WHO VIOLATES EXPECTATIONS WHEN? HOW FIRMS' GROWTH AND DIVIDEND REPUTATIONS AFFECT INVESTORS' REACTIONS TO ACQUISITIONS

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ABSTRACT

Research summary: We investigate the role of a firm's dividend and growth reputations in shaping investors' interpretations of acquisitions as a negative or positive expectation violation. While our findings reveal that both an acquiring firm's dividend and growth reputations trigger positive investor reactions, they also show that investors react negatively to an acquisition of a target firm with a strong growth reputation when the acquiring firm has a strong dividend reputation. We also find that investors are inclined to give managers "the benefit of the doubt" to the extent that an acquiring firm strategically frames an acquisition announcement in such a way that it provides assurance to investors that the acquisition is meant to exceed investors' expectations about shareholder value creation.

Managerial summary: We study why investors respond to some acquisitions positively and others negatively. We find that the way acquiring and target firms have created shareholder value in the past, and the information conveyed in the acquisition announcements are important determinants of investors' differential reactions to acquisitions. Our findings show that while investors generally react positively to acquisitions by firms known for creating value either through dividends or growth, their reactions become negative when a firm known for value creation through dividends acquires a target known for value creation through growth. We further find that managers can favorably influence investor reactions by making it salient in the acquisition announcement how the acquisition is intended to exceed investors' value creation expectations from the acquiring firm.

INTRODUCTION

Global acquisition activity continues to surge, and in 2019 alone firms spent 4.1 trillion US dollars on acquisitions (Dealogic, 2020). Although acquisitions are intended to create value, investors typically react negatively to acquisition announcements (Haleblian, Devers, McNamara, Carpenter, and Davison, 2009). Drawing on the expectancy violation theory (EVT), Graffin and colleagues (2016) explain such reactions by investors' interpretations of acquisitions as a violation of their expectations regarding how firms should behave to create value. Given the widespread observation that most acquisitions fail to reach their objectives (e.g., Haleblian *et al*., 2009), it is plausible that investors are skeptical about the value-creation potential of acquisitions. However, these insights do not readily explain why investors evaluate some acquisitions positively (Campbell, Sirmon, and Schijven, 2016). Interestingly, the positive reactions of investors to acquisitions imply that they perceive specific acquisitions from a subset of firms to be compatible with how they expect these

firms to create value. However, we know little about how and under what circumstances the varied expectations of investors about acquiring firms influence when they perceive acquisitions to be a good or a bad deal.

One key explanation for investors' varied reactions to acquisitions is acquiring firms' reputation for creating shareholder value. These reputations shape investors' expectations of acquiring firms, influencing how they interpret an acquisition and react to it (Haleblian, Pfarrer, and Kiley, 2017). Scholars have argued that investors tend to punish high-reputation firms more severely for making acquisitions (Haleblian *et al*., 2017), because acquisitions are not generally perceived to be conducive to value creation (Graffin, Haleblian, and Kiley, 2016). However, firms can create shareholder value in multiple ways (Brealey, Myers, and Allen, 2014). Firms can thus develop distinct reputations originating from specific ways of creating shareholder value, which may give rise to different expectations (Mishina, Block, and Mannor, 2012; Parker, Krause, and Devers, 2019). Some of these expectations may provide firms with a greater leeway to pursue specific strategic actions, such as acquisitions, to fulfill investors' expectations (e.g., Pfarrer, Pollock, and Rindova, 2010; Rindova, Williamson, Petkova, and Sever, 2005; Zavyalova, Pfarrer, Reger, and Hubbard, 2016). Therefore, even though investors may remain largely skeptical about the value-creation potential of acquisitions, we suggest that they might react differently to acquisitions, depending on acquiring firms' distinct reputation for creating shareholder value. By bringing together recent advances in research on reputation, expectancy violation theory (EVT), and impression management, we develop a contingency model explaining underlying reasons and consequences for varied expectations of investors about a firm's acquisition behavior. In so doing, we extent the literature in at least two important ways.

First, with few exceptions (e.g., Boivie, Graffin, and Gentry, 2016; Lange, Lee and Dai, 2011; Rindova *et al*., 2005), prior research has conceptualized a firm's reputation for value

creation along a single dimension (Haleblian *et al.*, 2017). Moving beyond this research, our framework builds on the notion that a firm can develop a reputation by being known for distinct ways of creating value (Lange *et al*., 2011), and suggests that firms may create shareholder value either by delivering growth or by paying out dividends (Brealey *et al*., 2014). Those firms that consistently deliver growth over time develop a growth reputation while those that consistently pay out dividends develop a dividend reputation (Parker *et al*., 2019). When a firm has a growth reputation, we argue that investors will perceive that its acquisition behavior will enable the firm to exceed their value-creation expectations, due to the anticipated contribution of acquisitions to accelerate future growth. Conversely, when a firm has a dividend reputation, investors will perceive its acquisition behavior to be falling short of their expectations, because it may compromise the ability of the firm to maintain dividend payments. By allowing investor expectations to vary depending on acquiring firms' dividend or growth reputations, our framework explains when investors will react more or less favorably to an acquisition announcement. Our theorizing thus demonstrates the underexploited application of EVT's full spectrum of predictions, which allow acquisitions to be interpreted not only as negative but also as positive expectancy violations.

Second, building on the notion that investors seek additional sources of information when making sense of a perceived expectancy violation (Burgoon, 1993), our framework examines how substantive and symbolic information cues further shape the interpretative processes of investors when evaluating an acquisition. Whereas substantive cues refer to information regarding the nature of a firm's actions, symbolic information cues refer to firms' use of impression management to convey how managers intend to fulfill stakeholders' expectations (Cuypers, Koh, and Wang, 2016; Fiss and Zajac, 2004, 2006). Although scholars have shown that investors consider both types of cues when assessing expectancy violations (e.g., Elsbach, 1994; Gomulya and Mishina, 2017), we know very little about how substantive and

symbolic cues may shape investors' interpretative processes and their subsequent reactions in different ways. Earlier research in this area has not only focused almost exclusively on the role of symbolic cues (Fiss and Zajac, 2006; Graffin *et al*., 2016; Rhee and Fiss, 2014; Zavyalova, Pfarrer, Reger, and Shapiro, 2012), it has also investigated reactions to negative expectancy violations in isolation. We provide a more comprehensive approach and show how investors' initial perceptions of an acquisition as a negative or a positive expectancy violation are shaped by substantive and symbolic information cues. In so doing, we develop a framework which identifies important boundary conditions of EVT and offers novel insights about why investors' observed reactions do not consistently follow EVT's predictions.

Our analysis of 462 acquisitions by 227 S&P 500 firms largely support our predictions. We find that an acquirer's dividend and growth reputations both trigger favorable reactions from investors, yet the positive effect of firms' growth reputation on investor reactions is much more precisely estimated than that of the dividend reputation. We further reveal that when an acquiring firm has a dividend reputation, investors react unfavorably when a firm with a growth reputation is targeted for acquisition. Finally, firms elicit more favorable reactions by framing acquisition announcements to assure investors that the acquisition is meant to exceed investors' expectations about particulars ways of creating shareholder value.

THEORY AND HYPOTHESES

Investors' reactions to acquisitions through the lens of expectancy violation theory

Research on acquisitions has recently focused on examining the cognitive underpinnings of investors' evaluations of acquisitions through the lens of EVT (Graffin *et al*., 2016; Haleblian *et al*., 2017). EVT suggests that decision makers hold expectations of firms regarding how they should behave, and that they evaluate firms' actions in light of these expectations (Burgoon, 1993). Behaviors whose consequences are anticipated to exceed expectations are perceived as *positive* expectancy violations and are rewarded, whereas those whose

consequences are anticipated to fall short of expectations are perceived as *negative* expectancy violations and are punished.

Research suggests that investors mostly react negatively to acquisition announcements (Haleblian *et al*., 2009), implying that they view acquisitions as failing to meet their expectations for value creation (Graffin *et al*., 2016). Acquisitions are indeed complex activities with often ambiguous motives whose synergetic potential is virtually impossible to determine in advance (Gamache *et al*., 2019). Nevertheless, investors evaluate some acquisitions positively (Campbell *et al*., 2016), implying that a subset of firms are perceived to exceed investors' expectations for value creation by making acquisitions. Although EVT may be applied to explain both unfavorable and favorable responses to organizational events, scholars have so far only invoked the theory to explain investors' negative reactions to acquisitions. Thus, both theoretical insights and empirical evidence are limited regarding the specific nature of investors' value-creation expectations, and how these may lead them to evaluate a given acquisition positively or negatively.

Firm reputation and investors' value-creation expectations

A firm's reputation is widely established as an important determinant of stakeholders' expectations regarding a firm's future behavior (Pfarrer et al., 2010; Zavaylova et al., 2016). When a firm establishes a reputation by consistently delivering a valued outcome, stakeholders develop expectations that this outcome will continue (Basdeo, Smith, Grimm, Rindova, and Derfus, 2006; Fasaei, Tempelaar, and Jansen, 2018; Parker et al., 2019). In this sense, a firm's reputation constitutes an interpretative scheme for stakeholders, based on which investors evaluate firm behaviors regarding their perceived likelihood of contributing to expected outcomes (Pfarrer *et al*., 2010). Following Haleblian and colleagues (2017), and consistent with the view of a firm's reputation as a reflection of its past actions and outcomes (Basdeo *et al*., 2006), we conceptualize a firm's reputation as a consistent track record of

creating value for a specific group of stakeholders, investors[1]. Although Haleblian and colleagues (2017) have defined a firm's reputation as being known for creating shareholder value in general, our conceptualization suggests that firms may be known for a particular way of doing so (Mishina *et al*., 2012; Parker *et al*., 2019). More specifically, we argue that firms may create shareholder value either by delivering better-than-average growth and/or by paying dividends (Brealey *et al*., 2014). By doing so consistently over time, firms develop a growth and/or dividend reputation respectively (Aghion and Stein, 2008; Benner, 2007).

