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The effect of corporate social performance on acquisition performance

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THE EFFECT OF CORPORATE SOCIAL PERFORMANCE ON ACQUISITION PERFORMANCE

by

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ABSTRACT

In this dissertation, I investigate the impact that corporate social responsibility (CSR) engagement may have on post-acquisition performance outcomes. I argue that prospective targets are among the audiences that observe the firm's corporate social activities and make judgments out of the signals portrayed by such activity. With prospective targets being largely more successful than their counterparts, it stands to reason that they would prefer to be acquired by successful firms that would likely assure benefits in the long term. The socially responsible acquirer would likely be viewed as the more attractive suitor since the established moral and reputational capital present it as the more trustworthy partner in the deal. I contend that, all else equal, a quality target may prefer to be acquired by a socially responsible firm as the acquired firm can gain immediate access to the acquirer's reputational and moral capital benefits. Acquisition of such high quality targets is likely to lead to the attainment of synergies which could enhance post-acquisition performance.

I examine this issue by relying on literature on stakeholder theory and signaling theory in order to understand how firms could shape the perceptions of prospective quality targets in their favor, through engagement in corporate social responsibility. I explore entrepreneurial firms, family firms and top managers' ownership as potential moderators to the relationship. Further, I explore top management team retention and

quality of target as mediators of the relationship between CSR and post-acquisition performance.

In testing the hypotheses, I rely on data from the Kinder, Lydenberg, and Domini (KLD) database, the Mergers and Acquisitions (M&A) module of the Securities Data Corporation's (SDC) database, Research Insight and S&P's Capital IQ databases, and the firms' filings with the SEC.

The first major finding is that corporate social performance is generally associated with higher post-acquisition performance. I find a positive relationship between corporate social responsibility and financial performance measured by ROA. However, no significant performance results are found when performance is measured using total shareholder return, a market measure. The results provide support for the moderating effect of entrepreneurial firm status on the relationship between the acquirer's corporate social performance and the quality of target. The results also provide support for the mediating effect of the quality of target on the relationship between CSR and organizational performance.

This dissertation has important theoretical and practical contributions. First, this research extends prior CSR literature to the acquisitions context and shows that CSR engagement is associated with financial performance. It therefore establishes a stronger theoretical foundation for the relationship between corporate social performance and financial performance. Secondly, this study looks at prospective targets as additional stakeholders that rely on a prospective acquirer's CSR information to form impressions about potential acquirers. This study indeed finds that a firm's engagement in CSR is an important signaling mechanism through which prospective acquirers portray themselves as more trustworthy business partners to prospective quality targets. Additionally, prior M&A literature has primarily investigated performance phenomena from an acquirer's perspective. This study goes further and develops arguments from the target's perspective, arguing that the targets are a primary recipient of signals from prospective acquirers, and that they rely on information from such signals to make important decisions, like which acquirer would be most favorable in an acquisition deal.

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CHAPTER 1

INTRODUCTION

Merger and acquisition (M&A) activity significantly accelerated in the U.S. in 2014 and 2015, and the trend is poised to continue if not accelerate further in many industries among public and private firms (Deloitte, 2014; Deloitte, 2015). With a substantial body of extant literature suggesting that the anticipated synergies from M&As are largely left unrealized (Datta, Pinches, & Narayanan, 1992; King, Dalton, Daily, & Covin, 2004), the expected increase in M&A activity lends impetus for more research inquiry in this area.

Similarly, research attention to corporate social responsibility (CSR) issues has been on the increase. Dominating this inquiry are studies on the link between CSR and corporate performance (CP). However, inconsistencies have plagued study findings on the CSR-CP relationship, with some concluding that the relationship is positive (Wang & Qian, 2011; Waddock & Graves, 1997a), negative (Julian & Ofori-dankwa, 2013), neutral (McWilliams & Siegel, 2000), or U shaped (Barnett & Salomon, 2012; Brammer & Millington, 2008; Wang, Choi, & Li, 2008). Despite the mixed findings, research suggests that involvement with CSR is of strategic value to firms (Porter & Kramer, 2002; Saiia, 2002) due to its capacity to improve stakeholder relations (McWilliams & Siegel, 2001) which subsequently leads to positive outcomes for the firm.

To date, despite the abundance of studies examining the effect of CSR, and acquisitions, on corporate performance, important gaps still remain unaddressed in the literature. First, to the best of my knowledge, no study has examined the effect of CSR on acquisition performance. This is a very significant omission in the literature, considering that CSR has been shown to influence many corporate outcomes such as organizational legitimacy (Fombrun et al., 2000; Holder-Webb et al. 2009; Jamali, 2008), reputation (Brammer & Pavelin, 2006; Brown & Dacin 1997; Fombrun, 1996; Fombrun & Shanley, 1990; Turban & Greening, 1997; Verschoor, 1998; Waddock & Graves, 1997; Sen & Bhattacharya 2001), customer loyalty (Du, Bhattacharya, & Sankar, 2007; Lev, Petrovits, & Radhakrishnan, 2010; Luo & Bhattacharya, 2006; Sen & Bhattacharya, 2001), reduced firm risk (Bansal & Clelland, 2004; Godfrey et al., 2009; McGuire et al., 1988), operational efficiencies (Sharma & Vredenburg, 1998) and employee commitment (Greening & Turban, 2000). Second, acquisition performance literature remains unclear as to why the anticipated synergies from acquisitions are never realized (e.g. Datta et al., 1992; King et al., 2004). In exploring why this is so, scholars have suggested that poor post-acquisition performance may be due to a reduction in R&D investment (Hitt, Hoskisson, Ireland, & Harrison, 1991), managerial hubris (Roll, 1986), integration problems (Haspeslagh & Jemison, 1991), and differences in organizational culture and management style (Chatterjee, Lubatkin, Schweiger, & Weber, 1992; Datta, 1991). However, to the best of my knowledge, no attention has examined the effect of CSR on acquisition performance. This paper integrates CSR and acquisition literature in an attempt to find out how they interrelate to influence acquisition performance.

Stakeholder theory suggests that a firm's stakeholders have the ability to affect or be affected by the strategic outcomes achieved by the firm (Freeman, 1984; Jones & Wicks, 1999). It follows that systematic managerial attention to stakeholder interests is critical to organizational success (Berman, Wicks, Kotha, & Jones, 1999; Clarkson, 1995; Choi & Shepherd, 2005). A firm's participation in CSR is an important source of reputational capital, which boosts the firm's attractiveness to various stakeholder groups such as prospective customers, employees, and business partners (Fischer & Reuber, 2007; Fombrun, 2001; Fombrun & Shanley, 1990; Jones, 1995; Puncheva, 2008). Reputational capital can boost stakeholder relations (McWilliams & Siegel, 2001) and is likely to be rewarded by key stakeholders, though, for example, positive security analysts' assessments (Ioannou & Serafeim, 2015; Luo, Wang, Raithel, & Zheng, 2015), favorable job seekers' perceptions of the firm (Jones, Willness, & Madey, 2014), lower cost of capital (Sharfman & Fernando, 2008) and lower capital constraints (Cheng, Ioannou, & Serafeim, 2014), which could result in improved performance (Udayasankar, 2008). Choi and Shepherd (2005) suggest that when stakeholder support is high, stakeholders are more likely to provide more of the resources required by the organization, and/or they may provide such resources in a way that lowers transaction costs for a longer period. At the core of CSR engagement is its capacity to deliver valued positive stakeholder relations for the firm (Barnett, 2007).

Signaling theory (Spence, 1973) can also help to explain the positive outcomes of CSR. The theory explains the process utilized by decision makers in situations of information asymmetry (Spence, 1973). Studies suggest that due to the existence of information asymmetry, the public frequently relies on actions and symbols to judge a firm's reputation and quality (Ferrier, 1997; Fombrun & Shanley, 1990; Miller & Triana, 2009; Spence, 1973). Firms use these actions to provide information to the public with the aim of eventually influencing the public's judgment on the firm (Ferrier, 1997; Mahon, 2002). CSR activities are primarily meant to build reputation and status among the public (Miller & Triana, 2009). In so doing the firm signals to multiple stakeholders about the quality and reliability of its products and services (Frooman, 1999). In addition, by building a positive reputation, the firm is able to avoid signals of opportunism, and present itself as a trustworthy business partner (Jones, 1995). After gaining a strong reputation, the firm can accrue a host of other benefits, such as better performance (Hall 1992, 1993; Shamsie 2003), lower capital constraints (Cheng, Ioannou, & Serafeim, 2014) and increased attractiveness as a business partner (Dollinger et al., 1997).

Quality acquisition targets are normally more, not less successful than their industry peers (Graebner & Eisenhardt, 2004; Ravenscraft & Scherer, 1987; Walsh & Kosnik, 1993), which makes them very attractive to potential acquirers (Katila, Rosenberger, & Eisenhardt, 2008). All else equal, potential socially responsible acquirers may be perceived to be more appealing by prospective targets because involvement in CSR confers to a firm a degree of moral capital (Kane, 2001) by signaling to stakeholders that the firm is not entirely self-centered, but considers the impact of its activities on various constituents (Godfrey et al., 2009). Moral capital has been attributed to attracting customers, improving productivity, and gaining investor support (Luo & Bhattacharya, 2006), and can also be a form of insurance when the firm is faced with a negative event (Godfrey et al., 2009). Applying this logic in the M&A context, it could be argued that these CSR moral capital outcomes are not limited to customers and current constituents with whom the firm does business. Prospective targets could also be among the audiences that observe the firm's activities and make judgments out of the signals portrayed by such activity. With prospective targets being largely more successful than their counterparts, it stands to reason that they would prefer to be acquired by successful firms that would likely assure benefits in the long term. The socially responsible acquirer would likely be viewed as the more attractive suitor since the established moral and reputational capital present it as the more trustworthy partner in the deal. In the same way that prospective job seekers (e.g., Rynes, 1991; Rynes & Miller, 1983), consumers, suppliers, and investors (Connelly et al., 2011) may use CSR information to form impressions about the firm, prospective targets may also use such information in assessing the acquirers. All else equal, a quality target may prefer to be acquired by a socially responsible firm as the acquired firm can gain immediate access to the acquirer's reputational and moral capital benefits. Acquisition of such high quality targets is likely to lead to the attainment of synergies (Graebner & Eisenhardt, 2004), which could enhance post-acquisition performance.

In addition, in order to avoid the reputational costs that may stem from bad acquisitions, socially responsible acquirers are likely to perform more due diligence before making an acquisition. This is especially important because acquisitions that appear controversial to stakeholders may put the firm at risk of losing its current and potential members, as well as outside stakeholder endorsement and support (Lange & Washburn 2012). It is therefore important for the CSR firm to ensure that to external observers, it is not seen as implicitly or explicitly supporting socially irresponsible behavior through its operations [e.g. through its acquisitions] as the reputational costs may far outweigh other costs related to bad acquisitions (Karpoff, Lee, & Martin, 2008). The socially responsible acquirer is therefore likely to end up only acquiring high quality targets with clean track records, thereby minimizing the costs associated with bad acquisitions, which may ultimately lead to high post-acquisition performance. It is argued that the quality of the target partially mediates the relationship between corporate social performance and post-acquisition performance.

Top management team (TMT) ownership positively affects the quality of a target firm because it causes the top managers' wealth to vary directly with firm performance (Jensen & Murphy, 1990), thereby incentivizing the owner-managers to behave more like principals (Wang & Coffey, 1992). TMT ownership in the target firm boosts the level of influence that these managers will have on which acquiring firm wins the bid to acquire their firm. All else equal, the managers may evaluate the socially responsible acquirer as more desirable for the target, and will influence the board and key investors toward endorsing their preference to be acquired by a CSR firm. Conversely, low ownership concentration among the top managers causes them to be more susceptible to counsel and monitoring pressure from the board (Johnson, Hoskisson, & Hitt, 1993) and other key investors. In addition, TMTs with low ownership holdings may also be more likely to behave opportunistically (Dalton, Daily, Certo, & Roengpitya, 2003) as they would have an incentive to consume perquisites (Jensen & Meckling, 1976). This would ultimately reduce firm value (Berle & Means, 1933; Jensen & Meckling, 1976), and thereby lower the quality of the target.

Family-controlled firms pay more attention to nonfinancial "socioemotional" aspects that meet the family's affective needs (Gomez-Mejia et al., 2007) than non-family firms. For a family target, socioemotional needs may include projecting and perpetuating a positive family image and reputation (Sharma & Manikutty, 2005; Westhead, Cowling, & Howorth, 2001), receiving recognition for generous actions (Schulze, Lubatkin, & Dino, 2003) and accumulation of social capital (Arregle, Hitt, Sirmon, & Very, 2007). Given that family firms have a tendency to place more value on social legitimacy for its own sake independent of financial considerations (Berrone, Cruz, Gomez-Mejia, & Larraza-Kintana, 2010), they are more likely to implement value enhancing practices and processes, thereby boosting their overall quality. Quality family targets are likely to be attracted to socially responsible acquirers because the mere acquisition by a CSR firm may boost the family's image and reputation among key constituents, which appeals to the family's socioemotional needs. For a socially responsible acquirer, the acquisition of a quality family firm would be desirable because the family target is likely to be pursuing goals that are more aligned with its own. This would likely lead to a synergistic combination (Graebner & Eisenhardt, 2004), consequently boosting post-acquisition performance.

Entrepreneurial firms are young, often small firms, with high growth potential (Baker & Aldrich, 2000). Founders of such firms have a strong psychological attachment to their firms (Bruton, Fried, & Hisrich, 2000; Finkelstein & Boyd, 1998; Nelson, 2003), and are highly motivated to increase long-term value of their firms by ensuring that their firms are more innovative (Shefer & Frenkel, 2005). Given the efforts that the entrepreneurs take to ensure the success of their ventures, an acquisition of firms in their entrepreneurial stage is therefore expected to be of higher quality. In addition, entrepreneurs would want their firm to be acquired by a reputable firm (Fombrun &

Shanley, 1990) that promises continued future positive outcomes such as improved stakeholder relations and firm reputation (Hillman & Keim, 2001). For the entrepreneurial firm, an acquisition by a socially responsible firm may be more attractive because, on being acquired, the quality entrepreneurial target will enjoy these benefits 'by extension'. An acquisition by a socially responsible firm may therefore assure the target's owners that their firm is passing on to a 'good firm', which will likely perpetuate strategies that lead to the highest benefit for all stakeholders. Since the entrepreneurial firm may be more innovative compared to the more established CSR firm (Freeman & Soete, 1997; Powell & Brantley, 1992), access to the target's innovative capacity may lead to higher post-acquisition performance, which may give the acquirer a competitive edge (Katila, Rosenberger, & Eisenhardt, 2008).

Data on CSR will be collected from the Kinder, Lydenberg, and Domini (KLD) database. KLD rates firms' corporate social performance either as strengths or weaknesses (concerns), based on seven major areas: community, corporate governance, diversity, employee relations, environment, human rights, and product. This database has been widely utilized in many studies on CSR (e.g., McWilliams & Siegel, 2000; Neubaum & Zahra, 2006; Waddock & Graves, 1997). Acquisition data will be collected from the M&A module of the Securities Data Corporation's (SDC) database. Data on other key variables will be collected from Research Insight, while data on TMT ownership and TMT retention will be collected directly from the firm's filings with the SEC. Any missing data, for example, ROA for a specific firm, will be obtained from S&P's Capital IQ database. This database provides information on company profiles, industry profiles, transaction profiles, and executive profiles (Phillips, 2012) on over 3.3 million companies in more than 20 countries across the globe (CapitalIQ.com).

This paper makes a number of contributions. First, it contributes to the acquisition performance literature (e.g., Cannella & Hambrick, 1993; Graebner, 2004) by indicating that CSR is one of the determinants of acquisition performance. Relatedly, it contributes to CSR literature by showing that CSR may influence acquisition performance in ways that prior studies have not examined. The paper also furthers our understanding as to why some types of companies are acquired by some other types of companies, and the motives behind such acquisitions. Figure 1-1 illustrates the conceptual model of my study.

