has been shown to increase companies' performance in general (Finkelstein & Haleblian, 2002). Strategy literature dealing with organizational learning has uncovered the impact of learning on firm performance (Liebermann, 1987). Hitt et al. (1998) show that companies which have gained experience from former acquisitions are more successful in accomplishing synergies between the two firms and in integrating distinct corporate cultures, thereby achieving a more efficient and effective integration process. The reason lies in the fact that managers with acquisition experiences are better prepared for acquisition integration and creating value (Barkema & Schijven, 2008a), as the increased managerial experience with acquisitions and associated integration and restructuring can lead to better decisions in subsequent acquisitions (Barkema & Schijven, 2008b).

Figure 7: Integrative framework of social capital within the integration process



We were able to show in our interviews that the experience of IMs from former change processes played a key role for IMs during the integration process: “An integration is a lot about communication and motivation and the creation of understanding. One of the reasons I got appointed the role of the IM was my capability to accompany employees within change processes. And an integration is a change process” (IM 4). This experience from prior change processes, for example the experience of how to deal with different organizational and national cultures during the integration, helped IMs to build trust and to make the integration process more efficient: “At that time (before the IM came to the focal acquisition) I was HR leader for the energy business […]. I had to do a lot of change management there. So they were looking for someone with a track record that was not too American, not too whatever. You look for somebody who can easily move between all these different cultures, so to your point about trust building. By doing so, you lower the barriers from day one. We look at people’s “style background” in order to make this transition quicker” (IM 5). Taking into account these results from our data concerning IMs’ former integration/change process experience, we propose:

Proposition 5a: IMs’ prior integration/change process experience positively influences the relational dimension of social capital in the relationship between IMs and target actors in the focal acquisition, leading to a more successful integration process.

Besides the impact of IMs’ experience on the ability to build strong and trustful ties, it also came to light that this experience played a key role in establishing shared norms and a common identification between IMs and target employees: “It is all about understanding people, to translate why we do things, how we do them, to incorporate people, to incorporate the new company and to head for a mutual aim” (IM 4). We thus propose:

Proposition 5b: IMs prior integration/change process experience positively influences the cognitive dimension in the relationship between IMs and target actors in the focal acquisition, leading to a more successful integration process.

Going one step further, our interviews revealed that besides the direct influence of IMs' integration/change process experience on the relational as well as the cognitive dimension of social capital, those experiences also directly facilitated the transfer of knowledge between IMs and target actors. For instance, by applying change process specific techniques and tools IMs made the transfer of knowledge more effective and efficient. Thus, one IM stated. "When I was at the takeover of Z (former acquisition), I learned how to approach people. […] That helped me a lot in knowing which employees to contact to get the knowledge I needed to reach the desired decisions" (IM 6). These results let us propose:

Proposition 5c: IMs prior integration/change process experience facilitates the knowledge transfer between IMs and target actors in the focal acquisition, leading to a more successful integration process.

IMs' industry experience (moderating role)

Barkema and Shijven (2008b) point out that the effect of companies experience on performance hinges to a certain degree on context specificity in order to ease learning. Thus literature in different settings shows that gained experience in a certain industry does not necessarily mean that the knowledge companies gain during this experience is transferrable to other industries, where it could advantageously be applied and lead to learning (Hebert et al., 2005; Hoang & Rothaermel, 2005). Transferring this logic to our setting leads to the assumption that experiences IMs gained in former change or integration processes do not necessarily enable IMs to more efficiently manage the focal integration process. Our data showed that in small acquisitions where there was only one IM in place, specific industry experience and thereby specific knowledge seemed to be less important for those IMs as they were exposed to the whole value chain and automatically got acquainted with the necessary knowledge over time: "I didn't have knowledge about the products or about the market. I had to learn it step by step. […] you analyze the different areas of the company you are acquiring much more in-depth in such a small acquisition, as everything seems to be equally important” (IM 4). In contrast, in big acquisitions or when the integration team grew bigger, the tide was somewhat turning as it became more and more important to bring along experienced integration team members with knowledge from industry areas which fit to the target characteristics: “[…] when you have a bigger acquisition, you also have a bigger integration team. Then it is quite meaningful to have someone who knows the market respectively the products and brings the expertise to the table” (IM 4). Consequently, our proposition concerning the moderating role of IMs’ industry experience is:

Proposition 6a: IMs prior industry experience strengthens the effect of previous integration or change process experience on knowledge transfer in smaller acquisitions.