We argue that these distinct types of reputations give rise to varied investor expectations regarding the type of strategic activities that a firm should undertake (Parker *et al*., 2019). For instance, once a firm initiates a dividend payment, it implicitly commits to maintaining or increasing it in the future, because failure to do so is punished by investors (Brav, Graham, Harvey, and Michaely, 2005). Since a firm's ability to pay dividends hinges on its profitability, investors evaluate the actions of firms with a dividend reputation based on their anticipated impact on future profitability (Benner and Ranganathan, 2013). For such firms, therefore, strategic actions that are anticipated to enhance or reduce profits are perceived respectively by investors as positive or negative expectancy violations. Conversely, when a firm has a growth reputation, investors are particularly sensitive to potential declines in future growth prospects (Kim, Haleblian, and Finkelstein, 2011; Pfarrer *et al*., 2010) and evaluate the firm's actions based on their likely impact on future growth (Benner and Ranganathan, 2013). Thus, actions that are anticipated to strengthen the firm's ability to seize new growth opportunities are perceived as positive expectancy violations, while those that will curb growth are perceived as negative violations.

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[1] In their review of research on organizational reputation, Lange and colleagues (2011, p. 155) note that management scholars have conceptualized reputation in three different ways: "being known (generalized awareness or visibility of the firm; prominence of the firm in the collective perception), being known for something (perceived predictability of organizational outcomes and behavior relevant to specific audience interests), and generalized favorability (perceptions or judgments of the overall organization as good, attractive, and appropriate)." Our conceptualization of reputation corresponds to "being known for something."

Scholars have argued that firms can hold multiple reputations (Parker *et al.*, 2019). Anecdotal evidence indicates that firms may pursue strategies that help them develop both dividend and growth reputations. For example, in 2016 prominent firms such as 3M, Johnson & Johnson, Leggett & Platt, and Sysco not only increased their dividend payouts but also generated higher-than-average growth compared to their peers, and explicitly communicated their commitment to both increasing dividends and achieving growth. For example, Leggett and Platt (2015) stressed in their annual letter to the shareholders that "…we have also been achieving better-than-market growth in several lines of business… We increased our annual dividend for the 43rd consecutive year, a record we plan to extend." Building on these insights, we next examine separately how investors' perceptions of acquisitions are shaped by the dividend and growth reputations of an acquiring firm.

Acquirer's dividend and growth reputation and investors' reactions to acquisitions

We expect investors to perceive an acquisition by a firm with a dividend reputation as a negative expectancy violation because of two reasons. First, investors expect from firms with a dividend reputation to prioritize dividend payments over other strategic initiatives, and to refrain from actions that might jeopardize its profitability (Brav *et al.*, 2005). Acquisitions, however, absorb firm resources that could otherwise be used to improve short-term profitability, for example by improving operational margins. In addition, although acquisitions require substantial investments in the short run such as for acquisition premiums and integration, any eventual gains usually materialize only in the long run. Thus, if a firm diverts its resources away from improving short-term profits, and at the same time makes an immediate increase in capital spending, this is likely to cause concerns among its investors that the firm might be sacrificing dividend payments in order to prioritize longer-term goals.

Second, a firm's dividend reputation prompts investors to prioritize a steady stream of dividend payments over potentially higher yet more uncertain gains (Graham and Kumar,

2006; Tihanyi, Johnson, Hoskisson, and Hitt, 2003). Investors appreciate firms with a dividend reputation because they offer the opportunity of increased dividends in the future without any threat of dividend cuts (Devers, Wiseman, and Holmes, 2007). Because of their risk aversion, these investors expect a firm to focus on improving efficiency without increasing its exposure to risky and ambiguous situations. However, potential gains from acquisitions in terms of operational synergies are often highly uncertain and fail to materialize (Barkema and Schijven, 2008; Cording, Christmann, and King, 2008). As a consequence, a firm with a dividend reputation may be perceived by investors as failing to meet their value-creation expectations by making an acquisition. We thus argue that investors react negatively to an acquisition announcement, as evidenced by lower abnormal stock returns, to the extent that an acquirer has a dividend reputation.

Hypothesis 1a. The strength of the acquirer's dividend reputation is negatively associated with the abnormal stock returns associated with an acquisition announcement.

Conversely, we expect investors to perceive acquisitions as positive expectancy violations to the extent that the acquiring firms hold a growth reputation There are at least two reasons for this. First, investors of firms with a growth reputation prefer strategies to accelerate growth by pioneering new technologies, disrupting current markets or exploring nascent areas (Benner, 2007; Chan and Lakonishok, 2004). Acquisitions are widely perceived as conduits for rapid growth (Kim *et al*., 2011; McNamara, Haleblian, and Dykes, 2008; Villalonga and McGahan, 2005) as they allow firms to expand into new markets or to improve their market share in existing markets more rapidly than internal efforts (Lee and Lieberman, 2010). Moreover, acquisitions also enable access to new technologies that may help an acquirer to accelerate its growth (Ahuja and Katila, 2001; Kapoor and Lim, 2007).

Therefore, investors of firms with a growth reputation are likely to perceive acquisitions as appropriate vehicles that may enable these firms to exceed their future growth expectations.

Second, a firm with a growth reputation has demonstrated better-than-average capital gains in the past and its investors may be willing to take risks to realize similar or even higher returns in the future (Pfarrer *et al*., 2010). Even though investors may understand that an acquisition is not without risks and costs (Baik, Farber, and Petroni, 2009; Benner and Ranganathan, 2013), they may react to it positively because they consider such bold competitive moves to be vital for increasing market power, expanding market share, and achieving superior growth rates. Therefore, because acquisitions are seen as conduits for accelerating growth, which induce positive sentiments about risky yet aggressive moves to create superior shareholder value, we suggest that investors will react more favorably to an acquisition made by a firm with a growth reputation.

> *Hypothesis 1b. The strength of the acquirer's growth reputation is positively associated with the abnormal stock returns associated with an acquisition announcement.*

The role of substantive and symbolic information in shaping perceptions of expectancy violations

EVT suggests that perceived expectancy violations trigger an evaluation process whereby decision makers try to make sense of the event causing the violation (Burgoon, 1993). Since there is no causal explanation for unexpected events, decision makers seek additional information to make sense of such events (Pyszczynski and Greenberg, 1981). Given that an acquisition may be perceived as a negative or a positive expectation violation, we argue that investors rely on additional sources of information that could help them to reinforce or revise their initial perceptions of whether the acquisition will enable the firm to fulfill their expectations, or prevent it from doing so.

Research in management shows that, when evaluating organizational events, stakeholders use substantive as well as symbolic information cues (Cuypers *et al*., 2016; Goffman, 1974; Westphal and Zajac, 1998). Substantive information cues refer to information regarding a firm's actions that require the use of firm resources. Since substantive cues constitute tangible and observable evidence of how a firm deploys its resources (Fiss and Zajac, 2006), they provide insights to stakeholders about the extent to which a firm is able to meet or exceed their expectations (Cuypers *et al*., 2016). Symbolic information cues refer to signals that convey how managers intend to fulfill stakeholders' expectations (Fiss and Zajac, 2004). Specifically, symbolic cues refer to a firm's use of impression management to convey information about how its actions are intended to serve stakeholder interests (Fiss and Zajac, 2004, 2006; Goffman, 1974). While symbolic cues do not constitute tangible evidence and may be based on "mere talk," they reduce the uncertainty regarding the managerial motives behind a firm's actions, and mitigate concerns about the alignment between the interests of the firm and those of its stakeholders (Westphal and Zajac, 1998).

Acquirer's reputations, target's reputations, and investors' reactions to acquisitions

Because the acquisition of a particular target firm involves the utilization of financial and managerial resources to internalize new capabilities, it represents a resource deployment choice by the acquiring firm (e.g., Capron and Mitchell, 2009). Thus, the organizational capabilities of the target firm, as reflected in its reputation for value creation, may be used by investors as substantive information cues to make sense of why the acquirer is engaging in a specific acquisition. Such sense-making efforts could enable investors to feel more confident in assessing whether the acquirer's intentions represent a divergence from their expectations. For instance, while the acquisition of a target firm with a growth reputation may be interpreted as an attempt to enhance future growth, the acquisition of a target firm with a dividend reputation may be perceived as a desire to improve cash flows.

Although a target firm's dividend and growth reputations may both be considered relevant substantive cues for investors, research in social psychology suggests that when seeking new information to make sense of a perceived expectancy violation, people tend to prioritize information that supports their initial interpretation of an event *i.e,* the *confirmation bias* (Nickerson, 1998; Pyszczynski and Greenberg, 1987). Confirmation bias arises because people want to avoid negative consequences associated with an erroneous initial evaluation (Nickerson, 1998; Pyszczynski and Greenberg, 1987). We therefore argue that when investors perceive an acquisition as a negative expectancy violation, they focus selectively on information about the target firm's reputation confirming their initial interpretation that the acquirer is failing to meet their expectations. Similarly, when investors perceive an acquisition as a positive expectancy violation, they focus selectively on information about the target firm's reputation confirming their initial interpretation that the acquirer is exceeding their expectations. We therefore predict that investors will focus exclusively on the target firm's growth reputation when making sense of an acquisition because, depending on the acquirer's reputation, it may serve as confirmatory evidence for their initial evaluation of an acquisition as either a negative or a positive expectancy violation.