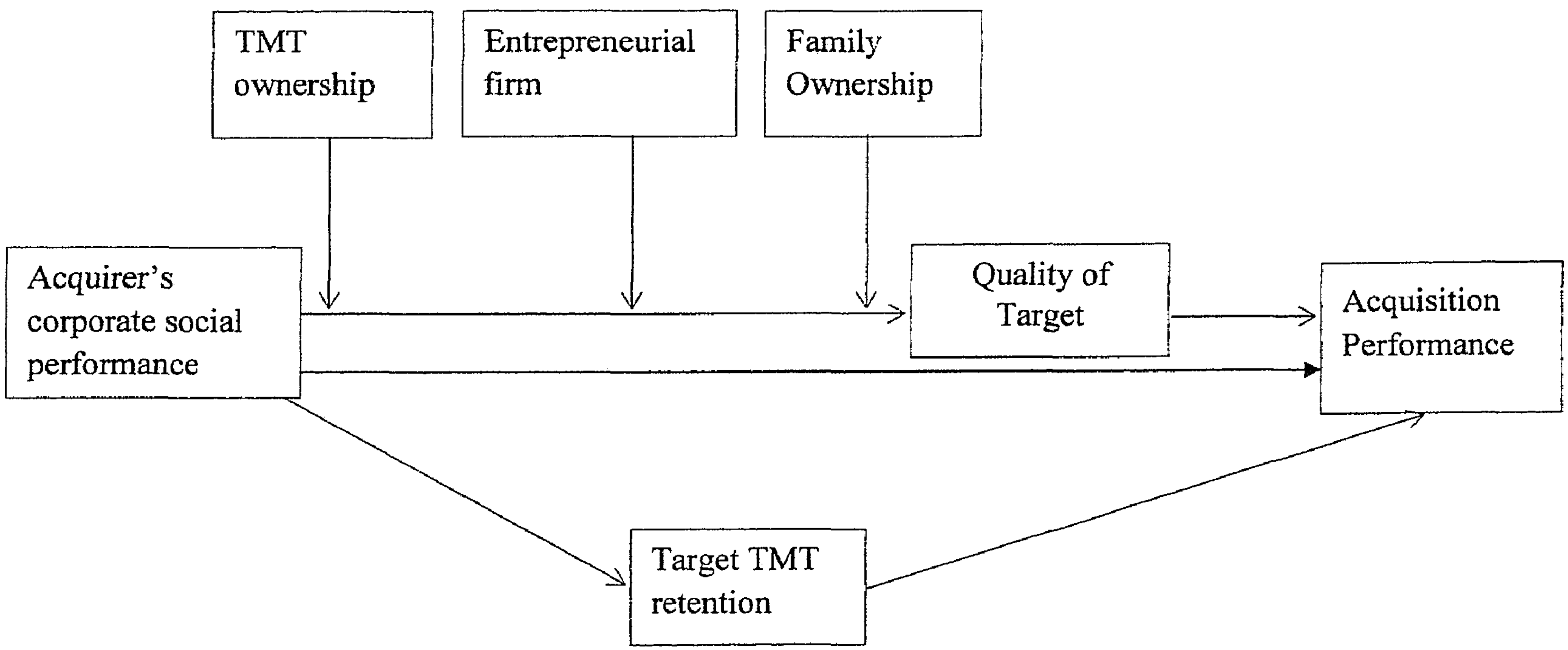

Figure 1-1: Conceptual model.

CHAPTER 2

LITERATURE REVIEW

2.1 Acquisitions and Organizational Performance

An acquisition can be very beneficial as a value-enhancing tool, both for the acquirer and the target. An acquirer can reap benefits such as achieving strategic renewal (Graebner, Eisenhardt, & Roundy, 2010), obtaining specific products or technologies that are owned, or are under development by the target firm (Birkinshaw, Bresman, & Hakanson, 2000; Graebner, 2004; Ranft & Lord, 2000), and gaining access to capabilities that are embedded in the knowledge of individuals and teams within the acquired firm (Ranft & Lord, 2000; Schweizer, 2005). Targets on the other hand can increase their strategic resource portfolio (Graebner & Eisenhardt, 2004; Inkpen, Sundaram, & Rockwood, 2000) and reap financial gains (Datta, Pinches, & Narayanan, 1992) from an acquisition. An acquisition can also relieve personal pressures resulting from ownership (Graebner & Eisenhardt, 2004).

Aside from the above mentioned objectives, one overarching goal for both sellers and buyers is the achievement of synergy (Graebner & Eisenhardt, 2004). However, within the M&A literature, particular interest surrounds the finding that the anticipated synergies mostly remain unrealized, leading to poor post-acquisition performance (Datta, Pinches, & Narayanan, 1992; King, Dalton, Daily, & Covin, 2004). Some authors have argued that the decrease in the acquirer's performance could be attributed to suboptimal initial integration efforts (Barkema & Schijven, 2008), loss of autonomy (Chatterjee, Lubatkin, Schweiger, & Weber, 1992; Very & Lubatkin, 1997), lower post-acquisition R&D investments (Hitt, Hoskisson, Ireland, & Harrison, 1991), incompatibility of acquirer and target firm cultures (Very, Lubatkin, Calori & Veiga, 1997), bidder-to-target dissimilarity in product offerings and geographic reach (Ellis, Reus, Lamont, & Ranft, 2011), and hubristic CEOs' overestimation of their own capacity to create value when buying targets (Roll, 1986). Authors suggest that, in order to overcome these problems and achieve superior post-acquisition outcomes, firms should seek acquisitions that offer a better strategic fit in the form of resource similarity or complementarity (Barkema & Schijven, 2008; Harrison, Hitt, Hoskisson, & Ireland, 1991; Kusewitt, 1985; Lubatkin, 1987; Pennings, Barkema, & Douma, 1994; Ramaswamy, 1997; Shelton, 1988; Singh & Montgomery, 1987). In addition, from a corporate governance perspective, Kroll, Walters, and Wright (2008) suggest that vigilant boards rich in appropriate experience could help achieve superior performance.

2.2 CSR and Organizational Performance

A plethora of studies have examined the relationship between CSR and corporate performance and have arrived at varying conclusions. For example, some have found the relationship to be positive (e.g., Lev, Petrovits, & Radhakrishnan, 2010; Wang & Qian, 2011; Waddock & Graves, 1997a), negative (e.g., Julian & Ofori-dankwa, 2013), neutral (e.g., McWilliams & Siegel, 2000), and U shaped (Barnett & Salomon, 2012; Wang, Choi, & Li, 2008; Brammer & Millington, 2008). Despite the mixed findings, research suggests that involvement with CSR can improve stakeholder relations (McWilliams & Siegel, 2001) and elicit positive stakeholder relations for the firm (Barnett, 2007).

Apart from studies on the relationship between CSR and financial outcomes of the firm, CSR engagement has also been attributed to positive security analysts' assessments (Ioannou & Serafeim, 2015; Luo, Wang, Raithel, & Zheng, 2015), favorable job seekers' perceptions of the firm (Jones, Willness, & Madey, 2014), lower cost of capital (Sharfman & Fernando, 2008) and lower capital constraints (Cheng, Ioannou, & Serafeim, 2014). Some authors have also concluded that CSR provides 'insurance-like' benefits against negative environmental events that threaten firm value (Godfrey, Merrill, & Hansen, 2009; McGuire, Sundgren, & Schneeweis, 1988) and against litigation risk (Koh, Qian, & Wang, 2014). Scholars looking at proactive environmental performance by firms have also found that such strategies are associated with the emergence of unique organizational capabilities, which consequently impact firm competitiveness (Sharma, & Vredenburg, 1998), and that such proactive firms have a deeper and broader coverage of stakeholder demands (Buysse & Verbeke, 2003). A primary objective behind CSR activities by firms is the ability to build good relationships (Clarkson, 1995), and later, utilize these relationships to invoke favorable evaluations from key stakeholder groups (Barnett, 2007; Wang & Qian, 2011). The positive evaluations are especially important where individual consumers are the predominant customers (Lev, Petrovits, & Radhakrishnan, 2010) and when the firm in question is highly visible to various stakeholders (Chiu & Sharfman, 2011).

Corporate social performance weaknesses, on the other hand, have been found to have detrimental effects on performance (e.g., Jayachandran, Kalaignanam, & Eilert, 2013). Muller and Kräussl (2011) found that firms that were reputed for social irresponsibility were associated with the greatest drop in stock prices subsequent to a negative environmental effect, which in their case was hurricane Katrina. In addition, Ramchander, Schwebach, and Staking (2012) also document negative stock price responses subsequent to deletion from a social performance index. Socially irresponsible actions can also act as "ammunition for adversaries" (Elsbach & Sutton, 1992: 712) when competitors use such actions to their advantage. In sum, socially irresponsible and illegal corporate activities considerably decrease shareholder wealth (Frooman, 1997). From an attribution theory perspective, Lange and Washburn (2012) suggest that perceptions of social irresponsibility have a greater capability to provoke reactions from stakeholders as compared to socially responsible actions. Walters, and Wright (2008) suggest that vigilant boards rich in appropriate experience could help achieve superior performance.

2.3 Stakeholder Theory

Stakeholder theorists suggest that a business can be understood as a set of relationships among groups that have a stake in the activities that make up the business (Freeman, 1984; Jones, 1995; Walsh, 2005). They assert that superior organizational outcomes result from effective management of the various relationships the firm has with its stakeholders (Barnett & Salomon, 2012; Freeman, 1984; Ramchander, Schwebach, & Staking, 2012).

The stakeholder theory was introduced by Freeman (1984) in his book, *Strategic Management: A Stakeholder Approach*. Freeman (1984) suggests that stakeholders provide [either tangible or intangible] resources that are critical to the firm's long-term success. For example, stockholders provide capital; suppliers provide inputs and knowledge; employees offer their skills and expertise; customers provide good positive word-of-mouth; and the media assists in perpetuating a favorable corporate image (Maignan, Ferrell, & Ferrell, 2005). The ability of stakeholders to withdraw or threaten to withdraw needed resources gives them power over the organization (Maignan & Ferrell, 2004), hence the need for stakeholder attention.

In their seminal article, Donaldson and Preston (1995) proposed that three formulations underlie the exploration of stakeholder theory. These are descriptive/empirical, instrumental, and normative. Descriptive/empirical formulations of stakeholder theory are meant to describe, and sometimes to explain, specific corporate or management characteristics and their behaviors (Donaldson & Preston, 1995; Jones, 1995). Descriptive/empirical theories address the question, what happens? (Jones, 1995). Descriptive formulations help to explain the past, present, and future aspects regarding corporations, and are important in the exploration of new ideas and in the generation of explanatory and predictive propositions (Donaldson & Preston, 1995).

Instrumental formulations of stakeholder theory are used to identify the existence or non-existence of relationships between stakeholder management and the attainment of defined corporate objectives, for example, profitability or growth (Donaldson & Preston, 1995). Scholars argue that fair treatment of important stakeholders motivates those stakeholders to reciprocate, and in effect, create value for the firm (Bosse, Phillips, & Harrison, 2009; Bridoux & Stoelhorst, 2014; Harrison, Bosse, & Phillips 2010; Hillman & Keim, 2001). Instrumental theory associates "means" to "ends" and may suggest that certain outcomes (e.g., corporate performance) would be more likely if firms or their managers strategically manage their stakeholders (Jawahar & McLaughlin, 2001).

Scholars basing their arguments on the instrumental perspective tend to come up with conclusions that imply that the observance of certain stakeholder principles may lead to the achievement of corporate performance objectives (Donaldson & Preston, 1995). Jones (1995) suggests that the instrumental stakeholder perspective views the firm as a "nexus of contracts" (Jensen & Meckling, 1976) between itself and its stakeholders. The firm is said to gain a competitive advantage when it minimizes its contracting costs (Barnett & Salomon, 2012) through the development of mutual trust and cooperation with its stakeholders (Jones, 1995; Wicks, Berman, & Jones, 1999). Instrumental theories address the question, what happens if? (Jones, 1995).

The normative perspective concerns the moral propriety of the behavior of firms and/or their managers (Jones, 1995). This perspective is important in understanding the philosophical guidelines for the operation and management of corporations (Donaldson & Preston, 1995). Scholars basing their arguments on the normative formulation suggest how various stakeholders ought to be treated by the firm or its management, based on some underlying moral or philosophical principles (Collins & Porras, 1994; Freeman, 1994; Jawahar & McLaughlin, 2001; Paine, 1994). Donaldson and Preston (1995) suggest that the normative formulation is the most important to stakeholder theory. Normative theories address the question, what should happen? (Jones, 1995).

Donaldson and Preston (1995) proposed that the three formulations of the stakeholder theory are nested within each other. The outer shell represents the descriptive formulation, whereby relationships that are observed in the external world are presented and explained. The second level represents the instrumental and predictive value of the theory. Represented here are arguments that, if X is done, then outcome Y is to be expected. The core of the theory is normative, whereby the descriptive accuracy of the theory is assumed to emanate from its normative beginnings. "Recognizing the ultimate moral values and obligations gives stakeholder management its fundamental normative base" (Donaldson & Preston, 1995: 74).

Stakeholder theory has provided a basis for the study of a wide array of organizational phenomena including corporate governance (e.g., Adams, Licht, & Sagiv, 2011), fairness and reciprocity (e.g., Bosse et al., 2009; Bridoux & Stoelhorst, 2014; Tangpong, Li, & Johns, 2010), stakeholder management (e.g., Berman et al., 1999), strategic cognition (e.g., Bundy, Shropshire, & Buchholtz, 2013; Crilly & Sloan, 2012), organizational irresponsibility (e.g., Pfarrer, Decelles, Smith, & Taylor, 2008; Barnett, 2014), and corporate social responsibility (e.g., Barnett & Salomon, 2006; Barnett & Salomon, 2012; Flammer, 2012; Kassinis & Vafeas, 2002; Kang, 2013; Koh, Qian, & Wang, 2014; Neubaum & Zahra, 2006; Wang & Qian, 2011) among others. In their investigation of how personal (e.g., values) and contextual (e.g., professional role) factors may affect board members' attitudes and decisions, Adams et al. (2011) find support for the existence of shareholderism as a general orientation of siding with shareholders in different situations.

Berman et al. (1999) investigate stakeholder management in light of two models, (1) the strategic stakeholder management model (whereby stakeholder attention is driven by the perceived ability of such concern to improve firm financial performance), and (2) the intrinsic stakeholder commitment model (whereby firms are viewed as having a moral commitment to treat stakeholders fairly, which subsequently influences financial performance). Their results lend support for the strategic stakeholder management model but no support for the intrinsic stakeholder commitment model.

Bosse et al. (2009) argue that people are not purely self-interested, but rather, tend to reciprocate fair treatment and are willing to incur costs to punish perceived unfair treatment. They argue that such reciprocity extends to all stakeholders of the firm and that it also affects firm performance. Harrison et al. (2010) support this perspective by suggesting that under conditions of reciprocity, stakeholders would be more willing to share information on their utility functions, thus better enabling the firm to serve them. Bridoux and Stoelhorst (2014) on the other hand relax the presumption that all stakeholders care about fairness, and argue that potential stakeholders include 'reciprocators,' who value fairness, and also self-regarding stakeholders, who do not. They maintain that a fairness tactic would work better for attracting, retaining, and motivating reciprocal stakeholders to create value, while an arms-length approach would work better for attracting and motivating self-regarding stakeholders. Tangpong et al. (2010) investigate whether stakeholder management without reciprocity between the firm and its stakeholders can effect stakeholder-related decisions. They conclude that the stakeholder prescription increases the possibility that managers will make decisions in the employees' favor, but is not sufficient to significantly increase the chances that the managers will reach decisions in favor of customers and suppliers.

From a strategic cognition perspective, Bundy et al. (2013) suggest that firms will respond to stakeholder concerns based on (1) an expressive logic, which relates to organizational identity and guides issues around the firm's conceptions of the self, and (2) an instrumental logic, which relates to a firm's strategic interpretations of issues founded on the rational pursuit of organizational goals. They propose that firms respond more substantially to those issues perceived as salient to the two cognitive logics above, and more symbolically to those issues perceived as salient to only one logic. Crilly and Sloan (2012) also examine the effect of managerial cognition on corporate attention to stakeholders and conclude that that the top managers' framing of the organization's relationships with society induces distinct foci of attention and possibly constrains how well the organization attends to its various stakeholders.

2.3.1 Stakeholder Theory and Corporate Social Performance

The classical perspective of the firm proposed by Friedman (1970) postulates that the firm should only be concerned with maximizing economic returns to the owners. However, subsequent advances in research and practice have led to the conclusion that management of the diverse set of stakeholders (Freeman, 1984) is positively related to shareholder value creation (Hillman & Keim, 2001). Stakeholder theory has been invoked while investigating CSR in the light of a variety of topics including the CSR-CFP relationship (Barnett & Salomon, 2006; Barnett & Salomon, 2012; Brammer & Millington, 2008; Wang & Qian, 2011), shareholder value creation (Hillman & Keim, 2001), diversification (Kang, 2013), litigation risk (Kassinis & Vafeas, 2002; Koh, Qian, & Wang, 2014), decision-making (Agle, Mitchell, & Sonnenfeld, 1999; Henriques & Sadorsky,1999; Stevens, Steensma, Harrison, & Cochran, 2005; Wong, Ormiston, & Tetlock, 2011), and corporate governance (Deckop, Merriman, & Gupta, 2006).

Barnett's (2007) stakeholder influence capacity (SIC) concept, defined as "the ability of a firm to identify, act on, and profit from opportunities to improve stakeholder relationships through CSR" (2007: 803), maintains that, by participating in CSR activities, firms will be perceived as being more credible and will be rewarded by their stakeholders (Barnett, 2007; Barnett & Salomon, 2012). The said rewards may come in the form of lower transaction costs (Williamson, 1975), access to information that may lead to greater efficiency and innovation (Harrison et al., 2010), and the enhancement of future wealth-creation capacity (Fama, 1970; Graves & Waddock, 1994). Similarly, some have also argued that engagement in CSR activity positively impacts financial performance by enabling firms to elicit better stakeholder responses and gain required resources (e.g., Wang & Qian, 2011; Waddock & Graves, 1997).