Proposition 6b: IMs prior industry experience does not strengthen the effect of previous integration or change process experience on knowledge transfer in bigger acquisitions.

IMs’ “victim” experience

As mentioned before, Barkema and Schijven (2008b) found that experiences companies gathered from previous acquisitions have a decisive influence on acquirers performance in following acquisitions. This influence of previous experience can also be observed in alliance settings (Hoang & Rothaermel, 2005; Zollo et al., 2002) or acquisitions of distressed firms (Bruton et al., 1994). In our case a similar line of reasoning might be applicable. Our interviews brought to light that IMs who had participated in an acquisition being a staff member of the respective acquired target, this is being on the “victim” or target side of the acquisition, reported that this experience and expert knowledge about getting acquired, was extremely helpful for executing the role as IM in the focal acquisition. One IM argued that this “victim” experience, as we call it, had enabled him to slip into the target employees’ shoes, which means to understand how the employees of the target firm feel when witnessing the focal acquisition: “It helped a lot that I had been at a company which X (acquirer) acquired when I started working as IM for X. I knew how it feels to be in a corporate culture when getting acquired by X. So I had learned about the other side of the coin" (IM 4). IMs featuring this capability were particularly gifted as they were endowed with greater empathy allowing them to be very sensitive towards target employees. This resulted again in an increased ability to establish trusting ties (relational dimension) as well as a shared identification between them and the target employees (cognitive dimension), thereby facilitating knowledge transfer and optimizing the integration process. We therefore propose:

Proposition 7a: IMs prior "victim" experience positively influences the relational dimension of social capital in the relationship between IMs and target actors leading to a more successful integration process.

Proposition 7b: IMs prior "victim" experience positively influences the cognitive dimension of social capital in the relationship between IMs and target actors leading to a more successful integration process.

5.5 DISCUSSION

In this paper we set out to qualitatively explore IMs' role as knowledge brokers between acquiring and target companies within the M&A integration process – a major lever for acquirers to enhance value in acquisitions. More precisely, by applying a social network perspective and based on an exploratory multi case analysis, we investigated the process of how IMs strategically develop their social ties with target employees and how they do or do not make use of their resulting social capital when trying to facilitate the aspired transfer of knowledge between the organizations involved in order to improve the subsequent integration process performance. Thereby our social network theory lens revealed that IMs are not by their very nature of their network position successful knowledge brokers, but that instead the success of the integration process largely depends on IMs' capabilities to strategically establish and successfully exploit such knowledge broker positions. This is IMs' brokering positions seem to be a necessary but not a sufficient condition for successful integration processes to unfold. In contrast, successful IMs distinguish themselves from less successful IMs in that the former bridge more and divers structural holes and strategically establish (trustful) social ties to the "right" target employees. Thus, successful IMs in contrast to their less successful counterparts already start to lay the foundation of trustful tie establishment during the pre-closing stage of the acquisition. Moreover, in using various tools and incentives, successful IMs better understand to exploit the resulting social capital thereby facilitating the interorganizational knowledge transfer which, in turn, leads to a more successful integration process. Furthermore it became apparent that IM's previous change and integration process experience as well as their "victim" experience impacted knowledge transfer and subsequent integration process performance. In addition, we discovered moderating implications from IM's industry experience on the relationship between integration and change process experience and knowledge transfer.