We argue that when investors observe that an acquirer with a dividend reputation has selected a target with a growth reputation, this amplifies their initial concerns about the acquirer's ability to maintain dividend payments in the future. First, the acquisition of a target with a growth reputation implies that the acquiring firm is internalizing new capabilities geared towards expanding into new markets or improving market share in existing markets. While such strategic moves may improve the acquiring firm's competitiveness in the long term, they are unlikely to increase profitability in the short term. This may lead profit-maximizing investors to be concerned that the post-acquisition strain on short-term profitability is likely to be even greater than initially anticipated. Specifically, investors may

perceive that short-term profitability is likely to be compromised not only by the acquisition costs but also by the growth-oriented strategic actions that the acquiring firm is likely to take following the acquisition. Second, the growth reputation of a target may signal to investors that the acquirer intends to shift its strategic priorities from increasing dividend payments to accelerating growth. Such a perception will heighten investors' initial concerns that potential post-acquisition earnings will be allocated to more risky endeavors such as entering new markets, rather than paying dividends. Consequently we argue that, for investors of an acquiring firm with a dividend reputation, a target firm's growth reputation will intensify their initial evaluation that their expectations are being negatively violated.

Hypothesis 2a: A target firm's growth reputation will strengthen the negative association between the acquirer's dividend reputation and the abnormal stock returns associated with an acquisition announcement.

Extending our argument that a firm's growth reputation leads investors to perceive its acquisitions as positive expectancy violations, we suggest that investors will focus selectively on the growth reputation of the target firm when evaluating an acquisition. That is because a substantive information cue of this kind constitutes evidence to confirm investors' initial perceptions that the acquisition is an attempt to exceed their expectations regarding future growth. First, the internalization of growth-oriented capabilities, as implied by the growth reputation of the target firm, will strengthen investors' perceptions that the acquirer is expanding its growth-oriented capabilities. This, in turn, is likely to be perceived as a signal that the firm takes its ambition to accelerate growth seriously. Such signaling reinforces the investors' perceptions that the firm is committed to pursuing value creation through growth. Second, although the acquisition of a high-growth target is a riskier strategic move, it also promises a higher potential payoff than pursuing growth organically (Kim *et al.*, 2011). The acquisition of a high-growth target therefore demonstrates the acquirer's willingness to

embrace high-risk strategies in order to go above and beyond what might be expected by investors to deliver shareholder value. This in turn amplifies the positive investor sentiments induced by the acquisition and leads to even higher abnormal returns.

Hypothesis 2b: A target firm's growth reputation will strengthen the positive association between the acquirer's growth reputation and the abnormal stock returns associated with an acquisition announcement.

Acquirer's reputation, strategic framing, and investors' reactions to acquisitions

Strategic framing refers to purposeful use of impression management by firms to shape audiences' interpretations of a situation more favorably by making specific aspects of reality more salient (Fiss and Zajac, 2006; Giorgi, 2017; Goffman, 1974; Rhee and Fiss, 2014). Strategic framing is a sense-giving attempt by managers to explain to investors how the acquisition is intended to fulfill stakeholders' expectations. It thus constitutes an important symbolic information cue that investors may use to supplement their sense-making about the acquisition. Acquisition announcements are the primary means through which managers communicate their views about an acquisition to investors. By making particular aspects of an acquisition more salient through framing in the acquisition announcement (Goffman, 1974), managers may align investors' sense making more closely with their own view of how the acquisition is intended to generate outcomes that exceed the investors' expectations.

Although we suggested that investors are susceptible to confirmation bias when processing substantive information cues, we argue that this bias has a weaker effect when they are processing symbolic information cues. There is less likelihood of confirmation bias when people lack confidence in their initial evaluation of a situation (Schulz-Hardt, Frey, Lüthgens, and Moscovici, 2000; Yin, Mitra, and Zhang, 2016). Investors usually possess more restricted information compared to managers regarding underlying motives of an acquisition and its potential to realize synergistic gains (Schijven and Hitt, 2012). This

information asymmetry reduces investors' confidence in evaluating the potential

consequences of an acquisition for their expectations from the acquiring firm, and motivates

them to "focus on signals that can serve as a proxy for management's informed perception of

the focal acquisition's synergistic potential" (Schijven and Hitt, 2012 p. 1251). Thus, reduced

confidence in their own sense making of acquisitions may make investors willing to embrace

managers' sense giving regarding the intentions behind the acquisitions and their likely

consequences, even when these do not confirm investors' initial interpretations.

The different expectations of investors from acquirers with a dividend or growth

reputation makes them sensitive to information in an acquisition announcement that

highlights particular aspects of the acquisition that are relevant to dividend payments or

growth. Thus, through framing, acquirers with a dividend reputation may offset investors'

concerns that the acquisition will have a negative impact on dividend payments. Similarly,

acquirers with a growth reputation may reinforce investors' interpretations of an acquisition

as a strategic move enabling the firms to exceed their expectations about future growth.

Dividend framing refers to providing information in an acquisition announcement

regarding how the acquisition is intended to enhance current and future dividend payments.

We suggest that the use of dividend framing by acquirers with a dividend reputation can help

mitigate the extent to which investors perceive an acquisition as a negative expectancy

violation. Indeed, many acquisitions are made to improve margins through consolidation

efforts and operational synergies (Harrison, Hitt, Hoskisson, and Ireland, 1991; Walter and

Barney, 1990). Others are initiated to reduce risks by diversifying cash flow streams or

gaining access to capital markets (Rabier, 2017). Highlighting such motives in an acquisition

announcement may attenuate investors' concerns that the acquisition will put a strain on

short-term profitability. Furthermore, providing explicit information about how the

acquisition is intended to improve or maintain future profitability may reduce investors'

uncertainty regarding the consequences of the acquisition. In sum, we argue that, by using dividend framing in an acquisition announcement, an acquiring firm may encourage investors to embrace the importance and usefulness of the acquisition, despite its dividend reputation. This may then lead investors to revise their initial interpretations that the acquiring firm is committing a negative expectancy violation.

Hypothesis 3a: Dividend framing will weaken the negative association between the acquirer's dividend reputation and the abnormal stock returns associated with an acquisition announcement.

Growth framing refers to providing information in an acquisition announcement regarding how the acquisition is intended to accelerate future growth, for example, by expanding innovation capabilities, disrupting current markets or exploring new markets (Benner, 2007; Chan and Lakonishok, 2004). Although we have suggested that an acquirer's growth reputation will lead investors to evaluate acquisitions favorably, managers could use the opportunity to manage investors' expectations upwards in terms of the growth-creating potential of an acquisition. Specifically, managers could present the acquisition as a critical and non-substitutable element for their growth aspirations and their vision of rapid expansion. Indeed, managers could justify diverting scarce managerial attention away from alternative growth opportunities (Graham, Harvey, and Puri, 2015) by presenting the acquisition as a unique opportunity to take a big leap forward – for example, by establishing first-mover advantages, which would not have been possible by other means (Kim et al., 2011). Such interpretations of the acquisition cast it in a new and more positive light, presenting it as a means to exceed investors' expectations to an even greater extent.

Including in the acquisition announcement specific information about the necessary risk of making the acquisition could also boost investors' enthusiasm and help them to see the acquisition in a different light, as having a strategic intent that may exceed their expectations.

For instance, stressing the innovative nature of the target firm and its potential to pioneer new markets rapidly could shape investors' perceptions of the necessity and urgency of engaging in a risky acquisition. Such growth ambitions might have been insufficiently appreciated by investors without the managers explaining this explicitly by the growth framing in the acquisition announcements. Growth framing therefore strengthens the investors' perceptions of the firm's commitment to pursuing value creation through growth, and this will heighten the positive sentiments induced by the acquisition.

Hypothesis 3b: Growth framing will strengthen the positive association between the acquirer's growth reputation and the abnormal stock returns associated with an acquisition announcement.

METHODS

Sample and data sources

We tested our hypotheses using a sample of acquisitions completed by S&P 500 firms between 2000 and 2015, all of which involved 100% ownership. We collected data relating to deals, acquirers and targets from the SDC Platinum database. We used Compustat to obtain industry-related data as well as the financial ratios used to compute the strength of the acquirer's and the target's dividend and growth reputations. Following earlier research, we used Fortune magazine and the Wall Street Journal to gather data on the acquirer's general reputation. We obtained stock price data from the CRSP database to construct our dependent variable. We collected acquisition announcements manually from Factiva, LexisNexis and the websites of the acquiring firms. Data on investor sentiment was obtained from <http://www.stern.nyu.edu/~jwurgler>. After excluding observations with missing data, our final sample consisted of 462 acquisitions announced by 227 unique acquirers.

Dependent variable

Abnormal stock returns. We measured our dependent variable using cumulative abnormal

returns (*CAR)* associated with an acquisition announcement and used the standard event study methodology (Haleblian *et al.*, 2009). CAR represent unanticipated returns to a stock resulting from a certain event – in this case an acquisition. To calculate CAR, we first estimated the following asset-pricing model using historical data from a 250-day period preceding an acquisition announcement:

$$r_{it} = \alpha_i + \beta r_{mt} + \varepsilon_{it}$$

Here r_{it} denoted returns for firm i on day t, r_{mt} denoted corresponding daily returns on the CRSP value-weighted index, and ε_{it} was distributed i.i.d. We then used the estimates from the asset-pricing model to calculate predicted returns over a three-day period around the acquisition announcement date (-1, 1), *i.e*., the 'event window'. Using a short event window mitigated the risk of including confounding events within the event window (McWilliams and Siegel, 1997). Next, we calculated abnormal returns within the event window by subtracting the predicted returns from the actual returns. Finally, we calculated CAR as the sum of abnormal returns within the event window. We also tested our results with alternative event windows, e.g., (-2, 2) and (0, 1), and found that they remained largely consistent.