CSR yields strategic benefits for organizations by boosting their positions within their institutional contexts, e.g. their industry/market (DiMaggio & Powell, 1983). Some have also argued that CSR aids in the creation of intangible assets (Fombrun, 1996; Fombrun, Gardberg, & Barnett, 2000; Godfrey, 2005; Porter & Kramer, 2002). These authors maintain that CSR activities are investments comparable to R&D and advertising, since they create intangible assets for companies that help them to overcome nationalistic barriers, facilitate globalization, and build local advantage (Gardberg & Fombrun, 2006). Additionally, CSR activities also act as a source of reputational capital, which boosts the firm's attractiveness to prospective customers, employees and business partners (Fischer & Reuber, 2007; Fombrun, 2001; Fombrun & Shanley, 1990; Jones, 1995; Puncheva, 2008). Through CSR, firms are able to bolster various stakeholder relations (McWilliams & Siegel, 2001), thereby creating trusting, cooperative firm-stakeholder relationships (Jones, 1995), which may also be important in the formation of profitable alliances, long-term contracts and joint ventures (Barringer & Harrison, 2000; Harrison & St. John, 1996).

Barnett & Salomon (2012) employ the stakeholder perspective in their investigation of the CSP-CFP relationship, and conclude that the relationship is U-shaped. They find that firms with low CSP have higher CFP compared to firms with moderate CSP, but firms with high CSP have the highest CFP. Similarly, Barnett and Salomon (2006) find that as the number of social screens used by socially responsible mutual fund increases, financial performance declines at first, but then rebounds as the number of screens reaches a maximum. Brammer and Millington (2008) also find that firms with both unusually high and low CSP have higher financial performance than other firms. Their findings indicate that unusually poor social performers do best in the short run and unusually good social performers do best in the long run. Wang and Qian (2011) on the other hand investigate CSP in the Chinese context and conclude that CSP boosts financial performance by bringing about better stakeholder responses and enabling firms to gain political resources. Hillman & Keim's (2001) study finds that although stakeholder management may lead to shareholder wealth creation, involvement in social issues may not lead to shareholder wealth creation.

Kang (2013) investigates diversification and CSR from the stakeholder perspective and comes to the conclusion that the level of diversification is positively related to firm CSP. Kang's (2013) findings also support the notion that a strong focus on short-term profit by diversified firms may suppress its responses to stakeholder demands and investment in social issues. Similarly, Deckop et al. (2006) conclude that a short-term CEO pay focus is negatively related to CSP, while a longer-term focus is positively related to CSP.

Mitchell, Agle, and Wood (1997) propose that in order for managers to recognize a stakeholder group and establish its level of importance to the corporation, such a group would have to possess the following: power to influence the firm, a legitimate relationship with the firm, and an urgent claim on the firm. In concurrence with this assertion, Agle et al. (1999) investigate stakeholder salience for CEOs and find that the stakeholder attributes of power, legitimacy, and urgency are independently and in totality related to stakeholder salience, meaning these stakeholder attributes influence the way top managers rank competing stakeholders and their interests. Supporting this finding, Stevens et al. (2005) report that financial executives would more likely incorporate the firm's ethics code into their strategic decision-making in two situations: first, when there are pressures from market stakeholders, and second, if the use of ethics codes builds an ethical culture and propagates a positive external image for the firms. Henriques and Sadorsky (1999) find that firms that are highly committed to environmental issues differ from less environmentally committed firms in their perceptions of the relative importance of different stakeholders.

Finally, more decentralized firms show higher levels of CSP than their more centralized counterparts (Wong et al., 2011). Wong et al. (2011) further support the notion that firms having TMTs with higher integrative complexity exhibit higher CSP as opposed to firms with TMTs with lower levels of integrative complexity. A summary of some important stakeholder theory studies is presented in Table 2-1.

Table 2-1: Select research on CSR based on stakeholder theory.

Author(s)	Journal	Sample/Context	Findings/Proposals
Barnett, Salomon (2012)	SMJ	1,214 firms from 1998 to 2006	The CSP-CFP relationship is U-shaped. Firms with low CSP have higher CFP than firms with moderate CSP, but firms with high CSP have the highest CFP.
Flammer (2012)	AMJ	273 WSJ articles on corporate news regarding environmental issues	Companies reported to behave responsibly toward the environment experience a significant stock price increase, whereas firms that behave irresponsibly face a significant decrease. The value of environmental CSR depends on external and internal moderators. 1. External pressure to behave responsibly towards the environment exacerbates the punishment for eco-harmful behavior and reduces the reward for eco-friendly initiatives. 2. Environmental CSR is a resource with decreasing marginal returns and insurance-like features

Table 2-1: (Continued)

Author(s)	Journal	Sample/Context	Findings/Proposals
Kang (2013)	SMJ	511 firms among 1000 US largest firms	The level of diversification will be positively related to the CSP of firms. However, when diversified firms have a strong focus on short-term profit, it may discourage firm response to stakeholder demands and investment in social issues, thereby negatively moderating the positive relationship between the level of diversification and CSP.
Koh et al., (2014)	SMJ	3,029 firms from KLD database	The value of CSP as insurance against litigation risk is practically significant, adding 2 to 4 percent to firm value. But CSP is less likely to create value if the firm is in financial distress or is operating in socially contested industries.

Table 2-1: (Continued)

Author(s)	Journal	Sample/Context	Findings/Proposals
Barnett & Salomon (2006)	SMJ	67 socially responsible mutual funds from the Social Investment Forum 1972 to 2000	1) As the number the number of social screens used by a socially responsible investing (SRI) fund increases, financial returns decline at first, but then rebound as the number of screens reaches a maximum. 2) Financial performance (FP) varies with the types of social screens used; community relations screening increased FP, but environmental and labor relations screening decreased FP.
Kassinis & Vafeas (2002)	SMJ	209 firms that brokeenvironmental law US between 1994 and 1998	The likelihood of becoming a lawsuit defendant increases with board size.

Table 2-1: (Continued)

Author(s)	Journal	Sample/Context	Findings/Proposals
Wang & Qian (2011)	AMJ	Chinese firms listed on the Shenzhen or Shanghai stock exchange between 2001 and 2006.	Corporate philanthropy enhances corporate financial performance by enabling firms to elicit better stakeholder responses and to gain political resources.
Neubaum & Zahra (2006)	JOM	357 firms in 1995 and 383 firms in 2000 from the KLD database	Long-term institutional ownership is positively associated with CSP and that the frequency and coordination of activism interact with long-term institutional holdings to positively affect CSP 3 years later.
Hillman & Keim (2001)	SMJ	308 S&P 500 firms.	Stakeholder management can lead to shareholder wealth creation and that participation in social issues does not lead to shareholder wealth creation.

Table 2-1: (Continued)

Author(s)	Journal	Sample/Context	Findings/Proposals
Sharma & Henriques (2005)	SMJ	38 companies from the Forest Products Association of Canada (FPAC)	The Canadian forest products sector and its stakeholders have moved beyond a focus on early stages of sustainability (e.g. pollution control, eco-efficiency) to intermediate sustainability phases involving recirculation of materials and redesign of processes, e.g. sustainable harvesting of lumber. More advanced practices like the redefinition of business and industrial ecosystems to facilitate the exchange and utilization of wastes generated by other firms, are in their infancy.
Stevens et al., (2005)	SMJ	302 senior financial executives	Financial executives are more likely to integrate their company's ethics code into their strategic decision processes if (a) they perceive pressure from market stakeholders (b) they believe the use of ethics codes creates an internal ethical culture and promotes a positive firm image; and (c) The code is integrated into daily activities through training programs.

Table 2-1: (Continued)

Author(s)	Journal	Sample/Context	Findings/Proposals
Deckop et al., (2006)	JOM	313 firms from the KLD database	A short-term CEO pay focus was negatively related to CSP, whereas a long-term focus was positively related to CSP.
Wong, Ormiston, & Tetlock,(2011)	AMJ	61 Fortune 500 firms	1) Firms having TMTs with higher integrative complexity have higher CSP than do those characterized by lower levels of integrative complexity. 2) Firms that are more decentralized have higher CSP than those that are more centralized. 3) Firms with low-integrative-complexity TMTs had higher CSP under more decentralized structures, whereas decentralization did not affect firms with high-integrative-complexity TMTs.
Agle et al., (1999)	AMJ	CEOs of 73 firms in the S&P 500 in 1997-1998	In the minds of CEOs, the stakeholder attributes of power, legitimacy, and urgency are individually and cumulatively related to stakeholder salience, suggesting that these stakeholder attributes do affect the degree to which top managers prioritize competing stakeholders.

Table 2-1: (Continued)

Author(s)	Journal	Sample/Context	Findings/Proposals
Brammer & Millington (2008)	SMJ	537 firms quoted on the London Stock Exchange in 1999.	Firms with both unusually high and low CSP have higher financial performance than other firms. Unusually poor social performers do best in the short run and unusually good social performers do best over longer time horizons.
Henriques & Sadorsky (1999)	AMJ	400 large firms in Canada	From a classification of four environmental profiles (reactive, defensive, accommodative, and proactive), firms with more proactive profiles differ from less environmentally committed firms in their perceptions of the relative importance of different stakeholders.

In addition to the aforementioned CSR outcomes, various scholarly findings support the existence of other positive outcomes from CSR engagement. With regard to customer related outcomes, Brown and Dacin (1997) find that consumers' cognitive associations of a firm's CSR seem to wield some influence on product evaluations. Relatedly, Sen and Bhattacharya (2001) conclude that non-engagement in CSR can, in some cases, diminish consumers' intentions to purchase a company's products. Associations of products with charity, however, may improve the quality assessment for brands that customers may know little about (Arora & Henderson, 2007) and may lead to increased customer loyalty (Maignan, Ferrell, & Hult, 1999).

Corporate social performance has also been posited to generate moral capital among the firms' stakeholders, which may generate insurance-like benefits for the firm, thereby acting as an intangible asset (Godfrey, 2005). The legitimacy conferred by CSR may also help the firm to incur less unsystematic stock market risk as compared to illegitimate firms (Bansal & Clelland, 2004). Orlitzky and Benjamin (2001) find that CSR initiatives are associated with financial risk for firms, and that CSP is more strongly correlated with measures of market risk than measures of accounting risk. Investors have also been found to respond favorably to CSR initiatives (e.g., Graves & Waddock, 1994; Coffey & Fryxell, 1991).

CSR activities have also been associated with a number of positive human resource outcomes for firms. For example, CSR initiatives provide a competitive advantage in attracting job seekers and fostering optimistic career success expectations (Backhaus, Stone, & Heiner, 2002; Lin, Tsai, Joe, & Chiu, 2012; Turban & Greening, 1997). Such initiatives can boost firm image and reputation and as a result attract a higher quality and quantity of workers (Fombrun & Shanley, 1990, Waddock & Graves, 1997). The underlying argument here is that CSP activity may act as a signal to various constituents regarding firms' reputation and legitimacy (Johnson & Greening, 1999). CSR thus portrays the organization as possessing values and norms that are important to many prospective and current workers, signaling more favorable working conditions as opposed to their low CSP counterparts (Greening & Turban, 2000). Others (e.g., Carmeli, Gilat, & Waldman, 2007) document that perceived social responsibility is related to greater organizational identification. Relatedly, CSR has been linked to higher quality employee connections and creative involvement with their firms (Glavas & Piderit, 2009), organizational citizenship behavior (Jones, 2010; Lin, Lyau, Tsai, Chen, & Chiu, 2010), higher employee retention (Jones, 2010), higher quality employee engagement (Glavas & Piderit, 2009), and improvements in employee commitment (Maignan et al., 1999). All these outcomes are ultimately related to better business performance (Maignan et al., 1999) and a higher competitive advantage (Greening & Turban, 2000).

2.4 Signaling Theory

Signaling theory explains the process utilized by decision makers in situations of information asymmetry (Spence, 1973). At its core, signaling theory relates to the reduction of information asymmetry between two parties (Spence, 2002). Signals are "those observable characteristics attached to the individual that are subject to manipulation by him" (Spence, 1973: 357). Signals allow economic actors to communicate that they are qualitatively different from other actors (Sanders & Boivie, 2004). For signaling to occur, the signaler ought to gain through some action from the receiver that the receiver would not otherwise have performed, usually by selecting the signaler in favor of some alternatives (Connelly, Certo, Ireland, & Reutzel, 2011).

Spence (1973) utilized the theory to explain the signaling role of education. He modeled the labor market in a signaling context in which prospective employers are faced with information asymmetry in differentiating between high quality and low quality candidates. In order to distinguish themselves from the low quality candidates, the higher quality individuals set themselves apart by enduring the rigors of costly higher education. Education therefore serves as a signal of quality as it shows their capacity to endure the intellectual rigor of higher education. Signaling theory therefore differs from the human capital theory in the fact that, while human capital theory supports the notion that education increases worker productivity, signaling theory places an emphasis on education as a channel to convey otherwise unobservable characteristics of the job candidate (Connelly et al., 2011; Weiss, 1995).

A typical illustration of the signaling model is presented by Kirmani and Rao (2000) in which firms are characterized as being either high quality or low quality. For these firms, the authors argue that information asymmetry exists because while the firms are aware of their true quality, outsiders and other external stakeholders are not. The firms therefore have a chance to signal their true quality to their audiences. The different payoffs presented by the authors are outlined in Table 2-2.

Table 2-2: Summary signaling matrix.

	With Signaling	With No Signaling
High quality firms	A	B
Low quality firms	C	D

Signaling would be would be worthwhile if signaling benefits are greater than any benefits from any other alternative strategy (A > B) for the high-quality firms, and non-signaling is more beneficial than signaling (D > C) for the low quality firm. When in concurrent occurrence, these two conditions bring about a 'separating equilibrium'. As either type of firm pursues its most profitable strategy, the signaling firm is naturally perceived to be of higher quality than the non-signaler. In so doing, the higher quality firm may utilize signaling as an impression management tool (Kraatz & Love, 2006) by transmitting key attributes of the firm that provide information aimed at influencing the impressions that individuals form of the organization (Jones & Murrell, 2001).

Signaling theory has been implemented in the investigation of an array of organizational phenomena. In the organizational behavior and human resources literature, authors argue that since job seekers may have incomplete information about a firm, they may rely of the information they obtain as a signal about the working conditions at a firm (Breaugh, 1992; Rynes, 1991). In particular, discretionary actions that increase perceptions of organizational support may be interpreted by employees to mean that they are valued by the organization (Eisenberger, Huntington, Hutchison, & Sowa, 1986; Turban & Greening, 1997; Wayne, Grzywacz, Carlson, & Kacmar, 1997).

In strategic management, corporate governance research has particularly benefited from signaling theory. In their study of top management teams, Zhang and Wiersema (2009) argue that CEOs may use the observable financial statement quality to signal the unobservable quality of their firms. Signaling theory has also been utilized to assess the role of top management team characteristics in communicating firm quality in the initial public offering (IPO) context (e.g., Certo, Daily, & Dalton, 2001; Cohen & Dean, 2005; Higgins & Gulati, 2003, 2006). Certo (2003) argues that strong executive characteristics convey a signal of quality to external parties. In the same vein, Pollock and Gulati (2007) have argued that signaling can increase IPO firm visibility to analysts, investors, and the media and can also be utilized to gain "strategic legitimacy" (Higgins & Gulati, 2006).

Signaling has also been extensively used in board research. For example, some posit that firms may signal their unobservable quality by having boards with prestigious board members (Certo, 2003; Deutsch & Ross, 2003; Lester, Certo, Dalton, Dalton, & Cannella, 2006), and may also signal their adherence to social laws and ability to understand diverse stakeholders by having diverse boards (Miller & Triana, 2009). Others have also investigated the signaling role of ownership. For example, it has been argued that since managers have access to 'insider information', firms may utilize insider ownership to signal firm quality (Filatotchev & Bishop, 2002; Sanders & Boivie, 2004). Managers of high quality firms may therefore signal firm quality by holding large equity stakes (Connelly et al., 2010). Other types of signals include CEO financial statement certification as a signal of financial statement quality (Zhang & Wiersema, 2009), and the capability of prompt interest and dividend payments as a signal of firm quality (Bhattacharya, 1979; Ross, 1973).

2.4.1 CSR and Signaling in Mergers and Acquisitions

Studies suggest that as a result of the existence of information asymmetry, the public frequently relies on actions and symbols to judge a firm's reputation and quality (Ferrier, 1997; Fombrun & Shanley, 1990; Miller & Triana, 2009; Spence, 1973). Firms use these actions to avail information to the public, which eventually influences the public's judgment on the firm (Ferrier, 1997; Mahon, 2002). CSR activities are primarily meant to build reputation and status for the firm among the public (Miller & Triana, 2009). In so doing the firm signals to multiple stakeholders about the quality and reliability of its products and services (Frooman, 1999). In addition, by building a positive reputation, the firm is able to avoid signals of opportunism, thereby presenting itself as a trustworthy business partner (Jones, 1995). After gaining a strong reputation, the firm can accrue a host of other benefits, such as performance advantages (Hall 1992, 1993; Shamsie 2003), lower capital constraints (Cheng et al., 2014), and increased attractiveness as a business partner (Dollinger et al., 1997). As such, CSR enables a firm to communicate its distinctiveness in terms of how it values various social issues in comparison to other firms within its competitive environment (Benabou & Tirole, 2010; Jones & Murrell, 2001).

