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Essays on corporate social responsibility and strategic leadership

Li TONG
Singapore Management University, li.tong.2015@pbs.smu.edu.sg

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LI TONG

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Dissertation Committee:

Heli Wang (Chair)
Janice Bellance Professor of Strategic Management
Lee Kong Chian School of Business
Singapore Management University

David Gomulya
Associate Professor of Strategic Management
Lee Kong Chian School of Business
Singapore Management University

Hao Liang
Assistant Professor of Finance
Lee Kong Chian School of Business
Singapore Management University

Jun Xia
Professor of Organizations, Strategy, and International Management
Naveen Jindal School of Management
University of Texas at Dallas

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I hereby declare that this PhD dissertation is my original work and it has been written by me in its entirety. I have duly acknowledged all the sources of information which have been used in this dissertation.

This PhD dissertation has also not been submitted for any degree in any university previously.

LI TONG
3 May 2020

ABSTRACT

This dissertation two issues related to business ethics: how corporate social responsibility (CSR) affects the value creation in an acquisition and how corporate decoupling behaviors are driven by the CEO narcissism, consisting of two essays. The first essay examines how target corporate social responsibility affects the economic gains for acquirers, as reflected in market reaction to acquisition announcement, from two distinct perspectives: stakeholder preservation versus stakeholder appropriation. The stakeholder preservation perspective suggests that positive market reaction to an acquisition stems from potential new value creation by honoring implicit contracts and maintaining good relationships with target stakeholders. By contrast, the stakeholder appropriation perspective posits that positive market reaction is primarily derived through wealth transfer to acquirers by defaulting on implicit contracts with target stakeholders. Findings from this essay indicate that target CSR is positively associated with acquirer abnormal returns upon acquisition announcement. Moreover, stakeholder value congruence between the merging firms strengthens this positive relationship, whereas business similarity between them weakens it. These findings align with the stakeholder preservation perspective and challenge the stakeholder appropriation perspective. The second essay investigates antecedents of corporate decoupling behaviors from the perspective of CEO attributes. This essay is conducted in the context of corporate buyback program. Corporate decoupling happens when a firm announces

a buyback policy but does not implement the buyback program. Findings from this essay suggest that there is a positive relationship between CEO narcissism and buyback policy adoption whereas, following a buyback policy adoption, there is a negative relationship between CEO narcissism and buyback program implementation. Also, this essay examines the peer influence on a focal firm's buyback practice and finds that peer buyback policy adoption will weaken the relationship between CEO narcissism and firm buyback policy adoption. In addition, the buyback policy adoption initiated by more narcissistic CEOs receives less favorable stock market reactions.

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DEDICATION

Dedicated to my family, especially my wife, Jenny Ying ZHANG.

CHAPTER 1: GENERAL INTRODUCTION

CSR has received increasing attention in the past decades, both among practitioners and in the academic literature. The study of why firms bearing social responsibilities, how these responsibilities should be implemented, and under which conditions might CSR benefits shareholders has emerged as important areas of research in strategic management field (Aguinis & Glavas, 2012; Barnett, Henriques, & Husted, 2020; Jones, Harrison, & Felps, 2018; Wang, Tong, Takeuchi, & George, 2016). One key question was whether CSR can enhance firm value. The instrumental stakeholder theory (Jones, 1995: 422) suggested that "firms that contract (through their managers) with their stakeholders on the basis of mutual trust and cooperation will have a competitive advantage over firms that do not". Nevertheless, the shareholder value maximization view suggested that CSR engagement is a diversion of resources that are supposed to be invested in more promising projects (Masulis & Reza, 2015). Another key question was about the symbolic or substantive nature of CSR activities. Scholars have been aware of an interesting phenomenon that firms may deceive their stakeholders by failing to show commitment to their stated policies such as sustainability policies (e.g., Crilly, Hansen, Zollo, 2016).

Prior studies related to the first key question have focused on unraveling the relationship between CSR and firm financial performance (Aguinis & Glavas, 2012; Flammer, 2015). A plethora of studies have documented that CSR has the potential to generate financial benefits form firms (Lev, Petrovits, & Radhakrishnan, 2010; Wang

& Qian, 2011; Cuypers, Koh, & Wang, 2016; Flammer, 2015). Although some studies suggested the relationship between CSR and firm value was non-linear even negative (Wang, Choi, & Li, 2008; Masulis & Reza, 2015), the dominant view was that CSR can benefit shareholders and firm value in a long-term run (Flammer, 2015). Recent studies have gone beyond the influence of CSR on a firm's financial performance (single-firm context) and started to examine the influence of CSR on firm performance in inter-firm context (Deng, Kang, & Low, 2013; Bettinazzi & Zollo, 2017). Existing research investing CSR in inter-firm context mainly focused on the acquisition activities, showing acquirer CSR would affect the acquisition integration and the interaction between the acquirer and the target. Deng, Kang, and Low (2013) documented that acquirer CSR was beneficial for maintaining the implicit contracts and continued relations with stakeholders in new combined firms that were crucial for acquisition success. It reflected the importance of CSR for the reconciliation between acquirer stakeholders and target stakeholders during acquisition integration stages that are usually characterized with the turmoil. Bettinazzi and Zollo (2017) conducted a more nuanced analysis of acquirer stakeholder orientation toward employees, customers, suppliers, and local communities and documented that they are crucial for smooth acquisition integration and acquisition success. To advance this stream of research, the 1st essay in my dissertation focused on explicating stakeholder roles in the inter-firm context. In particular, I extended existing research by shifting the attention from acquirer CSR to target CSR. I proposed two mechanism underlying the relationship

between target CSR and acquirers' financial benefits: stakeholder preservation perspective and stakeholder appropriation perspective.