Explanatory variables

Dividend and growth reputation of the acquirer and the target firm. We measured the strength of the dividend and growth reputations using observable financial indicators. While a firm's reputations such as its dividend and growth reputation represent an intangible asset (Parker *et al*., 2019), they are rooted in investors' cautious and analytical evaluations of a firm's prior track record and its observable strategic choices (Basdeo *et al*., 2006; Ravasi, Rindova, Etter, and Cornelissen, 2018). That is, a reputation originates from the extrapolation of observations from the recent past through which investors develop their perceptions and expectations of a firm (Chan and Lakonishok, 2004; Mishina *et al*., 2012), and managers seek to ensure that observable financial indicators remain path-dependent to signal a commitment

to a particular means of creating value (Brav *et al*., 2005). Therefore, past values of financial indicators pertaining to value creation through the payment of dividends and achieving growth constitute appropriate proxies for a firm's dividend and growth reputation respectively. We measured the strength of an acquirer's or a target's *dividend reputation* by their dividends per share (DPS) paid in the year prior to a focal acquisition. DPS has been shown to provide the clearest indication to investors about a firm's commitment to dividend payments (Brav *et al*., 2005). We measured the strength of an acquirer's or target's *growth reputation* by their sales growth over three years preceding the year of a focal acquisition.

Dividend and growth framing. Dividend and growth framing measure the degree to which the information released in acquisition announcements pertains to how a focal acquisition is intended to enhance dividend payments and future growth, respectively. To measure the extent of dividend framing and growth framing used by acquirers, we conducted a quantitative content analysis of the acquisition announcements in our sample. Content analysis is an appropriate technique for capturing strategic framing targeted at investors (Fiss and Zajac, 2006). To measure both types of strategic framing, we first developed dividend and growth dictionaries that included specific words that could be interpreted by investors as related to ensuring dividend payments or realizing future growth. Our dividend dictionary consisted of the words *dividend*, *safe*, *stable*, *maintain, cash flow, steady*, and all of their forms and derivatives. Our growth dictionary consisted of the words *grow*, *expand, innovate, rise, pioneer, dynamic, rapid, fast*, and all of their forms and derivatives. For example, forms and derivatives of the word 'grow' that were also included in our growth dictionary were "growing", "growth", "grows," etc. Then, we calculated the percentage of "dividend words" and "growth words" in each acquisition announcement. Thus:

Dividend framing = (number of "dividend words" in the acquisition announcement/ total number of words in the acquisition announcement) * 100

Growth framing = (number of "growth words" in the acquisition announcement/ total number of words in the acquisition announcement) * 100

The illustrative example provided below contains 6.25% dividend framing (= (3 **dividend words**/ 49 *total words*)*100) and 4.17% growth framing (= (2 <u>growth words</u>/49 *total words*)*100) from our sample:

> *"We're pleased that this all-stock transaction offers NHP shareholders a premium and also the opportunity to participate in the combined company's future prospects for **dividends** and <u>growth</u>… The combined company will enjoy the **stability** of triple-net lease assets and higher <u>growth</u> apartment-like **cash flows** from seniors housing operating assets."* – Ventas Inc., 2011.

To ensure the validity of our two framing variables, we followed previously recommended procedures for content analysis when developing our dictionaries (Short, Broberg, Cogliser, and Brigham, 2010). First, we identified words commonly used in academic and practitioner literature to refer to investors' expectations about firms with growth and dividend reputations (e.g., Aghion and Stein, 2008; Benner, 2007; Benner and Ranganathan, 2013; Brealey *et al*., 2014). We also verified the terms included in the two dictionaries with 34 academics specializing in finance, most of whom invested in stocks and were very familiar with dividend and growth reputations. Only words that were verified by at least 70% of these experts as relating unambiguously and exclusively to ensuring dividend payments or firms' future growth were retained in the final dictionaries (Short *et al*., 2010). To ensure a high reliability for our measure, we undertook computerized text analysis using the DICTION software, which produced a word count for our various dividend and growth words and a total word count for each announcement.

To further test the validity of our measures, we trained two PhD candidates to manually code a random subsample of 115 acquisition announcements, which represented

approximately 25% of our final sample. The coders rated the extent of dividend and growth framing in each announcement on a three-point scale, where zero was "no framing," one was "framing was mentioned," and two was "framing was emphasized" (Uotila, Maula, Keil, and Zahra, 2009). The coders were provided with broad definitions for dividend framing and growth framing rather than the actual dictionaries in order to prevent manual replication of the DICTION-generated word counts used to compute our variables. The inter-rater reliability was high; 0.76 for dividend framing and 0.70 for growth framing. The manually coded variables had a positive and strong correlation with the framing variables used in this study, i.e. 0.55 for the dividend framing measures and 0.67 for the growth framing measures.

Control variables

We controlled for a range of factors that might influence our results. Six variables controlled for acquirer characteristics. *Acquirer size* was measured by the logarithm of the number of employees. *Acquirer cash flow* was computed as: "(*operating income – taxes - interest expense – depreciation - common and preferred stock dividends*)/*common equity*" (Graffin *et al*., 2016: 243). We also controlled for *acquirer ROA* (return on assets) and *acquisition experience*, measured by the logarithm of the number of acquisitions made by the acquirer in the three years preceding a focal acquisition (Campbell *et al*., 2016). We further controlled for two acquirer characteristics which might shape the acquirer's reputation for specific strategic activities, and thus the investors' expectations of the acquirer; these characteristics were *acquirers' engagement in horizontal acquisitions* and *acquirers' restructuring efforts* (Bergh, Johnson, and Dewitt, 2008; Capron, Mitchell, and Swaminathan, 2001). We measured the first as the logarithm of the number of firms acquired by the acquirer over the previous three years that shared the same three-digit SIC code as the acquirer (Capron *et al*., 2001). We measured the second as the logarithm of the number of divestitures made by the acquirer in the three years preceding a focal acquisition (Bergh *et al*., 2008). Finally, *acquirer*

value creation reputation was included as a dummy variable, which took the value of one if the acquirer was included in Fortune's Most Admired or the Wall Street Journal and Harris Interactive's corporate reputation rankings, and zero otherwise (Graffin *et al*., 2016).

We controlled for eight target firm characteristics that may affect abnormal stock returns to acquisitions (Campbell *et al*., 2016; Graffin *et al*., 2016). The first two of these are *target size*, measured by the logarithm of the number of employees, and *target ROA*. *Target relatedness* was the sum of primary relatedness and secondary relatedness. Primary relatedness took the value of six, four or two respectively if there was a match between the acquirer and target firm in terms of their primary SIC codes based on their four-, three-, and two-digit codes. Similarly, secondary relatedness took the value of three, two, or one if any of the secondary SIC codes matched based on the four-, three-, and two-digit SIC codes (Laamanen, Brauer, and Junna, 2014). Thus, target relatedness took values of between zero and nine. *Domestic target* was coded as one if the target was based in the US, and zero otherwise. *Private target* was coded as one for a private target firm, and zero otherwise. *High-tech target* took the value of one if the target's three-digit SIC code was 357, 365, 366, 367, 381, 382, 384, 386, 481, 482, 484, 489, or 737, and zero otherwise (Li *et al*., 2008). We also controlled for the characteristics of the industry in which the target was operating. We regressed time on industry sales, based on the three-digit SIC code of a target, for a period of five years, with the last year being the year before the acquisition. *Target industry dynamism* was the standard error of the regression coefficient used in the regression, and *target industry munificence* was the regression coefficient itself, both scaled by the average industry sales for the five years used in the regression (McNamara *et al*., 2008). *Target industry concentration* was the combined market share of the four largest competitors in the target firm's industry.

We included four deal characteristics in our regression models following prior research, namely *deal value* (logarithmically transformed); *premium*, which was the percentage

difference between the price per share paid by the acquirer for the target firm and the share price of the target one week prior to the acquisition announcement; *percentage of stock payment*; and *friendly acquisition*, coded as one if the acquisition was classified as friendly in SDC, and zero otherwise (Campbell *et al*., 2016).

We also controlled for two more types of framing that could signal shareholder value creation in acquisition announcements. First, we included *shareholder value framing*, measuring the number of references to "shareholder value" (or derived forms) relative to the total number of words in the announcement calculated as a percentage (Fiss and Zajac, 2006). Second, as the idea of strategic fit could shift investors' interpretation of the acquisition as "good" or "bad" (Campbell *et al*., 2016), we included *strategic fit framing*, this being measured as a percentage of the number of references to "strategic fit" relative to the total number of words in the announcement.

Lastly, we included the *announcement length*, measured as the logarithm of the number of words used in the announcement, *investor sentiment* for the month prior to the acquisition announcement, which we measured using an index developed and validated by Baker and Wurgler (2006), and *year dummies* to rule out year-specific effects. Several outliers in terms of the target firms' dividend and growth reputations and dividend and growth framing were winsorized, but using the original values instead did not change our results.

Estimation method

When estimating our models we accounted for possible selection bias, which could affect our results for two reasons. First, there may be systemic differences between S&P 500 firms that made acquisitions and those that did not. Second, firms with dividend or growth reputations may have systemically different tendencies to make acquisitions. To correct for potential sample selection bias, we used a Heckman two-stage estimation procedure (Certo, Busenbark, Woo, and Semadeni, 2016). We constructed a sample of all S&P 500 companies

for the period of our study and identified whether they had made at least one acquisition during that period, as recorded in the SDC Platinum database. In the first stage of the Heckman procedure, we ran a random-effects probit regression predicting the likelihood of an acquisition while controlling for firm and time effects. We used as an exclusion restriction the *industry acquisition activity* in the previous year, measured as the number of acquisitions made by firms within a specific three-digit SIC code. Industry acquisition activity was an appropriate exclusion restriction for measuring firms' tendencies to acquire, because firms tend to imitate their competitors' acquisitions, as evidenced by acquisition waves (Haleblian, Kim, and Rajagopalan, 2006; McNamara *et al*., 2008). As shown in Appendix Table 1, our instrument was positively associated with the likelihood of an acquisition ($b = 0.001$, $p = 0.000$). The weak correlations between the computed *Inverse Mills ratio* and the two variables of interest – namely dividend reputation ($r = -0.11$) and growth reputation ($r = -0.03$) – suggested that our exclusion restriction was of acceptable strength (Certo *et al*., 2016). In the second stage, we tested all our hypotheses using OLS regression and included the Inverse Mills ratio, which accounts for possible selection bias. We clustered standard errors by acquirers to account for multiple occurrences of some acquirers in our sample.