CSR especially confers to a firm a degree of moral capital (Kane, 2001) by signaling to stakeholders that the firm is not entirely self-centered, but considers the impact of its activities on various constituents (Godfrey et al., 2009). Moral capital has been attributed to attracting customers, improving productivity, and gaining investor support (Luo & Bhattacharya, 2006), and can also be a form of insurance when the firm is faced with a negative event (Godfrey et al., 2009). Applying this logic in the M&A

context, it could be argued that these CSR moral capital outcomes are not limited to customers and current constituents with whom the firm does business. Prospective targets could also be among the audiences that observe the firm's activities and make judgments out of the signals portrayed by such activity. With prospective targets being largely more successful than their counterparts, it stands to reason that they would prefer to be acquired by successful firms that would likely assure benefits in the long term. The CSR acquirer would likely be viewed as the more attractive suitor since the established moral and reputational capital present it as the more trustworthy partner in the deal. In the same way that prospective job seekers (e.g., Rynes, 1991; Rynes & Miller, 1983), consumers, suppliers, and investors (Connelly et al., 2011) may use CSR information to form impressions about the firm, prospective targets may also use such information in assessing the acquirers. All else equal, a quality target may prefer to be acquired by a socially responsible firm as the acquired firm can gain immediate access to the acquirer's reputational and moral capital benefits. Acquisition of such high quality targets is likely to lead to the attainment of synergies (Graebner & Eisenhardt, 2004), which could enhance post-acquisition performance.

Jayachandran et al. (2013) argue that socially responsible activities are aimed at eliciting 'unspecified reciprocity' from stakeholders that can possibly affect an organization's ability to thrive within its niche. For the acquirer, CSR engagement may be used as a tool to elicit positive trust evaluations from current and prospective stakeholders. For a quality target intent on maintaining some key impressions and relationships with its stakeholders, a socially responsible acquirer may be more attractive because through its CSR activity, stakeholder support is likely to be maintained. In addition, such activity may provide insurance-like benefits against negative events (Godfrey et al., 2009; McGuire et al., 1988) and against litigation risk (Koh et al., 2014). As such, CSP enables a firm to communicate its distinctiveness in terms of how it values various social issues in comparison to other firms within its competitive environment (Benabou & Tirole, 2010; Jones & Murrell, 2001).

2.5 Hypothesis Development

2.5.1 Acquirer CSR and Post-Acquisition Performance

Managerial interpretations of CSR issues as opportunities rather than threats can influence an organization's CSR strategy (Sharma, Pablo, & Vredenburg, 1999). The greater the extent to which managers perceive environmental and social concerns as central to their company's identity, the greater the likelihood that they will interpret these issues as opportunities rather than as threats (Sharma, 2000). Acquirers that hold CSR at the core of their corporate identity are likely to be actively engaged in CSR. As a result, these firms are likely to have excellent reputations which appeal to prospective business partners, employees and customers (Fischer & Reuber, 2007; Fombrun, 2001; Fombrun & Shanley, 1990; Jones, 1995; Puncheva, 2008). Given that focal quality acquisition targets are normally more, not less successful than their industry peers (Ravenscraft & Scherer, 1987; Walsh & Kosnik, 1993), these targets may also be attractive to other prospective acquirers (Katila et al., 2008). All else equal, the CSR firm's continued engagement in CSR would have enabled it to build an excellent reputation over time, which may also have translated to excellent financial performance (Waddock & Graves, 1997; Wang & Qian, 2011). Compared to another acquirer that does not have a CSR strategy in place, the CSR firm would be appealing to prospective quality targets because an acquisition by the firm may come with an implied promise of longer-term benefits in the form of attracting good business partners, employees, and customers (Fischer & Reuber, 2007; Fombrun, 2001; Fombrun & Shanley, 1990; Jones, 1995; Puncheva, 2008). In addition, the favorable reputational capital of the socially responsible acquirer would present the firm as a trustworthy partner (Jones, 1995) and would avail some advantage when bidding against other non-CSR companies for a specific quality target. With the quality target's prior excellent track record of good performance, the CSR acquirer may be able to derive synergies from the acquisition that would ultimately lead to greater acquisition performance.

To potential quality targets intent on being acquired by a reputable, trustworthy firm (Jones, 1995), the socially responsible firm would likely seem to be a good bet. This would be advantageous to the socially responsible acquirer, since it would likely have many prospective targets seeking to be bought by it. The socially responsible firm would therefore have a wider pool of potential targets to choose from, giving it a higher likelihood of choosing a target with the highest potential for assuring the best future performance.

Organizational actions by the socially responsible firm that appear controversial to stakeholders may put the firm at risk of losing current and potential members, as well as outside endorsement and support (Lange & Washburn, 2012). It is therefore important for the CSR firm to ensure that to external observers, it is not seen as implicitly or explicitly supporting socially irresponsible behavior through its operations. In their study of 585 firms targeted by the SEC for financial misrepresentations from 1978 to 2002, Karpoff et al. (2008) concluded that while legal actions led to penalties of around $24 million, reputational costs were more than seven times higher. For the socially responsible acquirer, the best outcome would be to complete an acquisition that would lead to a synergistic combination (Graebner & Eisenhardt, 2004) with no resultant costs, reputational or otherwise. The acquirer will likely do better due diligence in order to ensure that the target firm it is about to acquire is not currently involved in, or has not previously been involved in activities that could damage the acquirer's reputation.

From the foregoing discussion we can conclude that reputational gains from corporate social performance will be favorably received by prospective quality targets. From an attribution theory perspective, the prospective quality targets are likely to evaluate the focal socially responsible firm more favorably and are likely to prefer to be acquired by it. Therefore, the socially responsible firms will likely tend to acquire high quality targets, which would lead to higher post-acquisition performance. In line with the foregoing argument above, I also argue that in the presence of a quality target, the relationship between corporate social performance and acquisition performance will be stronger. Given that the relationship is expected to remain significant, I propose a partial mediation hypothesis. This argument leads to the following hypotheses:

Hypothesis one. The acquirer's corporate social performance is positively related to its acquisition performance.

Hypothesis two. The quality of the target mediates the relationship between CSR and acquisition performance.

2.5.2 The Moderating Effect of TMT Ownership

Many researchers have found support for the notion that ownership structures influence corporate decision making and the outcomes thereof (e.g., Baysinger, Kosnik,

& Turk, 1991; Kochhar & David, 1996). Specifically, they maintain that TMT ownership positively affects corporate performance (e.g., McConnell & Servaes, 1990; Morck et al., 1988) through, for example, encouraging higher R&D spending (e.g., Hill & Snell, 1988, 1989; Francis & Smith, 1995), corporate attention to stakeholders (Zahra, Oviatt, & Minyard, 1993; Johnson & Greening, 1999), corporate entrepreneurship (Zahra, 1996), attention to product quality and innovation (Hansen & Hill, 1991), and managerial responses to changing environments (Finkelstein, 1992). These positive outcomes have been attributed to the fact that substantial ownership in the firm may represent a significant part of the executives' personal wealth, thereby incentivizing the managers to work harder to increase the value of the firm (Morck et al., 1988). In addition, since high levels of ownership cause the top managers' wealth to vary directly with firm performance (Jensen & Murphy, 1990), managers will be more motivated to undertake value-maximizing behavior (e.g., Amihud & Lev, 1981; Davis, 1991; Denis, Denis, & Sarin, 1997; Gedajlovic & Shapiro, 2002; Morck et al., 1988).

High ownership stakes endow managers with a higher degree of power to influence the future of the firm as the top managers can propose and vote on key strategic decisions (Finkelstein, 1992; Oh, Chang, & Martynov, 2011). Higher ownership also gives managers a higher degree of leverage in the selection of directors that would more likely endorse the managers' decisions (Zajac & Westphal, 1996). Similarly, the CEO allegiance hypothesis (Byrd, Cooperman, & Wolfe, 2010) suggests that directors may shift their allegiance from shareholders to powerful executives out of a desire to maintain their jobs, and are therefore less likely to oppose key decisions by the executives. Indeed, top manager ownership proportion has often been used as a proxy for managerial power (e.g., Finkelstein, 1992; McEachern, 1975) and for the degree of incentive for insiders to protect the firm's interests (Kassinis & Vafeas, 2002).

All else equal, top managers of the quality target will likely be attracted to an acquisition by a socially responsible acquirer, since such a firm would ensure longer-term stakeholder support (Johnson & Greening, 1999) which, in turn, would maximize the long-term value of their firm. Since the managers are likely to have been heavily involved in getting the target firm to its current high levels of performance, they may be heavily emotionally invested in the firm, and will also have the interests of the organization at heart. An acquisition by a socially responsible firm may be viewed as an attractive strategic move because it would avail resources and technologies that the target may have been lacking before. It follows that the managers at a quality target would likely exert their power and influence over the board and other investors in endorsing the firm's acquisition by a socially responsible acquirer.

Low ownership concentration among the top managers on the other hand causes them to be more susceptible to counsel and monitoring pressure from the board (Johnson et al., 1993) and other key investors. Thus, although such managers may find it beneficial for the firm to be acquired by a socially responsible firm, their preference for such an acquisition may be overruled by the dominant owners and the board. Principal-agent problems are also more likely to result in governance arrangements where managers with low ownership proportions fail to maximize shareholder wealth since they have an incentive to consume perquisites (Jensen & Meckling, 1976). Other negative outcomes from low managerial ownership holdings include a higher incidence of corporate crime (Alexander & Cohen, 1999), shirking behavior (Demsetz & Lehn 1985), excessive investments in pet projects (Jensen, 1986; Shleifer & Vishny, 1997), and engagement in short-term activities and other opportunistic behaviors that increase their personal wealth (Dalton et al., 2003; Malatesta & Walkling, 1988). Managers with low levels of ownership may therefore be less committed to long-term value-maximization of the firm. Therefore, they may not be as motivated to ensure that their firm is acquired by a 'trustworthy partner' that would ensure long-term success of the venture. To them, the avenues to increase their perquisites may be more attractive, and may be open to sell to the highest bidder regardless of the intentions of the said acquirer.

In sum, managers with higher levels of ownership will likely care more about their firm. Given that they have worked diligently in the past to ensure the success and quality of the venture, they would want their firm to pass on to a 'good steward', and will therefore exert their influence to ensure that their firm is acquired by a socially responsible firm that would assure long-term value creation. Conversely, managers with low ownership stakes may not be in a position to influence the dominant owners and the board to approve an acquisition by a socially responsible firm. In addition, they may not be as committed to the long-term success of the firm, since their desire for perquisites may be higher than their desire to ensure long-term success. The foregoing discussion leads up to the following hypothesis:

Hypothesis three. The relationship between the acquirer's corporate social performance and the quality of the target is stronger when the target firm's TMT ownership is higher.

2.5.3 The Moderating Effect of Entrepreneurial Firms

Entrepreneurial firms are young, often small firms, typified by a high potential for growth within their industries (Baker & Aldrich, 2000). These firms exhibit higher rates if innovation per dollar investment in R&D when compared to the established firms in similar industries (Kortum & Lerner, 2000; Powell & Brantley, 1992).This is especially true in the initial stages of major new technologies (Freeman & Soete, 1997; Powell & Brantley, 1992; Shefer & Frenkel, 2005). However, they are faced with liabilities of newness and smallness which manifest in the form of limited internal resources and external relations, a lack of legitimacy (Gartner, Bird, & Starr, 1992; Mudambi & Treichel, 2005), and a lack of political and market power (Katila et al., 2008).

The resource dependence theory perspective (Pfeffer & Salancik, 1978) suggests that entrepreneurial firms faced with challenges in accessing needed critical resources may seek to be acquired by more established, resource-rich firms in order to ensure their survival. Established firms, on the other hand, may be willing to provide such resources to target entrepreneurial firms because of the targets' ability to avail complementary resources such as access to technology (Mason & Rohner, 2002; Wadhwa & Kotha, 2006) and innovative capabilities that would be difficult to develop in-house (Cefis & Marsili, 2011; Coff, 1999; Cohen & Levinthal, 1990; Ranft & Lord, 2002). In addition, apart from resource acquisition motives, entrepreneurs may seek an acquisition of their firm for other reasons including the need to relieve personal pressures, to eliminate stressful managerial responsibilities, and to achieve financial independence (Graebner et al., 2010).

Regardless of the motives behind their intention to sell, entrepreneurs are likely to have a high affective attachment to their firms (Palmer & Barber, 2001). As a result, they will hold a strong desire to sell their company to a firm that would most likely operate with a high regard for their firm's long-term success. Since potential socially responsible acquirers will have developed a high level of reputational capital through their CSR activity (Fombrun et al., 2000; Gardberg & Fombrun, 2006), they may be viewed as having a greater capacity to attend to the interests of the entrepreneurial firm's present and future sets of multiple stakeholders (Preston & Sapienza, 1990). This may in turn give the entrepreneurs an assurance that their firm's performance will be sustained in the long-term (Greenley & Foxall, 1997). In addition, engagement in CSR activity presents a potential acquirer as a trustworthy business partner, which eliminates the need for elaborate safeguards by the entrepreneurs to ensure that their firm's interests will be looked after. However, potential acquirers that are less socially responsible may not be as highly reputed, and may even suffer negative consequences such as a loss of reputation and stakeholder support when they have been found to engage in a socially irresponsible manner (Lange & Washburn, 2012). All else equal, given that a good reputation is appealing to potential business partners, employees, and customers (Fischer & Reuber, 2007; Fombrun, 2001; Fombrun & Shanley, 1990; Jones, 1995; Puncheva, 2008), the quality entrepreneurial firm may prefer to be acquired by a socially responsible firm.

Socially responsible acquirers, on the other hand, would essentially want to acquire a quality firm that maximizes the return on investment. In order to minimize potential negative performance and reputational outcomes arising from a 'bad' acquisition, they are likely to undertake more due diligence to ensure that the entrepreneurial target has not engaged in activity that may lead to negative performance effects. Indeed, studies show that engagement in socially irresponsible activities by organizations may lead to negative reputation, increases in the cost of capital, network partner loss, lawsuits, losses through sales declines and settlements, and market share deterioration (e.g., Baucus & Baucus, 1997; Davidson, Worrell, & Cheng, 1994; Haunschild, Sullivan, & Page, 2006; Karpoff et al., 2008; Lange & Washburn, 2012; Strachan, Smith, & Beedles, 1983). As a result of their thorough background checks, the socially responsible acquirers would likely end up acquiring quality entrepreneurial firms that guarantee future synergies, which would more likely translate to positive post-acquisition performance.

Hypothesis four. The relationship between the acquirer's corporate social performance and the quality of the target is stronger when the target firm is an entrepreneurial firm.

2.5.4 The Moderating Effect of Family Ownership

A family business can be defined as "...a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families" (Chua, Chrisman, & Sharma., 1999: 25). Agency theory suggests that management by a dominant coalition of shareholders [a family in this case] should be positively related to performance, since their interests should be more inclined toward increasing the value of the firm, which subsequently diminishes agency problems (Berle & Means, 1933; Jensen & Meckling, 1976). Given the controlling family's demands for continued financial, career, and 'altruistic' benefits from the firm (Schulze et al., 2001), there is a high impetus for the family to maximize the long-term value of the firm (Morck et al., 2005; Schulze et al., 2001). Indeed, a number of studies (e.g., Anderson & Reeb, 2003; Leach & Leahy, 1991; McConaughy, Walker, Henderson, & Mishra 1998; Villalonga & Amit, 2006) conclude that family firms do better on market valuation and on return on assets when compared to other major corporations.

Family firms have been found to pay more attention to nonfinancial "socioemotional" aspects that meet the family's affective needs independent of financial considerations (Berrone et al., 2010; Gomez-Mejia et al., 2007). For a family target, socioemotional needs may include projecting and perpetuating a positive family image and reputation (Sharma & Manikutty, 2005; Westhead et al., 2001), receiving recognition for generous actions (Schulze, Lubatkin, & Dino, 2003), and accumulation of social capital (Arregle et al., 2007). Since proactive socially responsible activities are associated with a deeper and broader coverage of stakeholders (Buysse & Verbeke, 2003), engagement in such activities by potential acquirers may be viewed favorably by quality family targets. This is because the favorable resultant reputation from the socially responsible firm would 'spill over' to the target, effectively boosting the family's socioemotional wealth in the process. In addition, since favorable stakeholder evaluations are important for maintenance of the family's socioemotional wealth, engagement in socially responsible activities by a potential acquirer expresses that acquirer's deeper attention to stakeholders, which boosts the family's preference to be acquired by such a firm. All else equal, a quality family target is likely to be more attracted to a socially responsible acquirer because the mere acquisition by the socially responsible firm would boost the family firm's image and reputation among its key stakeholders.

From the acquirer's perspective, a family target may be more attractive for a number of reasons. First, a quality family target will likely be more successful than its industry peers (Ravenscraft & Scherer, 1988; Walsh & Kosnik, 1993). In addition, given that family firms hold non-financial motives in a higher regard as opposed to financial motives (Berrone et al., 2010), family firms' values and strategies may be better aligned with those of the socially responsible firms. The value congruence between the family firm and the acquirer may therefore lead to an increased likelihood that the acquisition will lead to higher post-acquisition performance. In sum, it is argued that the advantages stemming from being a socially responsible firm and those that emanate from being a well-performing family firm will reinforce each other and lead to synergistic fit between the firms (Graebner & Eisenhardt, 2004).

Hypothesis five. The relationship between the acquirer's corporate social performance and the quality of target is stronger when the target firm is a family business.