With our research we contribute to several streams of literature. First, we add to M&A research by adding one of the few empirical studies investigating the complex and underexplored integration process in acquisitions (Graebner, 2009, 2004; Teerikangas et al., 2011), based on an inductive qualitative approach. We further add to M&A research, by applying a social network perspective to the M&A integration process, covering an intersection of research that has received little attention in the literature to date. As a result we shed light on the yet underexplored "black box" of how to successfully initiate, maintain and complete an M&A integration process. Moreover, the social network lens allows us to better understand the underlying processes, mechanisms and errors which emerge within the integration process. Most importantly, we demonstrate that social ties and the arising social capital that positively influences the knowledge transfer, thereby leading to a more successful integration process are key success factors of acquisition performance. Moreover, we advance M&A research by highlighting the important role of IMs within the integration process. We carve out IMs' role as knowledge brokers who have by their very position the potential to bridge structural holes and develop social ties between actors of acquirers and targets initiating and implementing knowledge transfer and change processes between organizations. Although having this potential for brokering knowledge, our social network theory lens revealed that IMs are precisely not by the very nature of their exposed network position successful knowledge brokers, but that instead the success of the integration process largely depends on IMs' capabilities to strategically establish and successfully exploit such knowledge broker positions. This is the IM's brokering position seems to be a necessary but not a sufficient condition for successful integration processes to unfold. We thus seize Kwon and Adlers' (2014) cognition argument which implies that equal nodes and relationships in a network can be perceived dissimilar by individuals, whereby this varying cognition in turn influences social capital formation. We were able to exactly observe this diverse perception when IMs in our study differently recognize important individuals at targets during integration, which in turn influenced their social capital development. Furthermore, we thereby tie on research which shows that there can be a difference between *having social capital* and *using social capital* in the way that individuals will not equally well take advantage of their networks (Smith, 2005). We do so in showing that IMs although being in the same brokering position are not equally able to mobilize their social capital uniformly well (Kwon & Adler, 2014).

By offering this social network lens, we also expand previous work from Graebner (2004) who showed that managers in general are highly important individuals in acquisition processes, as well as findings from Ashkenas and Francis (2000) and Ashkenas et al. (1998) who argue that IMs as delegates of the acquirer are key individuals during the integration process. We complement their research as with our theoretical foundation we get closer to the "how's" in the integration process. For example, Ashkenas and Francis (2000) as well as Ashkenas et al.

(1998) explain *that* the IMs task is to ease the communication between acquirer and target, get the target employees acquainted to the acquirer requirements, and facilitate transfers of best practices between the two companies. We demonstrate *how* this could be reached successfully, by differentiating between successful and less successful integration processes. As outlined above, IMs in successful integrations are shown to build their network differently by setting somewhat different priorities, and to apply more or different mechanisms to exploit their resulting social capital thereby facilitating the interorganizational knowledge transfer which, in turn, leads to a more successful integration process.

Furthermore, with our results we challenge M&A findings by Teerikangas et al. (2011) dealing with the due diligence phase. The authors analyze IMs' impact on the performance of acquisitions, demonstrating that IMs are able to capture value during the pre-acquisition phase from both the acquirer and the target. The paper states that IMs do this by acting as role models for the target staff, being staff mobilizers, or cultural carriers, thereby managing to create additional economic value and helping to reduce value leakage. Based on our results that during the pre-acquisition phase all IMs reported to have faced a sincere legally caused lock-out effects and that only successful IMs were able to lay the groundwork for later establishment of trustful ties, we cannot confirm Teerikangas et al. (2011). In contrast, we only saw IMs acting as role model or being a staff mobilizer from that point in time on that they were officially allowed to approach the target staff – this is after the deal was closed.