RESULTS

The descriptive statistics and correlations are presented in Table 1. Consistent with the widespread observation that acquisitions typically elicit lower abnormal stock returns for the acquirer, we observed an average negative CAR (-1, 1) of -0.8%. The dividend and growth reputations of acquirers ($r = -0.22$) and those of target firms ($r = -0.07$) were negatively and weakly correlated, which is consistent with our conceptualization that these two reputations are distinct from each other but may coexist. Also, acquirers did not always select targets with reputations similar to theirs, nor did they attempt to frame acquisitions as being consistent with their reputations. Indeed, the correlations between acquirer and target

dividend reputations ($r = 0.21$) as well as between acquirer's dividend reputation and dividend framing ($r = 0.26$) were relatively weak. The correlations between acquirer's and target's growth reputations ($r = 0.13$), and between acquirer's growth reputation and growth framing ($r = -0.03$) were even weaker. Regarding strategic framing, dividend framing was used in 173, growth framing in 406, and neither type of framing in 48 announcements. The averages are 0.126 % for dividend framing and 0.697 % for growth framing, suggesting that acquirers used growth framing about five times more than dividend framing.

The regression models predicting CAR (-1, 1) are presented in Table 2. The two independent variables and moderators were mean-centered. All the variance inflation factors were below 10, suggesting that multicollinearity did not affect our results. The Inverse Mills ratio did not have a discernible effect on CAR in any of the models, indicating no evidence of potential sample selection bias (Certo *et al.*, 2016). Model 1 included the control and moderator variables. Of those, deal value ($b = -0.624$, $p = 0.010$), percentage of stock payment ($b = -0.015$, $p = 0.065$) and investor sentiment ($b = 1.801$, $p = 0.063$) predicted abnormal stock returns to the acquisition announcement. Neither target reputations ($b_{target\ dividend\ reputation} = 0.452$, $p = 0.341$; $b_{target\ growth\ reputation} = 0.534$, $p = 0.213$) nor strategic framing ($b_{dividend\ framing} = -0.287$, $p = 0.837$; $b_{growth\ framing} = 0.194$, $p = 0.602$) had any material effect on CAR by themselves, which is consistent with our theory that the way in which substantive and symbolic cues are interpreted by investors depends on the acquirer's reputation.

In Model 2 the acquirer's dividend and growth reputations were added to test Hypotheses 1a and 1b. Contrary to our predictions, the acquirer's dividend reputation was positively, not negatively, associated with CAR ($b = 0.707$, $p = 0.060$). When an acquiring firm's dividend reputation was strengthened by one standard deviation ($SD = 0.710$), CAR increased by 0.50%, which represented an increase of more than $240 million in monetary terms, given the $48.3 billion average market capitalization of our sample firms. Consistent with our

predictions, the acquirer's growth reputation was positively associated with CAR (b = 1.083, p = 0.001). An increase of one standard deviation in the strength of the acquirer's growth reputation (SD = 0.855) resulted in 0.93% increase in CAR, which for the firms in our sample represented a boost of almost $450 million on the announcement of an acquisition. Overall, we found empirical support for Hypothesis 1b but not for Hypothesis 1a.

Insert Tables 1 and 2 about here

To test Hypotheses 2a and 2b we added to Model 3 the interaction terms between acquirer's dividend reputation and target's growth reputation, and also between acquirer's growth reputation and target's growth reputation. The coefficient for the interaction term between acquirer's dividend reputation and target's growth reputation was negative and precisely estimated (b = -1.464, p = 0.003). The coefficient for the interaction term between acquirer's growth reputation and target's growth reputation was indistinguishable from zero (b = 0.641, p = 0.249). To illustrate the moderation effect of target's growth reputation on the relationship between acquirer's dividend reputation and CAR, in Figure 1 we plotted the corresponding slopes of acquirer's dividend reputation (between two SD below and above the mean) for strong (2 SD above the mean) and weak (2 SD below the mean) values of the target's growth reputation.

The plot in Figure 1 provides valuable insights into the relationship between acquirer's dividend reputation and CAR as predicted in Hypothesis 1a. Although the test of this hypothesis revealed that on average there was not a negative association between acquirer's dividend reputation and CAR, the plot in Figure 1 indicates such a negative association conditional to high levels of target growth reputation. More specifically, the plot shows that acquirer's dividend reputation and CAR were negatively associated, as predicted by Hypothesis 1a, when target's growth reputation was strong, but positively associated when

target's growth reputation was weak. The point of intersection for the two slopes was 0.445 SD above the mean of the acquirer's dividend reputation. This means that acquirers with a relatively strong dividend reputation (in our sample, acquirers who paid more than 1.05 dollars DPS) would generate higher stock market returns upon announcing an acquisition if they selected a target with a weaker growth reputation. Overall, these findings provide partial support for Hypothesis 2a and no support for Hypothesis 2b.

We added in Model 4 the interaction terms between acquirer's dividend reputation and dividend framing, as well as between acquirer's growth reputation and growth framing to test Hypotheses 3a and 3b. The coefficient for the interaction term between acquirer's dividend reputation and dividend framing was positive and precisely estimated ($b = 3.729$, $p = 0.012$), as was the coefficient between acquirer's growth reputation and growth framing ($b = 1.142$, $p = 0.015$). To illustrate our findings, we plotted the moderating effects in Figures 2 and 3. In each figure, we presented the corresponding slopes for acquirers' growth and dividend reputations for high (2 SD above the mean) and low (2 SD below the mean) values of the corresponding framing variables.

The plot in Figure 2 revealed that acquirer's dividend reputation and CAR were negatively associated, as predicted by Hypothesis 1a, when dividend framing was weak, but positively associated when dividend framing was strong. This suggests that the negative association between an acquirer's dividend reputation and CAR as predicted in Hypothesis 1a is conditional on low levels of dividend framing. The point of intersection between the two slopes was 0.882 SD above the mean of acquirers' dividend reputation. This means that acquirers with a relatively strong dividend reputation (in our sample, acquirers who paid more than 1.36 dollars DPS) would generate higher abnormal stock returns if they used high rather than low levels of dividend framing in their acquisition announcements. These findings provided partial support to Hypothesis 3a.

The plot in Figure 3 showed a slight negative association between acquirer's growth reputation and CARs when acquirers used low levels of growth framing in acquisition announcements, and a strong positive association when they used high levels of growth framing. The point of intersection between the two slopes was 0.311 SD below the mean of the acquirer's growth reputation. This means that even acquirers with a relatively weak growth reputation (in our sample, acquirers with sales growth of at least 20% over the three years preceding a focal acquisition) would generate abnormal stock returns by using high rather than low levels of growth framing in their announcements. These findings provided support for Hypothesis 3b.

Insert Figures 1, 2 and 3 about here

Robustness tests for alternative measurements of dividend and growth framing

We ran several robustness tests with alternative operationalizations of our dividend and growth framing variables. First, we allowed for the possibility that words used in dividend and growth framing might carry different weights with investors. The most salient words, which were "dividend" for dividend framing and "growth" for growth framing, were given a weight of 1. The rest of the words from the dividend and growth dictionaries were given a weight of 0.5. Using these weighted framing measures yielded consistent results about the interaction effect between acquirer's reputations and framing ($b_{\text{acquirer dividend reputation x weighted dividend framing}} = 5.226$, $p = 0.019$; $b_{\text{acquirer growth reputation x weighted growth framing}} = 1.380$, $p = 0.009$). Second, we created dividend and growth framing indices, which incorporated the depth and breadth of dividend and growth framing. The depth was captured by our original measure. The breadth was meant to capture the variety of dividend- and growth-related topics covered in each announcement, and was measured as the proportion of words from the dividend and growth dictionaries used in each announcement to the total number of words in the dividend

and growth dictionaries respectively. The framing breadth and depth measures were standardized and added together to create overall growth and dividend framing indexes. Using these measures also yielded consistent conclusions about the moderating effect of framing on the association between acquirer's reputation and abnormal stock returns to acquisition announcements (b $_{acquirer\ dividend\ reputation\ x\ dividend\ framing\ index}$ = 0.402, p = 0.031; b $_{acquirer\ growth\ reputation\ x\ growth\ framing\ index}$ = 0.252, p = 0.044).

Robustness tests for the exogeneity of dividend and growth framing

A potential concern for our hypothesis tests was whether our framing variables were exogenous. To address this, we used a two-stage least squares (2SLS) regression (Semadeni, Withers, and Certo, 2014). In the first stage we estimated dividend and growth framing in separate regressions, using all control variables and carefully selected instruments. As an instrument for dividend framing, we used the percentage of dividend-paying firms within the acquirer's three-digit SIC code that cut their dividends per share in the year preceding the acquisition as dividend cuts by industry peers are likely to predict decreases in the use of dividend framing (Brav *et al*., 2005). As an instrument for growth framing, we used the one-year sales growth rate for firms within the S&P 500 index for the quarter preceding the acquisition, because S&P 500 firms pay more attention to each other than to their industry peers (Denis, McConnell, and Ovtchinnikov, 2003). We reported our results in Appendix Table 2. Our instruments for dividend framing (Model 1: b = -0.018, p = 0.047) and growth framing (Model 2: b = 2.625, p = 0.006) were strong predictors of the respective framing variables, and thus satisfied the selection criteria. In the second stage of our 2SLS regression, we predicted CAR using all the control variables, the framing variable of interest, and the corresponding framing residual from the first-stage regression. We performed the Durbin–Wu–Hausman (DWH) test to assess the precision of the coefficient of the first-stage framing residuals in the second-stage regression, and to check therefore whether dividend and growth

framing were in fact exogenous. If the coefficient for the residuals was indistinguishable from zero, the estimates from OLS could be deemed consistent and we should not correct any further for endogeneity (Semadeni *et al*., 2014). We did not find evidence of endogeneity regarding dividend (DWH = 1.122, *p* = 0.263) or growth framing (DWH = -0.699, *p* = 0.486), meaning that the results in Table 2 are unbiased and consistent.