2.5.5 Acquirer CSR and Target TMT Retention

Extant research supports the notion that quality human capital is associated with superior organizational outcomes (e.g., Bosma, Van Praag, Thurik, & De Wit, 2004; Bruederl, Preisendörfer, & Ziegler, 1992; Cassar, 2006; Cooper, Gimeno-Gascon, & Woo 1994; Dyke, Fischer, & Reuber, 1992; Van der Sluis, Van Praag, & Vijverberg, 2005). Proponents for the retention of the targets' TMT have argued that previous knowledge about their firm should intensify alertness to emerging opportunities (Westhead, Ucbasaran, & Wright 2005). Similarly, others (e.g., Ellis et al., 2011; Krug et al., 2014) maintain that the target's managers may have embedded knowledge of their firm, industry experience, and established relationships with stakeholders that the acquiring firm may find difficult to replicate quickly. In addition, over the duration of their tenure, the target TMT is likely to have developed a rich body of organizational wisdom, which would be invaluable in providing a better understanding of various aspects of the acquisition. Examples include the traditions and history of the acquired company's culture; its long-term relationships with customers, vendors and suppliers; prior successes and failures of the firm; and the underlying structure of its political conflicts (Bergh, 2001; Buono, Bowditch, & Lewis, 1985; Haspeslagh & Jemison, 1991; Jemison & Sitkin, 1986).

However, in a recent review, Krug et al. (2014) document that target companies lose an average of about 25 percent of their top managers within a year after being acquired; and within five years, they lose an average of 60 percent or more of their top managers. The turnover trend is especially pronounced following an acquisition by non-US firms (Furtado & Karan, 1990; Krug & Hegarty, 1997; Martin & McConnell, 1991; Walsh, 1988, 1989; Walsh & Ellwood, 1991). Two perspectives can help explain this. First, from the acquirer's perspective, letting the target TMT leave may help to minimize resistance during the integration process (Cannella & Hambrick, 1993; Walsh, 1989) and may signal to target employees that the acquirer is in charge (Krug et al., 2014). Target TMT members may also become obsolete after an international acquirer repatriates the acquired technology (Krug & Hegarty, 1997). Second, from the executives' perspective, the top managers may have a negative assessment of the long-term effects of the acquisition to their personal and professional lives (Krug & Hegarty, 2001), and they may perceive a loss of status (Hambrick & Cannella, 1993), diminished autonomy (Lubatkin, Schweiger, & Weber, 1999), and stress following the acquisition (Schweiger & Denisi, 1991; Schweiger & Walsh, 1990), hence motivating them to leave.

Quality acquisition targets often outperform their competitors (Ravenscraft & Scherer, 1987; Walsh & Kosnik, 1993). Their good performance is likely to have attracted an audience from various stakeholders, who constantly gauge how the target is doing based on the particular audience's unique perspective. Prior to the acquisition, the target's strategies and operations are likely to have been evaluated favorably by its various stakeholder audiences, which may have conferred legitimacy and enabled the target to access key resources (e.g., Parsons, 1960; Pfeffer & Salancik, 1978). Since firms are viewed as a reflection of their top managers (Hambrick & Mason, 1984), the audiences will likely view the top managers as a key ingredient to the success attained by the target. In order maintain these positive evaluations from the audiences and maintain a good reputation (Hall, 1992) and trust (Jones, 1995), the socially responsible acquirer will likely maintain the target's TMT.

Research suggests that both voluntary and involuntary turnover undermine the stable social relationships that provide the basis for workplace trust and collaboration (Batt & Colvin, 2011; Leana & Van Buren, 1999). Efforts toward retention of the target TMT may minimize the impact of disruptions that come with an acquisition. That way, the socially responsible acquirer is able to show the target's employees and other key resource providers that it has not come to destroy what they have built, but rather, that it is there to build a mutually beneficial partnership. A failure to keep the target managers in place on the other hand may invoke perceptions of mistrust from various constituents (Blois, 2003) since it may destabilize some existing relationships between the target firm and its stakeholders. In addition, the social networks that the target's TMT may have relied on to provide key resources may be severed after the executives' departure.

A firm's social performance is frequently assessed in regard to local communities, women and minorities, employee relations, the natural environment, and the quality of products or services (Johnson & Greening, 1999; Mahoney & Thorne, 2005). Since a higher level of employee motivation may lead to higher quality production (Schlesinger & Heskett, 1991), the socially responsible firm would be open to implementing measures meant either to maintain or increase the current level of motivation in the target to ensure quality in their processes. The target's TMT is likely to have built allegiances from various employee groups, which may have led to an integration of values, leading to employee motivation that resembles intrinsic motivation and higher commitment to organizational goals (Ryan & Deci, 2000). The employees may have come to trust their top managers over time and may have reflected their loyalty through higher efforts towards making the firm successful. The attrition of the managers they had come to identify with may work to erode this loyalty, which may in turn lower motivation and subsequently lead to poorer organizational outcomes. In addition, TMT attrition may also negatively affect employees' perceptions of job security, as they may feel that their own jobs may be at stake. The socially responsible firm may find it beneficial to maintain the target's TMT as a motivation tool for the employees to continue providing high quality products or services to the customers. Target TMT departures, on the other hand, may undermine employee motivation through an erosion of employee allegiances and disruptions to the organization's operational and shared functions (Dess & Shaw, 2001; Park & Shaw, 2013; Shaw, Duffy, Johnson, & Lockhart, 2005). This may in turn be reflected in the production of lower quality products or provision of lower quality services by the employees.

Hypothesis six. The acquirer's corporate social performance is positively related to the retention of the target firm's TMT human capital.

2.5.6 The Mediating Effect of TMT Retention

The foregoing discussion has established a motive behind the retention of the target TMTs by the acquirer. Various scholars (e.g., Baum, Locke, & Smith., 2001; Frese et al., 2007) have argued that quality of human capital has a positive impact on a firm's planning and venture strategy, which subsequently has a positive effect on the firm's performance. In addition, the upper echelons perspective maintains that the top managers' experiences, values, and personalities greatly influence their interpretations of the situations they face, which in turn affects their decision making (Carpenter, Geletkanycz, & Sanders, 2004; Hambrick, 2007; Hambrick & Mason, 1984). Thus, characteristics such as education (Wiersema & Bantel, 1992), functional backgrounds (Kimberly & Evanisko, 1981), psychological dispositions (Miller & Droge, 1986), and age and tenure at the target firm (Finkelstein & Hambrick, 1990) have all contributed to the top managers' ability to lead the target to its current success level. In order to maintain this high level of performance, the acquirer will be more inclined to retain the target executives, since they have proven themselves to be capable managers. In addition, given the disruptive nature of an acquisition to a firm's processes, TMT departure may worsen the intensity of the disruptions following an acquisition (Cannella & Hambrick, 1993; Hambrick & Cannella, 1993; Krishnan, Miller, & Judge, 1997), negatively affecting post-acquisition performance. The organizational wisdom gained by the target's executives over their tenure places them in a unique position to provide invaluable counsel on important aspects of the target such as its culture, key relationships, and prior failures and successes, which may have important implications for future performance.

From a resource based perspective (Barney, 1991; Conner, 1991; Wernerfelt, 1984), it could also be argued that since the target TMT's tacit knowledge led to high performance, the best way to sustain the high performance into the future is through executive retention (Berman, Down, & Hill, 2002). The resource based view would also suggest that in order to ensure a sustained competitive advantage, retention of the target TMT is important as it ensures that the unique organizational knowledge the TMT has attained over time is kept within the organization and is not acquired by competitors (Kiessling & Harvey, 2006). Further, Graebner (2004) argues that acquired firms' managers can help realize expected and serendipitous value. Graebner maintains that 'expected value' can be achieved through mobilizing actions [i.e., providing internal pacing and accelerating interaction with the buyers] and mitigating actions [i.e., expediting resolution of employees' concerns and through real-time communications]. Serendipitous value, on the other hand, is achieved by identifying opportunities for unexpected resource reconfiguration.

From the foregoing discussion, the socially responsible acquirer firm would likely find it important to retain the target's top management team in order to continue gaining from their positive evaluations from various constituents, their tacit knowledge, and their established relationships with stakeholders. Consequently, their retention should subsequently lead to higher post-acquisition performance.

Hypothesis seven. The relationship between the acquirer's corporate social performance and acquisition performance is mediated by the retention of the target firm's human capital

CHAPTER 3

METHODOLOGY

This chapter provides an in-depth explanation of the techniques used in the generation of the sample, operationalization of the variables and the statistical procedures that were employed in hypothesis testing. The chapter begins by outlining the sample, the sources of data utilized and the process used to generate the sample, followed by an examination of the operationalization of the variables. The chapter concludes with a discussion of the analytical procedures utilized in hypothesis testing.

3.1 Sample

The primary objective of this dissertation is to investigate the effect of corporate social performance on post-acquisition performance. I began by extracting the list of all completed corporate acquisitions carried out by listed corporations between January 1, 2000 and December 31, 2010 from the M&A module of the Securities Data Corporation's (SDC) database. This time period was chosen because it ensures that our data are fairly recent, therefore making our findings more relevant in the CSR and acquisitions contexts. I limited my sample to deals that were worth at least USD100 million. These transactions represent economically significant events for the acquirers (Allatta & Singh, 2011), meaning that the acquirer is highly motivated to ensure the success of the acquisition. I then matched the SDC acquisitions data with KLD data to eliminate those firms that did not have their acquirer's corresponding social performance data reported. After performing these procedures, it was noted that some of the firms engaged in multiple acquisitions, which could bring about confounding effects among these observations (Hayward, 2003). Consistent with prior research (e.g., Ellis, Reus, Lamont, & Ranft, 2011), for those firms engaged in more than one acquisition in the sample, I only focused on the most recent acquisition. After eliminating firms with missing data, the final sample consisted of 354 firms.

Performance data were collected from the Research Insight database. Any missing financial data were obtained or computed from Standard & Poor's Capital IQ database. This database provides data and analytics to institutional investors, investment and commercial banks, investment advisors and wealth managers, and corporations around the world (CapitalIQ.com).

3.2 Dependent Variable

3.2.1 Acquisition Performance

Post-acquisition firm performance was the dependent variable for this dissertation. One accounting measure, the return on assets (ROA) and one market measure, the total shareholder return (TSR) were the measures of performance used in this study. The ROA was deemed appropriate for the following reasons. First, explorations of long-term acquisition performance frequently utilize accounting measures of performance, particularly ROA in their measurement (e.g. Barkema & Schijven, 2008; Le, Park, & Kroll, 2014; Zollo & Singh, 2004). Second, ROA is also widely used in the strategy literature as a measure of performance (e.g., King & Zeithaml, 2001; Lavie, 2007; McNamara, Haleblian, & Dykes, 2008; McNamara, Luce, & Tompson, 2002; Wan

& Hoskisson, 2003). Third, ROA was also preferred because it is the standard in the CSR literature (Barnett & Salomon, 2012).

Many scholars, especially those investigating short-term acquisition performance have often utilized market measures of performance such as abnormal returns (e.g. Carow, Heron, & Saxton, 2004; Haleblian, & Finkelstein, 1999) and holding period returns (e.g. Ritter, 1991) in their investigations. In order to further validate my findings and address any shortcomings of using ROA as the performance indicator, I further utilized the TSR to further lend credence to my findings. TSR consists of the year-end closing price of a firm's stock plus adjusted dividends divided by the stock return from the previous year. It reflects the one-year total gain (loss) a shareholder received for holding the firm's common shares (Bloom & Milkovich, 1998).

3.3 Independent Variable

3.3.1 Corporate Social Performance

CSP data were obtained from the Kinder, Lydenberg, and Domini (KLD) database. This database has widely been used in prior studies investigating CSP (e.g., Barnett & Salomon, 2012; Graves & Waddock, 1994; Luo et al., 2015; McWilliams & Siegel, 2000; Waddock & Graves, 1997). It is also widely used by various experts including investment professionals in the construction of investment portfolios, and is considered to be an objective measure of CSP (Jayachandran et al., 2013). Its CSP measures have been shown to exhibit sufficient psychometric properties and construct validity (Hillman & Keim, 2001; Mattingly & Berman, 2006; Sharfman, 1996).

In constructing the database, KLD's experts carefully monitor and rate firm CSP along 13 social performance criteria - seven key stakeholder attributes (corporate governance, community relations, employee relations, product safety, diversity, human rights, and the environment), and six other attributes pertaining to whether the firm is engaged in controversial activities (i.e., the production, sale, or service of alcohol, gambling, firearms, military, nuclear power, and/or tobacco). The metrics utilized in the database classify firm social performance in terms of either 'strengths' represented by +1, 'weaknesses/concerns' represented by -1 or a neutral score represented by a 0 (zero) for each of the seven dimensions of social performance.

Consistent with prior literature (e.g., Choi & Wang, 2009; Graves, Waddock, & Kelly, 2005; Hillman & Keim, 2001), a simple summation and subtraction procedure was used to arrive at a comprehensive measure of CSR. For each of the dimensions, the following procedure was utilized: (1) the total sum of the KLD 'Strengths' ratings was computed; (2) the total of KLD 'weaknesses' ratings was computed; (3) the total 'weaknesses' were subtracted from the total 'strengths' in order to arrive at a net score for each dimension.

Many prior studies (e.g., Choi & Wang, 2009; Koh et al., 2014; Waddock & Graves, 1997b) have excluded the corporate governance and human rights dimensions of the KLD measures and have only utilized five out of the seven stakeholder dimensions in the computation of an aggregate measure of corporate social performance. Hillman & Keim (2001) justify this practice by arguing that these five dimensions relate directly to the primary stakeholder groups of the firm other than capital suppliers. Other than adopting this practice, all the seven dimensions of CSR were adopted in this study in order to capture the totality of the influence of CSR on acquisition performance.

3.4 Moderating Variables

3.4.1 Entrepreneurial Firm

Entrepreneurial firms are young, often small firms, with high growth potential (Baker & Aldrich, 2000). In their operationalization of what an entrepreneurial firm is, researches have often adopted somewhat different thresholds of firm age. For example, IPO researchers have regularly utilized a ten year threshold since a firm's founding in determining whether a firm is in the entrepreneurial stage (e.g., Carpenter, Pollock, & Leary, 2003; Le, Kroll, & Walters, 2013). Others in different contexts have adopted different thresholds including six years or less (Evans, 1987), eight years or less (e.g., Stearns et al., 1995) or nine years (Bracker & Pearson, 1986). In this dissertation, I utilized an approach similar to Carpenter, Pollock, and Leary (2003) and Le, Kroll, and Walters (2013) in which they utilized a 10 year threshold. Based on this criterion, whether a firm was in its entrepreneurial stage or not was operationalized as a dummy variable, coded 1 if the firm was ten years old or less, and 0 otherwise.

3.4.2 Family Ownership

Many researchers have adopted differing operational definitions of what comprises a family firm. For example, Gallo and Sveen (1991) conceived it as a single family having a majority shareholding; Westhead, Cowling, and Howorth (2001) conceive it as a firm in which the ordinary voting power held by the dominant family members exceeds 50%; Anderson and Reeb (2003) maintain that it is a firm in which a family member is an officer or director position; Allen & Panian (1982) and Graves and Thomas (2008) conceive it as a firm in which at least 10% of the shares are held by the family. While investigating publicly traded firms, Gomez-Mejia, Campbell, Martin, Hoskisson, Makri, and Sirmon (2014) conceive it as a firm in which the family controls more than 20% of the shares.

Given the wide array of definitions in the literature, I adopted a more conservative definition consistent with Gomez-Mejia et al. (2003), in which a family firm is deemed to be one in which the family controls 5% or more of the shares, with at least one of the family members sitting on the board, as determined by their family name (Sanchez-Bueno & Usero, 2014). Where two or more families in a single firm met this criterion, the family with the most shares was utilized for the study (Sanchez-Bueno & Usero, 2014). Family firms were identified using information obtained from the firms' SEC filings and were assigned a dummy variable of one if they met the criteria and zero if they did not meet the criteria of a family firm.

3.4.3 TMT Ownership

Higher TMT ownership may bestow a higher degree of power upon the top managers in board decision making, as the TMT can exploit their ownership positions to sway the vote in favor of key strategic issues affecting the firm (Finkelstein, 1992; Oh, Chang, & Martynov, 2011). In the current context, it would involve the target's TMT exerting their influence over the board to favor an acquisition by a socially responsible firm. In line with Walters, Kroll, and Wright (2007), I conceived TMT ownership as the percentage of shares outstanding held by the top managers in the form of common stock, restricted stock, and in-the-money options reported in the proxy statement issued prior to the acquisition announcement. In so doing, I was able to capture the influence that the TMT had over the board in regard to setting the strategic direction of the target firm right before the acquisition. This information was obtained from the companies' proxy statements filed with the U.S. Securities and Exchange Commission (SEC).

3.5 Mediating Variables

3.5.1 Quality of Target

I have argued that the quality of the target mediates the relationship between CSR and post-acquisition performance. Varying approaches have been utilized in measuring the quality of a firm. For example, Zheng and Stangeland (2007) measure firm quality by growth rates in sales and earnings before interest, taxes, depreciation, and amortization. Sanders and Boivie (2004) contend that information about stock-based incentives may be an observable characteristic that may substitute for more unobservable indicators of firm quality. Other measures of firm quality that have been utilized in research include venture capitalist status and reputation (Hochberg et al., 2007), leverage levels (Dissanaike & Markar, 2009), and prior performance as measured by the firm's risk and return characteristics (McGuire, Schneeweis, & Branch, 1990). Puranam et al. (2006) utilize the amount paid per employee of the acquired firm in millions and patent count to measure quality of a firm.