Second, with our study we contribute to social network and social capital literature by answering the recent call by Fang et al. (2014), who request research dealing with *how* individuals actually construct their social networks and thereby on how networks emerge and develop. Furthermore, the authors call for studies which deal with an associated question, namely how individuals make use of their social networks and how the consequent social capital is exploited (Baron, 2007). We contribute to this research gap by highlighting mechanisms of how social networks are strategically formed by IMs and how the emerging social capital is then used in order to mobilize knowledge transfer between IMs and both groups of employees which in turn enhances integration performance. By showing that there is quite a variance among IMs in their ability to bridge structural holes and in building social capital with target employees, we demonstrate, again, the IM's brokering position to be a necessary but not a sufficient condition for successful integration processes to unfold. This is, brokers are not by their very construction equally capable of building networks and of utilizing their social capital. We, hence confirm to some extent the diverse findings by Burt (1992) and others (Hargadon, 2002, 1998) that brokering positions are beneficial. However, we also expand their findings, in that we complement, that brokering is not at all an automatism, but that instead further factors, attributes of the broker and applied tools have to be added, so that the potentially existing impact of the predestinated network position unfolds.

Furthermore we contribute to the yet underdeveloped research area on social liabilities in networks by adding one of the few studies that reveals social capital's possible subsequent transformation into social liabilities. Besides strengthening previous research, which shows that different forms of social liabilities in networks like structural lock-ins, relational lock-ins, or cognitive lock-ins can occur (Maurer & Ebers, 2006; Weber & Weber, 2011), our data unveils a setting what we labeled structural lock-outs. As outlined before, during the pre-closing stage the IMs faced the described legal instructions that provoked an area of tension between getting as close as possible on the one side and protecting as much as possible on the other side. This structural lock-out hindered knowledge transfer before the closing of the deal which would have been highly important for both sides involved, to get to the bottom of strategic synergies and potentials of knowledge transfer, which in turn would be truly relevant for the success of the whole integration process. However, in the spirit of Principal Agent Theory and concerned about an opportunistic calculus of the respective counterpart, the parties deliberately limit each other, to protect oneself for the worst case of a non-accomplishment.

Implications and Future Research

Our study has various implications for theory as well as for future research. First, looking at the fruitful insights from our research, we encourage more studies at the intersection between M&A and social network research. Our findings might guide the integration process literature in M&A's in that it should reflect upon this process from a social network perspective in greater depth. Applying such lens is one step in moving M&A literature forward for M&A scholars who should regard the complex integration process more from a micro-perspective and understand this very process as a nexus of ties between individual actors. Doing so might help M&A researchers to more fully understand the underlying patterns, mechanisms and logics within this “black box” of the integration process and to answer questions of how this very process creates value in acquisitions.

Second, literature on M&A’s in general and on the integration process in acquisitions in particular might benefit from our findings that highlight the role of IMs within the integration process. By demonstrating that IMs as potential knowledge brokers are key actors during the integration process and by highlighting that the nuances and differences inherent in such brokering roles decide over the success of the acquisition, we have laid the foundation for future research on M&A integration processes, which should more extensively focus on the attributes and specific characteristics of IMs within this process, on the possibilities to support and leverage that role, and how these attributes and characteristics influence acquisition integration performance.

Third, our findings concerning IMs might also have direct implications for M&A practitioners, as those findings might raise the awareness of acquiring companies to intensify their search activities for IMs which feature those attributes. Furthermore, acquirers should deploy IMs who are able to set up mechanisms allowing (trustful) relationships to emerge. As our data revealed there are several mechanisms for IMs to apply in order to establish and maintain (trustful) social ties which may lead to the important knowledge transfer. Regarding the attributes IMs should feature, acquirers should select IMs very carefully in terms of integration/change process, “victim”, and industry experience. Besides these attributes located by our study, there will be a manifold set of characteristics – maybe similar to those that we already know from change management literature – which might also influence IMs ability to successfully develop social ties and make use of their social capital.

Social network theory research, as the second main area for which our study might have potential implications, can first of all benefit by taking our research as a starting point to answer the widespread question raised by Fang et al. (2014) of how individuals actually construct their social networks and how they make use of the resulting social capital. In showing that individuals starting at the identical brokerage position are not equally able to build social ties and thus successfully construct their social networks as well as make use of their social capital, literature should focus more thoroughly on the preconditions, mechanisms and contexts that allow these individuals to leverage these potential benefits.