DISCUSSION

We built a contingency model that distinguishes between an acquirer's dividend and growth reputation to better understand why and under what circumstances investors may react positively or negatively to an acquisition announcement. We found that an acquisition generates more positive abnormal returns not only when an acquirer has a growth reputation, but also when it has a dividend reputation. In addition, we showed that substantive and symbolic cues influence the interpretative processes of investors in such a way that investors ultimately reinforce or revise their initial opinions about an acquisition by a firm with a dividend or a growth reputation. Overall, our findings have important implications for research on investors' reactions to acquisitions and on EVT and impression management.

Theoretical implications

First, our work provides important implications for our understanding of investors' varied reactions to acquisitions (Campbell *et al*., 2016; Schijven and Hitt, 2012). Although earlier studies have argued almost exclusively that acquisitions violate the expectations of investors, and have therefore suggested that investors typically react negatively to acquisition announcements (Graffin *et al*., 2016), few have examined the underlying reasons why investors may react positively to acquisitions, and the circumstances in which they do so (Campbell *et al*., 2016). Moreover, earlier work on investors' reactions to acquisitions has assumed that their perceptions of the value of acquisitions are similar for particular groups of firms, such as those with a high reputation (Haleblian *et al.*, 2017). Our framework, however,

offers a more nuanced perspective on investors' expectations and their reactions to acquisitions by showing that investors do not universally perceive acquisitions as negative expectancy violations because of their ambiguous outcomes (Haleblian *et al.*, 2009). Rather, perceived expectancy violations arising from acquisitions may vary because the specific ways in which an acquirer has created shareholder value in the past give rise to different expectations. More specifically, when firms are known for distinct ways of creating shareholder value, this shapes the evaluative processes of investors in such a way that, for some acquiring firms, they may not only consider an acquisition to be a superior vehicle for generating value over time but may also downplay the potential downside of allocating resources to acquisitions. This implies that varied expectations about subsets of firms need to be taken into account in order to bring together both negative as well as positive predictions of EVT in the context of acquisitions (Campbell *et al.*, 2016).

While our results show that, on average, firms' dividend reputation leads to positive reactions from investors, rather than to the negative reactions we predicted, we found that the positive effect of firms' growth reputation on investor reactions is much more precisely estimated than that of dividend reputation. Our findings also reveal that investors' reactions become negative when the target firm has a growth reputation, and when dividend framing is not used strongly in the acquisition announcement. Taken together, these results are consistent with our conceptual framework as well as with prior research on reputation. More specifically, these findings suggest that, as any type of reputation, dividend reputation leads investors to give managers "the benefit of the doubt" (Zavyalova *et al*., 2016), but only up to a certain point. That is, despite the potential negative impact of acquisitions on dividends, investors do not perceive all acquisitions of firms with a dividend reputation as a negative expectancy violation. Rather, the perception of a negative expectancy violation is contingent on the nature of substantive and symbolic information cues that investors process in

conjunction with an acquirer's dividend reputation. Specifically, such perception manifests itself when investors observe acquiring firms internalizing new capabilities that they perceive to be incompatible with the perpetuation of dividends, as implied by the growth reputation of target firms, and when acquirers fail to explain to investors how the acquisition is intended to enhance dividends. Overall, these findings support our contention that firms' growth and dividend reputations give rise to different expectations from investors by revealing important boundary conditions of EVT.

Second, by examining how both substantive and symbolic information cues shape the evaluative processes underlying investors' reactions to acquisitions, we contribute to newly emerging work on the intersection between EVT and research on impression management (Graffin *et al*., 2016; Rhee and Fiss, 2014). While earlier studies have focused only on how firms may offset negative expectancy violations by providing symbolic cues to stakeholders, we show that both substantive and symbolic cues influence investors' perceptions of expectancy violations, albeit in different ways. Specifically, while symbolic cues in terms of dividend and growth framing influence investors' interpretations of an acquisition as either a positive or a negative expectancy violation, substantive cues regarding a target's growth reputation only affect perceptions of negative expectancy violations. This suggests that investors take much less account of substantive cues when interpreting an acquisition as a positive expectancy violation – for example, when both the acquiring and the target firm have a growth reputation. This implies that, to better understand the boundary conditions of EVT in explaining reactions to negative and positive expectancy violations, scholars should differentiate between the influence of substantive and symbolic cues. Specifically, insights about the role of substantive cues in the context of negative expectancy violations may not be readily extendable to situations in which the goal is to explain their influence on interpretative processes pertaining to positive expectancy violations.

Moreover, most research on strategic framing has been done in contexts that involve unambiguously negative events (e.g., Elsbach, 1994; Zavyalova *et al*., 2012). This exclusive focus on negative events has limited our understanding of how framing affects a broader range of perceived expectancy violations. By focusing on acquisitions, which can be interpreted both positively and negatively, we are able to demonstrate that framing can be effectively used not only to attenuate perceptions of negative expectancy violations, but also to reinforce perceptions of positive expectancy violations. This suggests that framing could be a more powerful impression management tool for mangers than previously indicated.

Our findings also have implications for broader research on impression management. Even though scholars have examined how firm characteristics may encourage the use of impression management (Gamache *et al*., 2019; Graffin *et al*., 2016), they have not considered the implications of such characteristics for the effectiveness of the impression management per se. Instead, they have focused on identifying impression management techniques and the usage of frames in general (Fiss and Zajac, 2006; Pan *et al*., 2018). Our findings, however, show that growth and dividend framing do not have a direct effect on how investors evaluate acquisitions, but rather shape the interpretative processes of investors in conjunction with the acquirer's specific reputation for value creation.

Practical implications

Our findings have important implications for investors and managers. We found that investors evaluated acquisitions differently, depending on the way a company created shareholder value – either through dividends (dividend reputation) or through capital gains (growth reputation). Investors seemed to favor acquisitions made by acquirers with a growth reputation, and rewarded them almost twice as much as acquisitions made by those with a dividend reputation, likely due to their past success in generating exponential growth. However, past success does not necessarily guarantee that all decisions will bring similar

success in the future (Chan and Lakonishok, 2004). We therefore urge investors to be aware of such biases and to evaluate acquisitions by high-growth firms on their own merits.

Our findings also underscore the importance of the framing being consistent with the acquirer's dividend or growth reputation. Hence, we encourage firms that are announcing an acquisition to provide explicit information to investors regarding how the acquisition is intended to create additional value for shareholders, taking into account the current dividend and/or growth reputation of their firm. In addition, our findings reveal that investors might penalize firms with a dividend reputation when they acquire a target with a growth reputation. As such, we urge firms with a dividend reputation to weigh up the potential benefits and drawbacks before deciding to acquire a high-growth target.

Limitations and directions for future research

Our findings provide valuable opportunities for future research. For instance we have shown that looking at firms' growth and dividend reputations has the potential to enrich our understanding of how external audiences interpret firms' actions. However, firms can have multiple reputations, including for being diversified or focused, environmentally friendly, or high-technology oriented. Those multiple reputations might lead to fuzziness in the minds of audiences as to what might be expected of the firm (Parker *et al.*, 2019). Therefore, a fruitful next step would be to study how audiences integrate and prioritize their expectations when they evaluate firms' initiatives.

Due to the nature of our research question, we focused on the consequences rather than the antecedents of framing. Specifically, we were not able to differentiate between framing that was used as an impression management technique, and framing that was the product of managerial sense-making efforts. Given that research has suggested both of these are possible (Kaplan, 2008), a useful venue for future research would be to differentiate between the two, and to investigate the implications of this distinction for the effectiveness of framing. We

hope our theory and analyses will stimulate further research on how investors form their perceptions about acquisitions and on contingencies that shape these perceptions.

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Table 1. Descriptive statistics and correlations

Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1 CAR (-1, 1)	-0.008	0.045	1.00															
2 Acquirer dividend reputation	0.735	0.710	0.04	1.00														
3 Acquirer growth reputation	0.477	0.855	0.08	-0.22	1.00													
4 Target dividend reputation	0.216	0.472	-0.03	0.21	-0.02	1.00												
5 Target growth reputation	0.733	0.528	0.04	-0.02	0.13	-0.07	1.00											
6 Dividend framing	0.126	0.225	-0.11	0.26	-0.02	0.20	-0.06	1.00										
7 Growth framing	0.697	0.499	0.01	-0.01	-0.03	-0.08	0.15	0.07	1.00									
8 Acquirer size	3.395	1.342	0.12	0.26	-0.26	-0.06	0.08	-0.08	0.01	1.00								
9 Acquirer cash flow	0.438	0.783	0.01	0.01	-0.03	-0.02	0.00	-0.08	-0.05	0.04	1.00							
10 Acquirer ROA	0.069	0.062	0.09	-0.10	0.06	-0.11	0.14	-0.13	0.06	-0.02	-0.08	1.00						
11 Acquisition experience	2.224	1.028	0.13	0.02	0.01	-0.04	0.16	-0.20	-0.12	0.55	0.03	-0.01	1.00					
12 Engagement in horizontal acquisitions	0.865	0.787	0.09	-0.13	0.19	-0.06	0.10	-0.11	-0.08	0.11	0.00	0.17	0.46	1.00				
13 Acquirer restructuring efforts	1.275	0.990	0.03	0.29	-0.10	0.05	0.05	0.00	-0.09	0.57	0.00	-0.10	0.54	0.13	1.00			
14 Acquirer value-creation reputation	0.106	0.308	0.06	0.16	-0.08	-0.06	0.08	-0.12	0.00	0.44	0.03	0.13	0.36	0.07	0.40	1.00		
15 Target size	7.043	1.686	-0.07	0.17	-0.07	0.25	0.10	0.29	0.08	0.36	0.00	-0.10	0.09	-0.04	0.15	0.07	1.00	
16 Target ROA	0.859	0.732	0.05	-0.15	-0.05	-0.15	0.06	-0.02	0.06	0.18	-0.06	0.04	-0.05	-0.11	-0.06	-0.04	0.12	1.00
17 Target relatedness	5.491	3.237	-0.05	-0.08	0.15	0.14	-0.01	0.10	-0.12	-0.30	0.07	-0.03	-0.19	0.19	-0.17	-0.20	0.02	-0.18
18 Domestic target	0.920	0.272	-0.07	0.10	-0.01	0.05	0.08	0.05	0.17	-0.03	0.04	0.01	-0.04	0.07	-0.06	-0.08	0.03	-0.04
19 Private target	0.006	0.080	0.03	0.00	0.01	-0.01	-0.01	0.01	0.08	-0.03	0.00	0.02	-0.03	0.01	-0.07	-0.03	0.00	0.01
20 High-tech target	0.411	0.493	0.05	-0.16	-0.09	-0.27	0.02	-0.12	0.05	0.08	0.01	0.13	0.23	0.13	0.02	0.10	-0.14	0.03
21 Target industry dynamism	0.021	0.016	-0.03	0.05	0.05	0.09	-0.12	0.04	0.00	-0.11	0.00	-0.17	-0.04	0.01	0.02	0.05	-0.04	-0.04
22 Target industry munificence	0.057	0.059	-0.05	-0.03	0.19	-0.02	0.18	-0.05	-0.08	0.04	-0.03	0.06	0.11	0.03	0.10	0.03	-0.02	0.07
23 Target industry concentration	0.485	0.201	0.08	-0.06	-0.07	0.01	0.05	0.05	0.02	0.11	0.00	0.02	-0.07	-0.10	-0.03	0.05	0.23	0.44
24 Deal value	6.801	1.710	-0.13	0.20	0.04	0.28	0.14	0.27	0.18	0.13	0.07	0.05	-0.01	0.04	0.08	0.08	0.68	-0.21
25 Premium	0.351	0.347	-0.02	0.02	-0.05	-0.13	-0.03	-0.06	0.03	0.04	0.00	0.09	-0.07	0.01	0.02	0.01	-0.16	0.08
26 Percentage of stock payment	24.082	37.454	-0.24	0.08	0.11	0.22	0.04	0.22	-0.02	-0.14	0.01	-0.22	-0.05	-0.05	0.01	-0.06	0.22	-0.23
27 Friendly acquisition	0.989	0.104	0.02	0.01	0.01	0.02	-0.05	-0.10	0.12	0.01	0.01	-0.01	0.06	-0.01	0.00	0.04	-0.10	-0.02
28 Shareholder value framing	0.025	0.073	-0.06	0.06	-0.07	-0.02	0.00	0.17	0.11	0.00	-0.05	-0.01	-0.09	-0.04	0.05	-0.01	0.14	0.08
29 Strategic fit framing	0.016	0.060	-0.03	0.01	-0.01	-0.06	0.04	-0.06	0.01	-0.03	-0.03	0.09	-0.10	-0.03	-0.02	-0.02	0.01	-0.02
30 Announcement length	6.640	0.583	-0.04	0.01	0.03	0.07	0.01	0.14	0.15	-0.10	-0.03	-0.09	-0.17	-0.13	-0.07	-0.02	0.24	0.01
31 Investor sentiment	0.131	0.766	-0.06	-0.05	0.26	-0.03	0.14	-0.02	-0.12	-0.04	-0.07	-0.04	0.13	0.13	0.09	-0.04	-0.06	0.05

Note: N = 462. Independent and moderator variables are reported before centering.

Table 1. (continued)

Variables	17	18	19	20	21	22	23	24	25	26	27	28	29	30
17 Target relatedness	0.10	1.00												
18 Domestic target	-0.02	0.02	1.00											
19 Private target	-0.10	0.00	0.10	1.00										
20 High-tech target	-0.11	0.06	-0.04	-0.24	1.00									
21 Target industry dynamism	0.08	0.03	0.01	-0.04	-0.20	1.00								
22 Target industry munificence	-0.22	-0.07	-0.05	-0.27	0.22	-0.12	1.00							
23 Target industry concentration	0.23	0.15	-0.04	-0.15	-0.04	-0.06	0.02	1.00						
24 Deal value	-0.05	-0.02	-0.04	-0.08	-0.03	-0.01	0.07	-0.07	1.00					
25 Premium	0.19	0.15	-0.02	-0.26	0.08	0.13	-0.15	0.30	-0.16	1.00				
26 Percentage of stock payment	-0.05	0.12	0.01	0.00	0.02	0.04	-0.07	-0.07	-0.05	0.02	1.00			
27 Friendly acquisition	-0.01	0.06	-0.03	-0.07	0.02	-0.09	0.12	0.10	0.03	-0.02	-0.05	1.00		
28 Shareholder value framing	-0.01	-0.02	-0.02	-0.06	-0.07	0.00	-0.02	0.03	0.07	0.03	0.03	-0.04	1.00	
29 Strategic fit framing	0.10	0.10	0.01	-0.08	0.00	-0.05	0.02	0.37	0.00	0.18	0.02	0.03	0.02	1.00
30 Announcement length	0.03	0.07	-0.01	-0.10	0.00	0.27	-0.02	-0.16	-0.01	0.16	-0.02	0.00	0.00	-0.19

Table 2. OLS regression predicting CAR (-1, 1)

Variables	Model 1 Base model		Model 2 Direct effect of acquirer's reputation		Model 3 Moderation effect of substantive cues		Model 4 Moderation effect of symbolic cues		Model 5 Full model	
Acquirer dividend reputation X **Dividend framing**							**3.729**	**[1.481]**	**3.500**	**[1.515]**
Acquirer growth reputation X **Growth framing**							**1.142**	**[0.464]**	**0.907**	**[0.541]**
Acquirer dividend reputation X **Target growth reputation**					**-1.464**	**[0.479]**			**-1.340**	**[0.512]**
Acquirer growth reputation X **Target growth reputation**					**0.641**	**[0.554]**			**0.368**	**[0.617]**
Acquirer dividend reputation			**0.707**	**[0.375]**	0.629	[0.377]	0.491	[0.344]	0.438	[0.345]
Acquirer growth reputation			**1.083**	**[0.336]**	1.037	[0.283]	1.042	[0.314]	1.010	[0.282]
Target dividend reputation	0.452	[0.474]	0.483	[0.455]	0.674	[0.459]	0.444	[0.436]	0.622	[0.434]
Target growth reputation	0.534	[0.427]	0.371	[0.429]	0.463	[0.407]	0.341	[0.424]	0.397	[0.406]
Dividend framing	-0.287	[1.393]	-0.814	[1.381]	-0.718	[1.399]	-2.334	[1.469]	-2.157	[1.471]
Growth framing	0.194	[0.371]	0.283	[0.375]	0.288	[0.367]	0.304	[0.377]	0.302	[0.369]
Acquirer size	0.123	[0.281]	0.313	[0.279]	0.421	[0.270]	0.435	[0.280]	0.511	[0.274]
Acquirer cash flow	-0.188	[0.243]	-0.102	[0.242]	-0.074	[0.231]	-0.105	[0.250]	-0.074	[0.238]
Acquirer ROA	-0.132	[5.163]	2.151	[5.090]	2.181	[4.968]	1.838	[5.113]	1.686	[4.955]
Acquisition experience	0.341	[0.295]	0.340	[0.295]	0.312	[0.294]	0.304	[0.295]	0.270	[0.292]
Engagement in horizontal acquisitions	0.347	[0.290]	0.301	[0.286]	0.388	[0.285]	0.295	[0.281]	0.365	[0.282]
Acquirer restructuring efforts	-0.094	[0.295]	-0.101	[0.288]	-0.109	[0.281]	-0.115	[0.288]	-0.122	[0.282]
Acquirer value-creation reputation	0.017	[0.879]	-0.007	[0.921]	-0.064	[0.859]	0.143	[0.885]	0.096	[0.836]
Target size	0.117	[0.217]	0.178	[0.217]	0.146	[0.216]	0.200	[0.218]	0.162	[0.215]
Target ROA	-0.459	[0.323]	-0.468	[0.330]	-0.562	[0.339]	-0.562	[0.331]	-0.613	[0.343]
Target relatedness	0.039	[0.076]	0.054	[0.074]	0.035	[0.073]	0.050	[0.072]	0.035	[0.073]
Domestic target	-0.421	[0.639]	-0.408	[0.607]	-0.512	[0.608]	-0.162	[0.630]	-0.308	[0.628]
Private target	1.107	[0.709]	0.539	[0.657]	0.128	[0.604]	0.838	[0.695]	0.437	[0.634]
High-tech target	-0.597	[0.487]	-0.206	[0.506]	-0.257	[0.490]	-0.463	[0.503]	-0.471	[0.484]
Target industry dynamism	-1.599	[16.338]	-5.115	[15.442]	-7.614	[14.799]	-2.659	[14.716]	-4.573	[14.215]
Target industry munificence	-0.795	[4.734]	-2.382	[4.797]	-0.840	[4.877]	-1.423	[4.784]	-0.424	[4.881]

Table 2. (continued)