In this dissertation, I utilize Tobin's q to measure quality. Tobin's q reflects investor expectations about firm value relative to asset replacement cost (Bowman & Helfat, 2001). In their investigation on how global environmental standards affect market value, Dowell et al. (2000) contend that Tobin's q can be interpreted as a measure of firm "quality" since better-managed firms will tend to be of higher value. Tobin's q was calculated as the book value of assets minus the book value of equity plus the market value of equity, divided by the book value of assets (Moeller et al., 2005).

3.5.2 Target TMT Retention

In this paper, I argue that target TMT retention would be beneficial to the acquirer because their departure may worsen the intensity of the disruptions following an acquisition (Cannella & Hambrick, 1993; Hambrick & Cannella, 1993; Krishnan, Miller, & Judge, 1997), and it would lead to a loss of the organizational wisdom gained by the target's executives over their tenure which would lead to a loss of competitive advantage. The target TMT retention was measured as follows: First, all the top managers working for each target at the time of the acquisition were identified from the proxy statements. Next, at the end of the third year the number of TMT members that still worked for the firm was determined, and then it was expressed as a percentage of the original number of top managers at the time of acquisition. This information was obtained through the proxy statements. Where such information was unavailable, especially for very large acquirers, an internet search for the specific individual executive was conducted.

3.6 Control Variables

Several factors that could affect post-acquisition performance were controlled for in order to ensure that the observed effects were a result of the hypothesized relationships. These include:

3.6.1 Year Effects

Some authors contend that common trends observable in specific years may affect firm performance (Banalieva & Santoro, 2009). In order to neutralize the likelihood of the year of acquisition influencing post- acquisition performance, dummy variables were constructed for each of the sampling years (Le, Park & Kroll, 2014).

3.6.2 Industry Effects

Prior research has found that the industry context and trends may affect various aspects of organizations within an industry, for example, new product introductions (Caner & Tyler, 2013) and strategic decision-making (Frederickson & Mitchell, 1984; Hitt & Tyler, 1991). Other effects that can influence an industry could pertain to changes in customer tastes, competitor behavior, technology, and sources of supply (Lawrence & Lorsch, 1967; Porter, 1980). These factors may subsequently influence the performance and profitability of firms differently in different industries, and may cause some industries to be more profitable than others. In order to control for these industry effects, dummy variables were developed by using the first two digits of the industry SIC code for the acquirer.

3.6.3 Firm Size

Bigger firms may enjoy greater access to resources whose utilization would increase the chances of post-acquisition performance. In addition, due to the availability of resources and access to expertise, it is also plausible that larger firms may have had experience handling acquisitions. Such prior acquisition experience may avail many opportunities for learning, thereby boosting the chances of acquisition success. The log of total assets was used to control for firm size.

3.6.4 Technological Relatedness

Prior research has shown that technological relatedness between acquirer and target firms may positively affect post-acquisition performance (e.g., Cassiman, Colombo, Garrone, & Veugelers, 2005; Cloodt et al., 2006). Indeed, Rumelt (1974), in his study of how patterns of diversification and structure affected corporate financial performance, found that firms with related portfolios seem to outperform those with unrelated portfolios. This finding is also supported by Robins and Wiersema (1995). Following prior research (Le et al., 2014; Puranam, Singh & Zollo, 2006), technological relatedness was measured as a as a dummy variable coded 1 if the acquirer and the target fell within the same four-digit SIC classification, and 0 otherwise.

3.6.5 Prior Performance

Prior firm performance may affect the way acquirers handle acquisitions, which in turn, may impact post-acquisition outcomes. Supporting this perspective, Roll (1986) argues that superior firm performance in prior periods may lead to more acquisitions due to managerial hubris (Roll, 1986). Good firm performance in previous years may also influence acquisition performance by making it easier and cheaper to obtain acquisition financing (Haunschild & Beckman, 1998), which may subsequently avail ample resources to ensure post-acquisition success. Poor prior performance may also influence post-acquisition performance by incentivizing managers to try new pursuits, which may lead to a preference to acquire new businesses (Morck, Shleifer, & Vishny, 1990). Such managers have a strong motivation to invest their time and efforts to ensure that the acquisition is successful because their careers may depend on it. Following Le et al. (2014), the measure utilized as a control for prior performance was the average ROA for the three years prior to the acquisition.

3.6.6 Slack Resources

Inter-organizational transfers after an acquisition are associated with a great deal of ambiguity and uncertainty, and managers must attempt to identify and take steps to buffer against such uncertainty (Haunschild, 1994). Slack resources can be used as a buffer against such uncertainty (Reuer & Leiblein, 2000) and can therefore have a substantial impact on post-acquisition performance (Iyer & Miller, 2008). Post-acquisition slack resources were measured as the average cash and cash equivalents over the three year period after an acquisition (Le, Park & Kroll (2014).

3.6.7 Number of Acquisitions

Acquisition experience may affect post-acquisition performance because it may influence the timing of a specific acquisition decision, and therefore its eventual success (Klepper & Simons, 2000; Noda & Collis, 2001; Zollo & Reuer, 2001). Consistent with prior literature (e.g., Beckman, Haunschild, & Phillips, 2004; Carow et al., 2004; Haunschild, 1993), I account for acquisition experience by counting the number of acquisitions made by an acquiring firm in the three-year period immediately before the focal acquisition was made.

3.6.8 Bid Type

Prior research has shown that the type of bid can affect post-acquisition outcomes. For example, a hostile takeover undertaken with the conviction that the target's management team is inefficient may result in higher managerial turnover (Raj & Forsyth, 2002). However, a friendly acquisition undertaken primarily with an objective of reaping mutual synergies for both firms may result in lower top management turnover. The bid type was measured as a as a dummy variable coded one if the acquisition was friendly in nature and zero otherwise.

3.7 Analytical Method

A hierarchical regression analysis was conducted in order to test the hypotheses. Going by the techniques suggested by Cohen and Cohen (1993) and Sharma, Durand, and

Gur-Arie, (1981), a moderated regression analysis was performed to test for the moderator effects. Ordinary least squares (OLS) regression analysis was deemed suitable for this analysis because the data is cross-sectional and therefore does not suffer from autocorrelation problems. The general model utilized in this study was:

Post-acquisition ROA t0+3 or Total shareholder return t0+3 = f (Year effects t0 +Industry effects t0 + Firm size t0 + Technological relatedness t0 + prior performance + slack resources + Bid Type + No. of Acquisitions + CSR + target TMT retention t0+3 + entrepreneurial firm t0 + entrepreneurial firm t0 x CSR t0+3 + entrepreneurial firm t0 x target TMT retention t0+3 + Family ownership t0 + Family ownership t0 x CSR t0+3 + Family ownership t0 x TMT retention t0+3 + TMT Ownership t0 + TMT Ownership t0 x CSR t0+3 + TMT Ownership t0 x TMT retention t0+3). Three represents the third year post-acquisition data.

Since there were two dependent variables, two sets of models were developed for each hypothesis directly investigating firm performance as a dependent variable. One set of models examined the effect of CSR on the third year, post-acquisition ROA changes, while the other set of models examined the effect of CSR on the third year post-acquisition TSR changes. In conducting the hierarchical regression analysis, the following models were constructed for each set. The first only included the control variables, the second included control variables and main effect, and the third full model added all variables including "interaction" variables. The change in the amount of variance explained (R^2) was computed for each model.

3.7.1 Tests of Mediation

Mediating effects are proposed in hypothesis 2 and hypothesis 7. Baron and Kenny (1986) suggest that for mediation to be supported, the following conditions must be met; first, the independent variable should be significantly related to the mediator; second, the independent variable should be significantly related to the dependent variable; third, the mediator should be significantly related to the dependent variable; and fourth, in the presence of the mediator, the relationship between the independent and the dependent variable should become insignificant. All these paths will be tested in order to ascertain whether mediating effects are indeed present.

CHAPTER 4

DATA ANALYSIS AND RESULTS

This chapter presents the results of the data analysis. It starts with the presentation of the descriptive statistics and correlation matrix of the variables used in the study. Next, the results of the hierarchical regressions used to test the hypotheses are presented along with the tests of the hypotheses.

4.1 Descriptive Statistics and Correlations

Table 4.1 presents the correlation matrix for the variables in this study. Correlation analysis may help with gaining an initial understanding of the relationships existent among various variables. It may also be utilized in making an initial judgment as to whether multicollinearity exists among the variables. Some of the initial observations of the data are as follows. For our measures of performance, the average return on assets (ROA) for the three years after an acquisition was 3.63, while the mean total shareholder return (TSR) for the three years after an acquisition was 3.34. On average, top managers owned 7% in the target firms right before they were acquired. For our quality measure the average Tobin's Q for the target firms was 2.23. ROA and CSR appear to be strongly positively correlated, which provides initial support for our hypothesis that CSR is positively related to post-acquisition performance; however, TSR and CSR do not exhibit a similar relationship.

Table 4-1: Descriptive statistics and correlations of variables.

	Independent Variables	Mean	s.d.	1.	2.	3.	4.	5.	6.
1.	Postacquisition ROA	3.63	6.33	1.00					
2.	Total Shareholder Return	3.34	23.72	0.25***	1.00				
3.	CSR	0.66	6.70	0.12**	0.00	1.00			
4.	TMT Ownership	0.07	0.13	0.03	0.05	0.01	1.00		
5.	Entrepreneurial Firm	0.23	0.42	-0.03	-0.04	-0.03	0.04	1.00	
6.	Family Ownership	0.23	0.42	0.00	0.03	-0.03	0.53***	0.00	1.00
7.	Tobin's Q	2.23	2.77	-0.06	-0.07	0.05	0.01	-0.02	-0.05
8.	TMT Retention	0.35	0.28	0.02	0.05	-0.03	-0.04	-0.02	0.05
9.	Prior 3yr_ROA	4.03	10.72	0.63***	0.00	0.04	-0.02	-0.08	0.03
10.	Slack Resources	1820.84	10185.25	0.02	-0.01	0.24***	-0.04	-0.02	-0.05
11.	Year Effects	6.62	2.38	-0.02	0.05	-0.03	-0.06	-0.08	-0.04
12.	Industry Effects	47.57	19.70	-0.13**	-0.03	0.04	0.01	0.15***	0.02
13.	Log Assets	3.56	0.83	0.10**	-0.09	0.20***	-0.10**	-0.04	-0.10**
14.	Technological Relatedness	0.48	0.50	0.01	0.10*	-0.07	0.02	0.00	0.01
15.	Bid Type	0.97	0.17	-0.02	-0.09*	0.00	0.05	-0.05	0.02
16.	No of Acquisitions	5.09	7.39	0.01*	0.02	0.18***	-0.06	0.08	-0.11**

* $p<0.1$; ** $p<0.05$; *** $p<0.01$

Table 4-1: (Continued)

	Independent Variables	Mean	s.d.	7.	8.	9.	10.	11.	12.
1.	Post-acquisition ROA	3.63	6.33						
2.	Total Shareholder Return	3.34	23.72						
3.	CSR	0.66	6.70						
4.	TMT Ownership	0.07	0.13						
5.	Entrepreneurial Firm	0.23	0.42						
6.	Family Ownership	0.23	0.42						
7.	Tobin's Q	2.23	2.77	1.00					
8.	TMT Retention	0.35	0.28	0.00	1.00				
9.	Prior 3yr_ROA	4.03	10.72	-0.03	0.06	1.00			
10.	Slack Resources	1820.84	10185.25	0.01	0.00	0.01	1.00		
11.	Year Effects	6.62	2.38	-0.04	0.03	0.00	0.00	1.00	
12.	Industry Effects	47.57	19.70	-0.10*	-0.01	-0.10*	0.05	0.04	1.00
13.	Log Assets	3.56	0.83	0.00	-0.06	0.08	0.29***	-0.07	0.07
14.	Technological Relatedness	0.48	0.50	0.01	-0.03	0.01	0.08	-0.09*	-0.07
15.	Bid Type	0.97	0.17	0.03	0.03	-0.05	0.01	0.04	-0.01
16.	No of Acquisitions	5.09	7.39	0.05	0.06	0.07	0.095*	-0.09*	0.06

* $p<0.1$; ** $p<0.05$; *** $p<0.01$

Table 4-1: (Continued)

	Independent Variables	Mean	s.d.	13.	14.	15.	16.
1.	Post-acquisition ROA	3.63	6.33				
2.	Total Shareholder Return	3.34	23.72				
3.	CSR	0.66	6.70				
4.	TMT Ownership	0.07	0.13				
5.	Entrepreneurial Firm	0.23	0.42				
6.	Family Ownership	0.23	0.42				
7.	Tobin's Q	2.23	2.77				
8.	TMT Retention	0.35	0.28				
9.	Prior 3yr_ROA	4.03	10.72				
10.	Slack Resources	1820.84	10185.25				
11.	Year Effects	6.62	2.38				
12.	Industry Effects	47.57	19.70				
13.	Log Assets	3.56	0.83	1.00			
14.	Technological Relatedness	0.48	0.50	-0.06	1.00		
15.	Bid Type	0.97	0.17	-0.04	-0.06	1.00	
16.	No of Acquisitions	5.09	7.39	0.24***	-0.06	0.02	1.00

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

In the third year, the average retention rate for the top management team present at the time of acquisition is 35 percent. This means that approximately 65 percent of the managers had left within the first three years. Prior research found similar TMT turnover rates (e.g., Furtado & Karan, 1990; Hambrick & Cannella, 1993; Krishnan, Miller, & Judge, 1997; Krug & Hegarty, 1997; Martin & McConnell, 1991; Walsh, 1989; Walsh & Ellwood, 1991).

The correlation table also reveals that some significant intercorrelations between some independent variables. For example, CSR is significantly correlated with average cash and cash equivalents, the assets and the number of acquisitions. TMT ownership is also significantly correlated with family ownership, and assets. Entrepreneurial firm status is significantly correlated with industry effects. Family ownership is significantly correlated with total assets and number of acquisitions. Tobin's Q is significantly correlated with industry effects. Prior three year average ROA was significantly correlated with industry effects while average cash was significantly related to total assets and number of acquisitions. Year effects were significantly correlated with technological relatedness and number of acquisitions, while total assets were significantly related to the number of acquisitions.

The above noted intercorrelations between some of the independent variables may imply that there may be problems with multicollinearity. In order to check for multicollinearity, I calculated the variance inflation factors for the independent variables. The variance inflation factors for all the independent variables in the study are presented in Table 4.2. Hair et al. (1987) and Chatterjee and Rice (1977) suggest that variance inflation factors that are lower than 10 indicate that multicollinearity may not seriously affect the OLS results. The mean VIF was 1.14 and none of the resultant variance inflation factors was greater than 10. Thus, consistent with the recommendations by Hair et al. (1987) and Chatterjee and Rice (1977), I concluded that multicollinearity may not be a serious issue.

Table 4-2: Variance inflation factors.

Variable	VIF
Family Ownership	1.48
TMT Ownership	1.47
Log Assets	1.25
Slack Resources	1.15
No of Acquisitions	1.13
CSR	1.12
Industry Effects	1.07
Entrepreneurial Firm	1.07
Tobin's Q	1.05
Technological Relatedness	1.05
Prior 3yr_ROA	1.05
Year Effects	1.04
TMT Retention	1.03
Bid Type	1.02
Mean VIF	1.14

4.2 Model Specification

Two sets of models were developed in order to test the predictions of the hypotheses. In the first set, the effects of the independent variables on the three year return on assets, the accounting measure of performance, were examined. In the second set, the effects of the independent variables on the market measure of performance, the total shareholder return were examined.

A number of estimations were performed in order to ensure that my OLS results were unbiased. I created plots of the standard residuals against predicted dependent values for my models, which indicated that the residuals were randomly distributed around zero. A closer look at my residuals indicated that ten residuals had values that were greater than the absolute value of two. These are likely to be outliers, and they may unduly influence the findings. Consistent with prior research (e.g., Nehrt, 1996), I deleted these observations in order to remove their effects. Next, I performed the Breusch-Pagan test and White's test for heteroskedasticity test to investigate heteroskedasticity in my models. Both of these tests indicated that there is heteroskedasticity in my models. I then plotted a q-q plot to assess the normality of the residuals. The residuals reasonably fell close to a straight line, which indicated that their distribution was reasonably normal.

4.3 Hypothesis Tests and Results

The results of the analyses are presented in Tables 4.3 to 4.15. Table 4.3 presents the results of regression analyses examining the effect of CSR on post-acquisition performance, measured by ROA. Table 4.4 presents the results of regression analyses examining the effect of CSR on post-acquisition performance, measured by Total Shareholder Return. Table 4.5 displays the results of the regression models examining the moderating effect of TMT ownership, entrepreneurial firm and family firm status on the on the relationship between CSR and quality of target relationship. Table 4.6 presents the regression analyses examining the relationship between CSR and TMT retention. Table 4.7 follows with the results of regression analyses examining the mediating effect of TMT retention on the relationship between CSR and three year average ROA. Finally, Table 4.8 is presented and it shows the results of regression analyses examining the mediating effect of TMT retention on the relationship between CSR and three year average TSR.