Second, social network and social liability literature might also profit from our research in that it directs a greater focus to the development and repercussions of social liabilities in networks. Our confirmation of the established lock-ins and the detection of the described lock-out makes it advisable, to explore social liabilities in more detail and maybe even more types of liabilities to prevent those unintended future developments. Our analyzed area of tension in which structural lock–ins and –outs developed, should be transferrable to almost every pre-contractual situation. The findings might make different research streams as well as practitioners listen actively and take them into account in their respective fields.

Moreover, another social network theory literature stream for which our results have implications is the one on knowledge brokering. By expanding Burt's (1980, 1992, 1997) and Hargadon's (1998, 2002) findings that network brokerage positions are favorable in that they are definitively necessary but are not sufficient for successful knowledge transfer, future research in this field should further focus on the actors themselves who broker the knowledge, this is, on their attributes and on the "how's" of the knowledge brokering process itself.

Our findings feature the natural limitations of any other qualitative research. As it is common in such studies our sample size is limited. Although a larger number of interview partners would have been desirable, the diverse selection of interviewees from different positions within the companies guarantees high relevance and validity (Eisenhardt & Graebner, 2007). Future research is encouraged to validate our qualitative results and the emerging framework by using quantitative methods. Thus it would be fruitful to run statistical analysis of the different social capital dimensions and IM characteristics on knowledge transfer and the performance of the integration process in a larger sample to check whether our propositions withstand statistical verification.

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V. APPENDIX

APPENDIX 1: Average and cumulative average residuals for bidders and targets

Event	Targets				Bidders			
Day	AR [-5;+5]	AR [-10;+10]	CAR [-5;+5]	CAR [-10:+10]	AR [-5;+5]	AR [-10;+10]	CAR [-5;+5]	CAR [-10:+10]
-10		+0.363%		+0.363%		+0.343%		+0.343%
-9		+0.539%		+0.902%		+0.002%		+0.345%
-8		-0.355%		+0.547%		+0.483%		+0.828%
-7		-0.105%		+0.442%		-0.037%		+0.791%
-6		+0.107%		+0.549%		+0.017%		+0.808%
-5	+0.533%	+0.529%	+0.533%	+1.078%	-0.261%	-0.278%	-0.261%	+0.529%
-4	+1.182%	+1.199%	+1.715%	+2.277%	+0.498%	+0.503%	+0.237%	+1.033%
-3	+0.378%	+0.379%	+2.093% *	+2.656%	+0.372%	+0.368%	+0.610%	+1.400%
-2	+0.984%	+0.990%	+3.077% **	+3.646% **	+0.195%	+0.197%	+0.805%	+1.598%
-1	+3.163% ***	+3.155% ***	+6.239% ***	+6.802% ***	-0.962% **	-0.954% **	-0.158%	+0.644%
0	+9.992% ***	+10.004% ***	+16.232% ***	+16.806% ***	+2.810% ***	+2.813% ***	+2.653% **	+3.457% **
1	+0.740%	+0.743%	+16.971% ***	+17.548% ***	+0.434%	+0.450%	+3.087% **	+3.907% **
2	-0.649%	-0.627%	+16.322% ***	+16.922% ***	-0.880% *	-0.872% *	+2.207%	+3.035% *
3	-0.924% *	-0.922% *	+15.399% ***	+16.000% ***	-0.775% **	-0.765% **	+1.432%	+2.271%
4	-0.135%	-0.146%	+15.264% ***	+15.854% ***	-0.485%	-0.479%	+0.947%	+1.791%
5	-0.686%	-0.664%	+14.578% ***	+15.190% ***	+0.731% *	+0.737% *	+1.678%	+2.528%
6		+0.423%		+15.613% ***		-0.093%		+2.435%
7		-0.254%		+15.359% ***		-0.109%		+2.326%
8		-0.352%		+15.007% ***		+0.061%		+2.387%
9		-0.336%		+14.671% ***		+0.557% *		+2.944%
10		-0.205%		+14.465% ***		+0.003%		+2.947%

*/**/***: (cumulative) average residuals for sampled targets/bidders significantly different from 0 to 90% / 95% / 99% levels of confidence.