Variables	Model 1		Model 2		Model 3		Model 4		Model 5	
Target industry concentration	1.879	[1.398]	2.282	[1.401]	2.874	[1.391]	2.212	[1.351]	2.698	[1.357]
Deal value	-0.624	[0.239]	-0.761	[0.234]	-0.791	[0.230]	-0.769	[0.235]	-0.782	[0.232]
Premium	-0.713	[0.561]	-0.650	[0.562]	-0.695	[0.538]	-0.586	[0.560]	-0.645	[0.542]
Percentage of stock payment	-0.015	[0.008]	-0.014	[0.008]	-0.015	[0.008]	-0.015	[0.008]	-0.016	[0.008]
Friendly acquisition	0.689	[1.806]	0.183	[1.651]	0.165	[1.692]	0.270	[1.352]	0.278	[1.413]
Shareholder value framing	-3.076	[3.557]	-2.360	[3.594]	-2.492	[3.538]	-1.864	[3.509]	-2.003	[3.465]
Strategic fit framing	-0.817	[2.922]	-0.783	[3.024]	-0.814	[3.224]	-0.265	[3.049]	-0.325	[3.186]
Announcement length	0.201	[0.387]	0.214	[0.386]	0.260	[0.363]	0.390	[0.366]	0.379	[0.348]
Investor sentiment	1.801	[0.964]	2.107	[0.932]	2.294	[0.935]	2.254	[0.938]	2.392	[0.927]
Inverse Mills ratio	-1.952	[2.068]	-0.526	[1.915]	-0.097	[1.810]	-0.436	[1.871]	-0.089	[1.802]
Constant	-3.396	[4.081]	-4.971	[3.980]	-5.794	[3.900]	-6.957	[3.660]	-7.185	[3.671]
Year dummies	Yes		Yes		Yes		Yes		Yes	
F (*p*-value)	3.05 (0.00)		4.06 (0.00)		5.84 (0.00)		4.02 (0.00)		5.10 (0.00)	
R-squared	0.19		0.23		0.25		0.25		0.27	

Note: $N = 462$. Standard errors clustered on the acquirer are given in brackets. The dependent variable CAR (-1, 1) is multiplied by 100. The independent and moderator variables are centered.
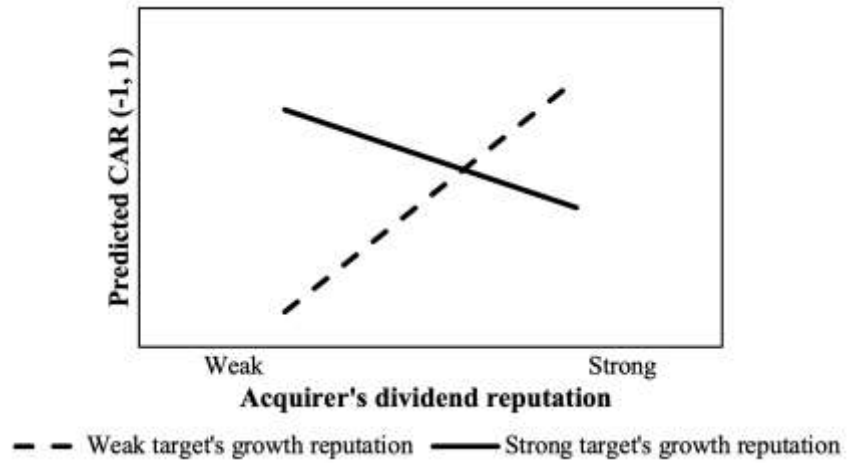
Figure 1. Interaction effect of acquirer's dividend reputation and target's growth reputation
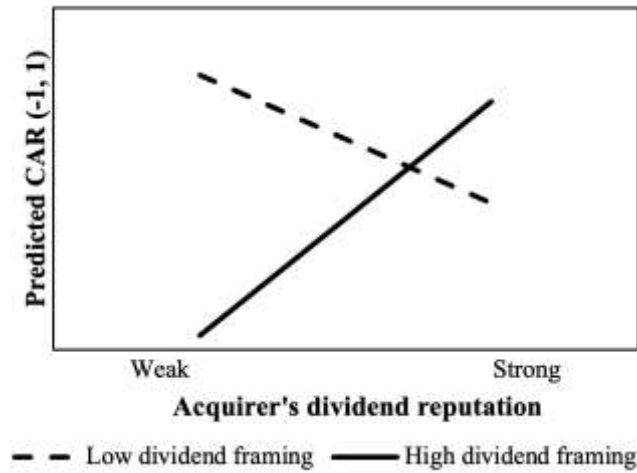
on CAR

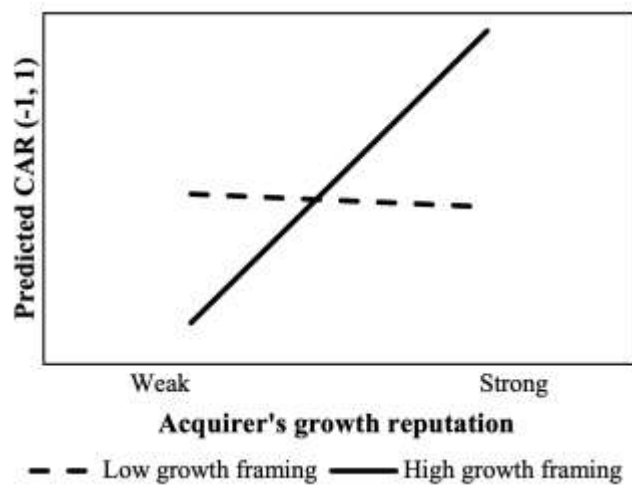**Figure 2.** Interaction effect of acquirer's dividend reputation and dividend framing on CAR

Figure 3. Interaction effect of acquirer's growth reputation and growth framing on CAR

APPENDIX

Table 1. Heckman first-stage model predicting the likelihood of an acquisition

Variables		
Industry acquisition activity	0.0006	[0.0001]
Firm dividend reputation	0.0027	[0.0446]
Firm growth reputation	0.0677	[0.0291]
Firm size	0.1421	[0.0329]
Firm cash flow	0.0740	[0.0321]
Firm ROA	2.2178	[0.3677]
Firm restructuring efforts	0.0584	[0.0301]
Firm value-creation reputation	-0.0110	[0.1456]
Investor sentiment	0.5355	[0.1291]
Constant	-1.2018	[0.1433]
Year dummies	Yes	
Log Pseudolikelihood	-3836.94	
Wald Chi-square (*p*-value)	139.60 (0.00)	

Note: $N = 7071$ firm-year observations. $n = 614$ number of firms. Standard errors clustered on the firm are given in brackets. All predictors are lagged by one year.

Table 2. First-stage 2SLS models testing for endogeneity of dividend and growth framing

Dependent variable:	Dividend framing		Growth framing	
Variables	**Model 1**		**Model 2**	
Percentage of dividend-cutting firms in acquirer's industry	-0.0184	[0.0092]		
One-year sales growth rate for firms within the S&P 500			2.6253	[0.9374]
Acquirer dividend reputation	0.0757	[0.0205]	-0.0434	[0.0350]
Acquirer growth reputation	0.0077	[0.0123]	-0.0095	[0.0259]
Target dividend reputation	0.0107	[0.0306]	-0.1201	[0.0479]
Target growth reputation	-0.0221	[0.0200]	0.1455	[0.0442]
Acquirer size	-0.0265	[0.0161]	-0.0013	[0.0312]
Acquirer cash flow	-0.0182	[0.0102]	-0.0475	[0.0344]
Acquirer ROA	-0.2386	[0.2091]	-0.3266	[0.5219]
Acquisition experience	-0.0426	[0.0177]	-0.0685	[0.0327]
Engagement in horizontal acquisitions	0.0086	[0.0153]	-0.0149	[0.0345]
Acquirer restructuring efforts	0.0216	[0.0117]	-0.0194	[0.0305]
Acquirer value-creation reputation	-0.0552	[0.0299]	-0.0188	[0.0784]
Target size	0.0260	[0.0103]	-0.0188	[0.0250]
Target ROA	0.0086	[0.0149]	0.0399	[0.0384]
Related target	-0.0001	[0.0035]	-0.0290	[0.0078]
Domestic target	-0.0175	[0.0355]	0.2205	[0.0690]
Private target	-0.0126	[0.0796]	0.4418	[0.2764]
High-tech target	0.0347	[0.0262]	0.0157	[0.0550]
Target industry dynamism	0.0554	[0.7188]	1.1287	[1.6047]
Target industry munificence	-0.1289	[0.1898]	0.0621	[0.4040]
Target industry concentration	0.0357	[0.0676]	-0.1190	[0.1451]
Deal value	0.0124	[0.0116]	0.0774	[0.0242]
Premium	-0.0177	[0.0241]	0.0042	[0.0706]
Percentage of stock payment	0.0006	[0.0003]	-0.0001	[0.0007]
Friendly acquisition	-0.0939	[0.1865]	0.5302	[0.1045]
Shareholder value framing	0.3112	[0.1483]	0.3965	[0.2955]
Strategic fit framing	-0.2014	[0.1165]	-0.1141	[0.4900]
Announcement length	-0.0026	[0.0220]	0.0225	[0.0405]
Investor sentiment	0.0396	[0.0347]	-0.1231	[0.0902]
Inverse Mills ratio	-0.0169	[0.0835]	-0.1437	[0.2019]
Constant	0.0146	[0.2715]	-1.2298	[0.3651]
Year dummies	Yes		Yes	
R-squared	0.30		0.25	
F-test for excluded instruments (*p*-value)	3.99 (0.05)		7.84 (0.01)	
DWH endogeneity test (*p*-value)	1.12 (0.26)		-0.70 (0.47)	

Note: $N = 462$. Standard errors clustered on the acquirer are given in brackets. Variables relating to framing and to the acquiring and target firms' growth and dividend reputations are centered.