Hypothesis one predicts that the acquirer's corporate social performance is positively related to its acquisition performance. Table 4.3 model two presents this test with the performance measure being ROA. The model shows that the relationship is positive and significant ($b=0.09$, $p<0.05$), therefore providing support for hypothesis one. This finding reinforces prior research (e.g., Wang & Qian, 2011; Waddock & Graves, 1997a) that has concluded that corporate social responsibility positively affects financial performance. Hypothesis one was also tested with TSR as the performance measure in Table 4.4 model two. However, this test yielded no significant relationship between CSR and TSR. This finding is consistent with Gilley et al.'s (2000) conclusion that on average, CSR initiatives do may not affect a firm's future market performance. Given the two differing findings, this leads to the conclusion that hypothesis one is partially supported.

Hypothesis two proposes that the quality of target mediates the relationship between CSR and organizational performance. Baron and Kenny (1986) suggest that for mediation to be supported, the following conditions must be met; first, the independent variable should be significantly related to the mediator; second, the independent variable should be significantly related to the dependent variable; third, the mediator should be significantly relat·d to the dependent variable; and fourth, in the presence of the mediator, the relationship between the independent and the dependent variable should become insignificant.

Table 4-3: Results of regression analyses examining the effect of CSR on three year average ROA.

	Model 1		Model 2	
	β	s.e	β	s.e
Intercept	2.33	1.78	2.54	1.8
Prior 3yr ROA	0.34***	0.06	0.34***	0.05
Slack resources	-0.00*	0	-0.00***	0
Year effects	-0.08	0.1	-0.08	0.1
Industry effects	-0.03**	0.01	-0.03**	0.01
Log assets	0.39	0.26	0.32	0.27
Technological relatedness	0.01	0.5	0.1	0.5
Bid type	0.3	1.24	0.3	1.25
No of acquisitions	0.05**	0.02	0.04*	0.02
CSR			0.09**	0.04
R^2	0.415***		0.423**	
ΔR^2			0.008	

* p<0.1; ** p<0.05; *** p<0.01

Table 4-4: Results of regression analyses examining the effect of CSR on three year average total shareholder return.

	Model 1		Model 2	
	β	s.e	β	s.e
Intercept	21.66**	9.42	21.81**	9.42
Prior 3yr ROA	-0.05	0.16	-0.05	0.16
Slack resources	0	0	0	0
Year effects	0.46	0.52	0.46	0.52
Industry effects	-0.04	0.07	-0.04	0.07
Log assets	-2.7*	1.4	-2.75*	1.42
Technological relatedness	4.02	2.61	4.09	2.63
Bid type	-12.93*	7.57	-12.93*	7.63
No of acquisitions	0.19	0.14	0.18	0.14
CSR			0.06	0.15
R^2	0.029		0.029	
ΔR^2			0	

* p<0.1; ** p<0.05; *** p<0.01

The mediation test was first performed with ROA as the dependent variable. I first established the relationship between the independent variable (CSR) and the mediator variable (quality of target). This relationship was tested in Table 4.5 (model four) and was found to be positive and significant ($b=0.02$, $p<0.1$). Next, I ascertained whether CSR is significantly related to the ROA. The results presented in Table 4.3 model two show that CSR is significantly related to ROA ($b=0.09$, $p<0.05$). I then tested whether quality of target, represented by Tobin's Q, was significantly related to ROA, the dependent variable. Table 4.6 model two reveals that this relationship was positive and significant ($p=0.72$, $p<0.01$). Finally, I added the mediator to the model to investigate its overall effect on the CSR and ROA relationship. Table 4.7 model three and model four reveal that the strength of the relationship, although remaining significant, weakened with the addition of the mediator from ($b=0.14$, $p<0.01$) in model 3 to ($b=0.12$, $p<0.01$) in model four. Rucker, Preacher, Tormala, and Petty (2011) suggest that if there remains a significant direct effect between the independent and dependent variable even after the addition of the mediator, the typical practice is to report that the mediator only partially mediates the relationship. Consistent with this view, I concluded that the quality of target partially mediates the relationship between CSR and organizational performance.

Table 4-5: Test of the relationship between CSR and quality of target.

	Model 1		Model 2		Model 3		Model 4	
	β	s.e	β	s.e	β	s.e	β	s.e
Intercept	2.72***	0.4	2.76***	0.42	2.75***	0.45	2.83***	0.46
Prior 3yr ROA	0	0.01	0	0.01	0	0.01	0	0.01
Slack resources	0	0	-0.00**	0	-0.00*	0	-0.00*	0
Year effects	-0.01	0.03	-0.01	0.03	-0.01	0.03	-0.01	0.03
Industry effects	-0.01***	0	-0.01***	0	-0.01***	0	-0.01***	0
Log assets	-0.08	0.07	-0.09	0.07	-0.09	0.07	-0.1	0.07
Technological relatedness	-0.1	0.12	-0.09	0.12	-0.09	0.13	-0.13	0.12
Bid type	0.06	0.21	0.06	0.23	0.11	0.25	0.03	0.26
No of acquisitions	0.01	0.01	0.01	0.01	0.01	0.01	0	0.01
CSR			0.02*	0.01	0.02*	0.01	0.02*	0.01
TMT ownership					0.17	0.33	0.25	0.35
Entrepreneurial firm					0.23	0.18	0.23	0.17
Family ownership					-0.26*	0.13	-0.30**	0.12
CSR x TMT ownership							-0.25**	0.11
CSR x Entrepreneurial firm							0.13***	0.04
CSR x Family ownership							-0.02	0.02
R^2	0.046***		0.055***		0.069		0.118***	
ΔR^2			0.009		0.014		0.049	

* $p<0.1$; ** $p<0.05$; *** $p<0.01$

Table 4-6: Test of the relationship between quality of target and three year average ROA.

	Model 1		Model 2	
	β	s.e	β	s.e
Intercept	2.33	1.78	0.38	1.92
Prior 3yr ROA	0.34***	0.06	0.34***	0.06
Slack resources	-0.00*	0	0	0
Year effects	-0.08	0.1	-0.08	0.1
Industry effects	-0.03**	0.01	-0.02	0.01
Log assets	0.39	0.26	0.45*	0.26
Technological relatedness	0.01	0.5	0.08	0.49
Bid type	0.3	1.24	0.26	1.25
No of acquisitions	0.05**	0.02	0.04**	0.02
Tobin's Q			0.72***	0.27
R^2	0.415***		0.433	
ΔR^2			0.01	

* p<0.1; ** p<0.05; *** p<0.01

Table 4-7: Test of the relationship between CSR and three year average ROA with the addition of the mediator, Tobin's Q.

	Model 1		Model 2		Model 3		Model 4	
	β	s.e	β	s.e	β	s.e	β	s.e
Intercept	2.33	1.78	2.54	1.8	2.56	1.8	0.7	1.97
Prior 3yr ROA	0.34***	0.06	0.34***	0.05	0.34***	0.05	0.34***	0.05
Slack resources	-0.00*	0	-0.00***	0	-0.00***	0	-0.00***	0
Year effects	-0.08	0.1	-0.08	0.1	-0.09	0.1	-0.08	0.1
Industry effects	-0.03**	0.01	-0.03**	0.01	-0.03**	0.01	-0.02	0.02
Log assets	0.39	0.26	0.32	0.27	0.34	0.27	0.4	0.27
Technological relatedness	0.01	0.5	0.1	0.5	0.11	0.51	0.2	0.51
Bid type	0.3	1.24	0.3	1.25	0.27	1.25	0.25	1.22
No of acquisitions	0.05**	0.02	0.04*	0.02	0.04	0.02	0.03	0.02
CSR			0.09**	0.04	0.14***	0.05	0.12***	0.05
TMT ownership					3.66	2.31	3.49	2.44
Entrepreneurial firm					0.29	0.6	0.14	0.58
Family ownership					-0.84	0.83	-0.64	0.88
CSR x TMT ownership					-0.36	0.33	-0.19	0.32
CSR x Entrepreneurial firm					-0.01	0.14	-0.09	0.13
CSR x Family ownership					-0.15**	0.07	-0.14**	0.07
Tobin's Q							0.66**	0.28
R^2	0.415***		0.423**		0.436*		0.45**	
ΔR^2			0.008		0.013		0.014	

* p<0.1; ** p<0.05; *** p<0.01

Another test was performed to test the mediating effect of the quality of target on the relationship between CSR and organizational performance, with TSR as the performance measure. The results of the test are presented in Tables 4.8, 4.9, 4.10 and 4.11. I first established the relationship between CSR and the quality of target. This relationship was tested in Table 4.8 model four and was found to be positive and significant ($b=0.02$, $p<0.1$). I then tested whether CSR is significantly related to TSR. The results presented in Table 4.9 model two shows no significant relationship between CSR and TSR. I then tested whether quality of target, represented by Tobin's Q, was significantly related to TSR, the dependent variable. Table 4.10 model two reveals that this relationship was positive but insignificant. Finally, I added the mediator to the model to investigate its overall effect on the CSR and TSR relationship. Table 4.11 model three shows that the relationship was insignificant before the addition of the mediator, the quality of target. The model remained insignificant with the addition of the mediator as depicted in model four. This test of mediation led to the conclusion that the quality of target does not mediate the relationship between CSR and organizational performance as measured by TSR.

Table 4-8: Test of the relationship between CSR and quality of target.

	Model 1		Model 2		Model 3		Model 4	
	β	s.e	β	s.e	β	s.e	β	s.e
Intercept	2.72***	0.4	2.76***	0.42	2.75***	0.45	2.83***	0.46
Prior 3yr ROA	0.00	0.01	0.00	0.01	0.00	0.01	0	0.01
Slack resources	0.00	0.00	-0.00**	0.00	-0.00*	0	-0.00*	0.00
Year effects	-0.01	0.03	-0.01	0.03	-0.01	0.03	-0.01	0.03
Industry effects	-0.01***	0	-0.01***	0	-0.01***	0	-0.01***	0.00
Log assets	-0.08	0.07	-0.09	0.07	-0.09	0.07	-0.1	0.07
Technological relatedness	-0.1	0.12	-0.09	0.12	-0.09	0.13	-0.13	0.12
Bid type	0.06	0.21	0.06	0.23	0.11	0.25	0.03	0.26
No of acquisitions	0.01	0.01	0.01	0.01	0.01	0.01	0.00	0.01
CSR			0.02*	0.01	0.02*	0.01	0.02*	0.01
TMT ownership					0.17	0.33	0.25	0.35
Entrepreneurial firm					0.23	0.18	0.23	0.17
Family ownership					-0.26*	0.13	-0.30**	0.12
CSR x TMT ownership							-0.25**	0.11
CSR x Entrepreneurial firm							0.13***	0.04
CSR x Family ownership							-0.02	0.02
R^2	0.046***		0.055***		0.069		0.118***	
ΔR^2			0.009		0.024		0.049	

* p<0.1; ** p<0.05; *** p<0.01

Table 4-9: Test of the relationship between CSR and three year average TSR.

	Model 1		Model 2	
	β	s.e	β	s.e
Intercept	21.66**	9.42	21.81**	9.42
Prior 3yr ROA	-0.05	0.16	-0.05	0.16
Slack resources	0	0	0	0
Year effects	0.46	0.52	0.46	0.52
Industry effects	-0.04	0.07	-0.04	0.07
Log assets	-2.7*	1.4	-2.75*	1.42
Technological relatedness	4.02	2.61	4.09	2.63
Bid type	-12.93*	7.57	-12.93*	7.63
No of acquisitions	0.19	0.14	0.18	0.14
CSR			0.06	0.15
R^2	0.029		0.029	
ΔR^2			0	

* p<0.1; ** p<0.05; *** p<0.01

Table 4-10: Test of the relationship between quality of target and the three year average TSR.

IV-Tobin's Q; DV:TSR	Model 1		Model 2	
	β	s.e	β	s.e
Intercept	21.66**	9.42	18.49*	10.36
Prior 3yr ROA	-0.05	0.16	-0.05	0.16
Slack resources	0.00	0.00	0.00	0.00
Year effects	0.46	0.52	0.47	0.53
Industry effects	-0.04	0.07	-0.02	0.07
Log assets	-2.7*	1.4	-2.61*	1.39
Technological relatedness	4.02	2.61	4.15	2.63
Bid type	-12.93*	7.57	-13.00*	7.64
No of acquisitions	0.19	0.14	0.18	0.15
Tobin's Q			1.17	1.21
R^2	0.029		0.032	
ΔR^2			0.003	

* p<0.1; ** p<0.05; *** p<0.01

Table 4-11: Test of the relationship between CSR and three year average TSR with the addition of the mediator, Tobin's Q.

	Model 1		Model 2		Model 3		Model 4	
	β	s.e	β	s.e	β	s.e	β	s.e
Intercept	21.66**	9.42	21.81**	9.42	23.24**	9.76	19.31*	10.52
Prior 3yr ROA	-0.05	0.16	-0.05	0.16	-0.06	0.17	-0.07	0.17
Slack resources	0	0	0	0	0	0	0	0
Year effects	0.46	0.52	0.46	0.52	0.44	0.53	0.45	0.54
Industry effects	-0.04	0.07	-0.04	0.07	-0.03	0.07	-0.01	0.07
Log assets	-2.7*	1.4	-2.75*	1.42	-2.84**	1.46	-2.71*	1.45
Technological relatedness	4.02	2.61	4.09	2.63	4.07	2.67	4.25	2.7
Bid type	-12.93*	7.57	-12.93*	7.63	-13.73*	7.85	-13.77	7.86
No of acquisitions	0.19	0.14	0.18	0.14	0.2	0.15	0.19	0.16
CSR			0.06	0.15	0.05	0.17	0.02	0.16
TMT ownership					3.81	8.3	3.46	8.57
Entrepreneurial firm					-3.92	3.28	-4.24	3.38
Family ownership						3.31	0.46	3.39
CSR x TMT ownership					1.36	1.67	1.71	1.67
CSR x Entrepreneurial firm					-0.06	0.65	-0.24	0.69
CSR x Family ownership					-0.26	0.28	-0.23	0.27
Tobin's Q							1.39	1.32
R^2	0.029		0.029		0.04		0.04	
ΔR^2			0		0.011		0	

* p<0.1; ** p<0.05; *** p<0.01

Hypothesis three proposes that the relationship between the acquirer's corporate social performance and the quality of target is stronger when the target firm's TMT ownership is higher. This relationship was tested by investigating the interaction between CSR and TMT ownership. Table 4.12 model four reveals that the result of this hypothesis was negative and significant ($b=-0.25$, $p<0.05$), which runs contrary to the initial hypothesis, meaning hypothesis three was not supported.

Hypothesis four predicts that the relationship between the acquirer's corporate social performance and the quality of target is stronger when the target firm is an entrepreneurial firm. Table 4.12 model four revealed a positive and significant relationship between the interaction of CSR and Entrepreneurial firm and the quality of the target firm ($b=0.13$, $p<0.01$). This lends support to the fourth hypothesis.

Hypothesis five proposes that the relationship between the acquirer's corporate social performance and the quality of target is stronger when the target firm is a family business. This hypothesis was tested in Table 4.12 model four. The interaction between CSR and family ownership was negative and insignificant, meaning that the results lent no support for the moderating effect of family ownership on the relationship between CSR and the quality of the target firm.

Table 4-12: Results of regression analyses examining the moderating effect of TMT ownership, entrepreneurial firm and family firm status on the relationship between CSR and quality of target relationship.

	Model 1		Model 2		Model 3		Model 4	
	β	s.e	β	s.e	β	s.e	β	s.e
Intercept	2.72***	0.40	2.76***	0.42	2.75***	0.45	2.83***	0.46
Prior 3yr ROA	0.00	0.01	-0.00	0.01	0.00	0.01	0.00	0.01
Slack resources	-0.00	0.00	-0.00**	0.00	-0.00*	0.00	-0.00*	0.00
Year effects	-0.01	0.03	-0.01	0.03	-0.01	0.03	-0.01	0.03
Industry effects	-0.01***	0.00	-0.01***	0.00	-0.01***	0.00	-0.01***	0.00
Log assets	-0.08	0.07	-0.09	0.07	-0.09	0.07	-0.10	0.07
Technological relatedness	-0.10	0.12	-0.09	0.12	-0.09	0.13	-0.13	0.12
Bid type	0.06	0.21	0.06	0.23	0.11	0.25	0.03	0.26
No of acquisitions	0.01	0.01	0.01	0.01	0.01	0.01	0.00	0.01
CSR			0.02*	0.01	0.02*	0.01	0.02*	0.01
TMT ownership					0.17	0.33	0.25	0.35
Entrepreneurial firm					0.23	0.18	0.23	^.17
Family ownership					-0.26*	0.13	-0.30**	0.12
CSR x TMT ownership							-0.25**	0.11
CSR x Entrepreneurial firm							0.13***	0.04
CSR x Family ownership							-0.02	0.02
R^2	0.046***		0.055***		0.069		0.118***	
ΔR^2			0.009		0.024		0.049	

* p<0.1; ** p<0.05; *** p<0.01

Hypothesis six predicts that the acquirer's corporate social performance is positively related to the retention of the target firm's TMT human capital. Table 4.13 shows the results of the relationship between corporate social performance and TMT retention. The results show a negative and insignificant relationship between CSP and TMT retention, meaning that no support was found for hypothesis six.

Table 4-13: Results of regression analyses examining the relationship between CSR and TMT retention.

	Model 1		Model 2	
	β	s.e	β	s.e
Intercept	0.38***	0.13	0.37***	0.13
Prior 3yr ROA	0.01*	0.00	0.01*	0.00
Slack resources	0.00	0.00	0.00	0.00
Year effects	0.00	0.01	0.00	0.01
Industry effects	0.00	0.00	0.00	0.00
Log assets	-0.03	0.02	-0.03	0.02
Technological relatedness	-0.02	0.03	-0.02	0.03
Bid type	0.04	0.09	0.04	0.09
No of acquisitions	0.00	0.00	0.00	0.00
CSR			-0.01	0.02
R^2	0.016		0.017	
ΔR^2			0.001	

* p<0.1; ** p<0.05; *** p<0.01

Hypothesis seven suggests that the relationship between the acquirer's corporate social performance and acquisition performance is mediated by the retention of the target firm's human capital. Tables 4.14 and 4.15 show the results of the mediating effect of TMT retention on the relationship between corporate social performance and post-acquisition performance. This was again tested following Baron and Kenny's (1986) procedure outlined earlier. Table 4.14 shows the results of mediation with ROA as the post-acquisition performance measure, while Table 4.15 shows the results with TSR as the performance measure. In the first stage of the mediation analysis I established the relationship between the independent variable (CSR) and the mediator variable (TMT retention). This relationship was tested in Table 4.13 model two (hypothesis six) and was found to be negative and insignificant, meaning that the hypothesis fails this first test. Next, I tested whether CSR (independent variable) is significantly related to the ROA (dependent variable). The results presented in Table 4.14 model three show that CSR is significantly related to ROA ($b=0.09$, $p<0.05$). I then tested whether TMT retention (mediator) was significantly related to ROA (dependent variable). Table 4.14 model two reveals that this relationship was negative and insignificant, which meant that the mediation test failed another condition. Lastly, the mediator was added to see whether the relationship between CSR and ROA became insignificant. Table 4.14 model four reveals that this relationship remained significant ($b=0.08$, $p<0.05$). Overall the hypothesis failed the first and third tests, meaning that the results lend no support to the mediation effect proposed by hypothesis seven.

I followed the same procedure in testing the mediation effect of TMT retention with TSR as the dependent variable. In the first step, the relationship between the independent variable (CSR) and the mediator variable (TMT retention) was found to be negative and insignificant in Table 4.13 model two (hypothesis six). I then tested the relationship between CSR and TSR. The results presented in Table 4.15 model two do not show a significant relationship between CSR and TSR. Next, I tested whether TMT retention was significantly related to TSR. Table 4.15 model three again reveals a positive but insignificant relationship between CSR and TSR. Lastly, on the addition of the mediator to the CSR-TSR relationship in Table 4.15 model four, there were no significant changes to the model, lending no support to the hypothesis. In sum, hypothesis seven was not supported.

Table 4-14: Results of regression analyses examining the mediating effect of TMT retention on the relationship between CSR and three year average ROA.

	Model 1		Model 2		Model 3		Model 4	
	β	s.e	β	s.e	β	s.e	β	s.e
Intercept	2.33	2.09	2.37	2.12	2.54	1.80	2.56	1.86
Prior 3yr ROA	0.34***	0.02	0.34***	0.02	0.34***	0.05	0.34***	0.05
Slack resources	-0.00*	0.00	0.00	0.00	-0.00***	0.00	-0.00***	0.00
Year effects	-0.08	0.11	-0.08	0.11	-0.08	0.10	-0.08	0.10
Industry effects	-0.03**	0.01	-0.03**	0.01	-0.03**	0.01	-0.03**	0.01
Log assets	0.39	0.32	0.39	0.32	0.32	0.27	0.32	0.28
Technological relatedness	0.01	0.51	0.01	0.51	0.10	0.50	0.10	0.50
Bid type	0.30	1.43	0.31	1.44	0.30	1.25	0.30	1.26
No of acquisitions	0.05**	0.03	0.05	0.03	0.04*	0.02	0.04*	0.02
TMT retention			-0.107	0.88			-0.05	0.88
CSR					0.09**	0.04	0.08**	0.04
R^2	0.415***		0.415		0.423		0.423	
ΔR^2			0		0.008		0.000	

* $p<0.1$; ** $p<0.05$; *** $p<0.01$

Table 4-15: Results of regression analyses examining the mediating effect of TMT retention on the relationship between CSR and three year average TSR.

	Model 1		Model 2		Model 3		Model 4	
	β	s.e	β	s.e	β	s.e	β	s.e
Intercept	21.66**	9.42	21.81**	9.42	19.72*	10.76	19.87**	9.92
Prior 3yr ROA	-0.05	0.16	-0.05	0.16	-0.06	0.12	-0.06	0.16
Slack resources	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Year effects	0.46	0.52	0.46	0.52	0.44	0.54	0.44	0.53
Industry effects	-0.04	0.07	-0.04	0.07	-0.04	0.07	-0.04	0.06
Log assets	-2.7*	1.40	-2.75*	1.42	-2.55	1.63	-2.60*	1.46
Technological relatedness	4.02	2.61	4.09	2.63	4.11	2.57	4.18	2.64
Bid type	-12.93*	7.57	-12.93*	7.63	-13.12*	7.28	-13.12*	7.63
No of acquisitions	0.19	0.14	0.18	0.14	0.18	0.18	0.17	0.15
CSR			0.06	0.15			0.07	0.16
TMT retention					5.13	4.48	5.18	4.99
R^2	0.029		0.029		0.033		0.033	
ΔR^2			0.000		0.004		0.000	

* $p<0.1$; ** $p<0.05$; *** $p<0.01$

CHAPTER 5

DISCUSSION, CONTRIBUTIONS AND LIMITATIONS

In this study, I sought to investigate the impact that corporate social responsibility engagement may have on post-acquisition performance outcomes. I examine this issue by relying on literature on stakeholder theory and signaling theory in order to understand how firms could shape the perceptions of prospective quality targets in their favor, through engagement in corporate social responsibility. In it, I argue that the positive reputational outcomes arising from a prospective acquirer's engagement in socially responsible activities may be attractive to quality prospective target firms. This may increase the likelihood that the socially responsible firm would end up acquiring targets with high potential, which would boost post-acquisition performance. I explore entrepreneurial firms, family firms and top managers' ownership as potential moderators to the relationship. Further, I explore top management team retention as a mediator of the relationship between CSR and post-acquisition performance.

5.1 Research Findings

The first major finding is that corporate social performance is generally associated with higher post-acquisition performance. I find a positive relationship between corporate social responsibility and financial performance measured by ROA. This is consistent with other findings in the literature (e.g., Barnett & Salomon, 2012). An interesting finding in the study was that no significant results were obtained when performance was measured using total shareholder return, a market measure. Similarly, other researchers have not found significant relationships between CSP and financial performance when using market measures of performance (e.g., Wang & Qian, 2011; Gilley et al., 2000). Gilley et al. (2000) contend that these differences may stem from the fact that samples from prior studies were largely drawn from one, or a few similar industries as opposed to a wide range of industries. This assertion seems to hold some truth because, like Wang and Qian (2011) and Gilley et al. (2000), this study did not limit the number and nature of industries from which its sample was drawn. Another explanation may be that difficulties for market participants to interpret CSR information accurately may lead to 'noise' in the financial markets leading to volatility in financial markets (Orlitzky, 2013).

The second major finding is that entrepreneurial firm status moderated the relationship between the acquirer's corporate social performance and the quality of target. It appears that acquisitions of entrepreneurial firms by socially responsible acquirers generally seem to be of higher quality, meaning that they generally outperform other types of targets in regard to quality.

The third major finding is that the quality of target partially mediates the relationship between CSR and organizational performance. More specifically, the association between social responsiveness by acquirers and post-acquisition performance seems to be strong with quality targets.

Further, contrary to predictions, the tests of moderation indicate that top management ownership does not moderate the relationship between CSR and quality of target in the predicted positive direction. On the contrary, the effect is found to be negative. In addition, family ownership does not have any significant moderating effect on the CSR-quality of target relationship.

5.2 Theoretical Contributions

5.2.1 Contributions to CSR Literature

Research suggests that involvement with CSR can improve stakeholder relations (McWilliams & Siegel, 2001), and elicit positive stakeholder relations for the firm (Barnett, 2007). CSR engagement has been attributed to positive security analysts' assessments (Ioannou & Serafeim, 2015; Luo, Wang, Raithel, & Zheng, 2015), favorable job seekers' perceptions of the firm (Jones, Willness, & Madey, 2014), lower cost of capital (Sharfman & Fernando, 2008) and lower capital constraints (Cheng, Ioannou, & Serafeim, 2014). It has also been argued that CSR provides 'insurance-like' benefits against negative environmental events that threaten firm value (Godfrey, Merrill, & Hansen, 2009; McGuire, Sundgren, & Schneeweis, 1988) and against litigation risk (Koh, Qian, & Wang, 2014). These positive CSR outcomes may ultimately lead to higher financial performance (e.g., Lev, Petrovits, & Radhakrishnan, 2010; Wang & Qian, 2011; Waddock & Graves, 1997a). Despite these documented positive outcomes from CSR engagement, no study has looked at its effect on acquisitions outcomes. This research extends prior CSR literature to the acquisitions context and shows that CSR engagement is associated with financial performance (e.g., Barnett & Salomon, 2012). It therefore establishes a stronger theoretical foundation for the relationship between corporate social performance and financial performance.

Some of the receivers of signals that have received research attention include shareholders (Connelly et al., 2011), current and prospective employees (e.g., Breaugh, 1992; McNall, 2010; Rynes, 1991), analysts, investors, and the media (Higgins & Gulati, 2006), financial markets (Certo, 2003), consumers (Boulding, & Kirmani, 1993), among others. Connelly et al. (2011) call for the study of the impact of signals on additional stakeholders. This study answers this call by studying prospective targets as additional stakeholders that rely on a prospective acquirer's CSR information to form impressions about potential acquirers. This study finds that, in the same way that prospective job seekers (e.g., Rynes, 1991; Rynes & Miller, 1983), consumers, suppliers, and investors (Connelly et al., 2011) may use CSR information to form impressions about the firm, prospective targets may also use such information in assessing the acquirers. A firm's engagement in CSR is therefore proposed, and found to be a signaling mechanism through which prospective acquirers portray themselves as more trustworthy business partners to prospective quality targets.

5.2.2 Contributions to Acquisitions Literature

Studies within the M&A literature have found that the anticipated synergies from acquisitions remain largely unrealized, as evidenced by poor post-acquisition performance (Datta, Pinches, & Narayanan, 1992; King, Dalton, Daily, & Covin, 2004). Some authors have argued that the decrease in the acquirer's performance could be attributed to suboptimal initial integration efforts (Barkema & Schijven, 2008), loss of autonomy (Chatterjee, Lubatkin, Schweiger, & Weber, 1992; Very & Lubatkin, 1997), lower post-acquisition R&D investments (Hitt, Hoskisson, Ireland, & Harrison, 1991) incompatibility of acquirer and target firm cultures (Very, Lubatkin, Calori & Veiga, 1997), bidder-to-target dissimilarity in product offerings and geographic reach (Ellis, Reus, Lamont, & Ranft, 2011) and hubristic CEOs' overestimation their own capacity to create value when buying targets (Roll, 1986). The importance of acquirer CSP as a possible predictor of post-acquisition performance has largely been overlooked.

This dissertation bridges this gap in the literature by investigating the influence of CSP on post-acquisition outcomes The findings support the notion that an organization's engagement in CSR is an important contributor to post-acquisition success. The reputational gains that the organization reaps from such engagement seem to be valued by prospective targets, which enable the acquirer to attract quality targets, which eventually translates to higher post-acquisition performance.

Additionally, prior M&A literature has primarily investigated performance phenomena from an acquirer's perspective. This study goes further and develops arguments from the target's perspective, arguing that the targets are a primary recipient of signals from prospective acquirers, and that they rely on information from such signals to make important decisions, like which acquirer would be most favorable in an acquisition deal.

5.2.3 Contributions to Stakeholder and Signaling Theories

Prior studies have used stakeholder and signaling theories independently in their investigations of organizational phenomena related to either CSP or M&As. For example, stakeholder theory has been invoked in the study of the relationship between CSP and financial performance (Barnett & Salomon, 2012), environmental awareness of investors (Flammer, 2012), the relationship between corporate diversification and CSP (Kang, 2013), environmental litigation (Kassinis & Vafeas, 2002) among others. Signaling theory on the other hand has been utilized in investigations concerning the attraction of job seekers to socially responsible firms (Jones et al., 2014; Greening & Turban, 2000;

Turban & Greening, 1996), ownership structures and their effect CSP dimensions (Johnson & Greening, 1999), IPO performance (Certo, 2003) among others.

By combining both stakeholder and signaling theories in explaining post acquisition performance, this study illustrates that greater insight can be drawn in the M&A and CSP literature when different phenomena are investigated under the lens of both theories. In doing so, the study introduces a prior overlooked set of stakeholders - the prospective target firms.

5.3 Practical Implications

5.3.1 Implications for Acquirers

Whetten et al. (2009) suggests that organizations can be perceived as social actors with motivations and intentions. This study indicates that, for an acquirer intent on presenting itself as a good future business partner, engagement in social responsibility may boost its image with prospective targets. With CSP as an impression management tool, the acquirer is able to present itself as likeable, competent, and morally worthy (Jones & Pittman 1982) to prospective quality targets, increasing the likelihood of attaining desired outcomes and averting undesired outcomes (Schlenker,1980).

5.3.2 Implications for Targets

Organizational reputation can be used as a screening strategy to determine the true nature of potential partners (Weigelt & Camerer, 1988). Organizations can therefore establish reputations for trustworthiness in the market by avoiding opportunistic behaviors while doing business with others (Ring & Van de Ven, 1992). By investigating how engagement in CSP influences the reputations of acquirers, this paper furthers our understanding of the mechanisms through which some targets opt to be acquired some types of companies, by specifically looking at some of the motivations driving management to prefer some acquirers over others.

The findings of this study indicate that when prospective quality targets are acquired by socially responsible firms, post-acquisition performance tends to be higher. This suggests that managers at quality targets can increase the likelihood that their decision to be acquired will lead to positive organizational outcomes by ensuring that the acquiring firm has been engaged in socially responsible activities in the past.

5.4 Future Research

This research reveals some fruitful areas that warrant research attention in the future. First, the use of a market measure and an accounting measure to measure post acquisition performance seems to yield conflicting results, with ROA yielding significant findings and TSR yielding insignificant results. Given that this finding is particularly prevalent with studies that do not limit their samples to similar industries, it may mean that there are some variables in play that may be causing the market measures to yield insignificant results. Further inquiry is needed in order to tease out other factors that may be responsible for the conflicting performance results.

The resource based theory proponents have maintained a widely held notion in the literature that attrition of top executives should hurt post acquisition outcomes (e.g., Graebner, 2004). However, my findings do not provide any significant evidence to support this idea. Indeed, Krug et al. (2014) contend that in some instances, replacing executives may be an important source of value creation. To date, the contextual factors surrounding the decision for, or against retention are largely unknown. Further inquiry is needed in this area in order to understand these contextual variables and how they ultimately affect post acquisition performance.

Relatedly, targets differ with regard to their ownership structure and stage in their organizational life cycle. It is conceivable that these factors affect top management turnover as the underlying variables may affect managerial motivations differently. For example, with regard to family ownership, the dominant family may require that some of the family members holding key positions be retained as a precondition of sale. Alternatively, acquirers of entrepreneurial firms may find it beneficial to retain the top managers in these firms in order to continue gaining from their expertise and knowledge of the business. Therefore, further research is needed in order to understand how turnover varies among different types of firms, given their unique ownership structures (for example, family firms, publicly traded firms, etc.) and the stage in their life cycle (e.g. entrepreneurial firms).

An important finding of this research is that the quality target partially mediates the relationship between CSR and organizational performance. Rucker et al. (2011) contend that where partial mediation is evident, there is a clear implication that other indirect effects could be examined and tested empirically. Since the current scope of the study does not allow for these indirect effects to be tested, future research could contribute to our understanding of the relationship by investigating these indirect effects.

This study primarily focused on domestic targets and acquirers. A possible avenue for future research would be an investigation of international acquisitions by socially responsible multinational corporations. An acquirer's international experience may affect its opportunity seeking behavior and its capacity to profitably manage its foreign investments (Anand & Delios, 2002). Such an investigation would further clarify whether the outcomes found in the domestic context would be similar to those in the international context.

5.5 Limitations

The use of KLD data as the single source of CSR data is seen as one of the limitations of this study. First, KLD only reports CSR data for large, publicly traded companies. This effectively eliminates private firms and smaller public firms from the sample. This may limit the generalizability of the findings of the research. Second, the KLD dataset condenses CSP simply into strengths (represented by a +1), neutral (represented by a '0') and weaknesses (represented by a -1) dimensions. In arriving at a CSR measure for each firm, I used a simple summation of strengths and weaknesses. However, a simple summation may not effectively capture the full effect of CSP on financial performance. This is due to the fact that the information disclosed about different types of CSP actions may vary in relevance and diagnosticity, and may thus have an effect on financial performance (Jayachandran et al., 2013). For example, Jayachandran and colleagues showed that while product social performance has a positive effect on firm performance, environmental social performance neither helps nor hurts firm performance. Future research could investigate how different dimensions of CSR could affect post acquisition performance.

My sample was limited to publicly traded acquisitions in the US worth more than 100 million USD between 2000 and 2010. This represents only a subset of all acquisitions that were carried out within this time. Future research could investigate whether the findings are supported with other samples, for example, those involving smaller buyers and private targets.

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