Prior studies related to the second key question have mainly focused on CSR decoupling behaviors (i.e., symbolic but not substantive) (Marquis & Qian, 2014). An array of studies has documented that institutional factors such as legitimacy guidelines of government and institutional complexity influence the tendency of decoupling, and that firms finally can gain the legitimacy and retain internal flexibility and discretion simultaneously (Luo, Wang, & Zhang, 2017; Marquis & Qian, 2014; Lim & Tsutsui, 2012). Luo, Wang, and Zhang (2017) theorized that the decoupling of CSR reporting was a response to institutional complexity that was induced by the conflicting demands from the central and local governments. Marquis and Qian (2014) used all CSR reports by approximately 1,600 publicly listed Chinese firms between 2006 and 2009 and found that firms may engage in decoupling response to the government's legitimacy guidelines about CSR and CSR reporting. Few studies investigated decoupling behaviors in the international setting. Lim and Tsutsui (2012) documented the association between global CSR frameworks and countries' decoupling behaviors, that is – stated commitment but without subsequent action. Overall, these studies suggested that firms used decoupling behaviors as a "reactive" strategy to respond to institutional pressure which pressured firms to meet institutional requirements. To advance this stream of research, the 2nd essay in my dissertation investigated the possibility of decoupling behaviors as the outcome of "proactive" decision. I argued that this

"proactive" decision was affected by the attributes of corporate leaders. At the very start, I focused on the CSR decoupling strategy, captured by the adoption of the EMS (Environmental Management System) without the implementation of the requirement of this EMS. However, benefiting constructive suggestions and comments, there lacks a good fit between this EMS setting with the theoretical argument of CEO narcissism and the data issues. Therefore, I finally shifted the attention to the corporate buyback behaviors which enabled us to take a closer look at the decoupling process and to have a neat empirical setting.

CHAPTER 2: STAKEHOLDER PRESERVATION OR APPROPRIATION? THE INFLUENCE OF TARGET CSR ON MARKET REACTIONS TO ACQUISITION ANNOUNCEMENTS

ABSTRACT

This study examines how target corporate social responsibility (CSR) affects the economic gains for acquirers, as reflected in market reaction to acquisition announcement, from two distinct perspectives: stakeholder preservation versus stakeholder appropriation. The stakeholder preservation perspective suggests that positive market reaction to an acquisition stems from potential new value creation by honoring implicit contracts and maintaining good relationships with target stakeholders. By contrast, the stakeholder appropriation perspective posits that positive market reaction is primarily derived through wealth transfer to acquirers by defaulting on implicit contracts with target stakeholders. Using a dataset of acquisitions in the US, we find that target CSR is positively associated with acquirer abnormal returns upon acquisition announcement. Moreover, stakeholder value congruence between the merging firms strengthens this positive relationship, whereas business similarity between them weakens it. These findings align with the stakeholder preservation perspective and challenge the stakeholder appropriation perspective.

INTRODUCTION

How do target stakeholders affect the extent acquirers benefit from merger and acquisition (*hereafter*, acquisition) activities? Two distinct perspectives offer important insights into this issue: stakeholder preservation and appropriation. The stakeholder preservation perspective suggests that acquirers benefit from acquisitions through new value creation by enlisting trust and a reciprocal relationship with target stakeholders (Deng, Kang, & Low, 2013). On the contrary, the stakeholder appropriation perspective posits that acquirers obtain economic benefits by appropriating rents from target stakeholders (*i.e.*, wealth transfer) from target stakeholders to acquirers (Shleifer & Summers, 1988). To date, it is unclear which perspective is more relevant for explaining the role of target stakeholder relationships in influencing value gain for the acquirer.

To address this issue, we extend recent studies that focus on acquirer corporate social responsibility (CSR) by shifting attention to target CSR. From the stakeholder preservation perspective, the protection of stakeholders' implicit contracts in high-CSR targets can potentially create new value for acquirers. Compared with those of a low-CSR target, stakeholders of a high-CSR target have higher stakes involved in their implicit contracts, which likely become more vulnerable in an acquisition. The willingness of acquirers to provide protection for these implicit contracts demonstrates their goodwill. The target stakeholders, in turn, will likely reciprocate with greater trust and cooperation when interacting with the acquirers, which can be a key source of potential new value creation for the acquirers (Graebner, Heimeriks, Huy, & Vaara, 2017).

By contrast, the stakeholder appropriation perspective posits that acquirer gains are primarily obtained through wealth transfer from target stakeholders to acquirers (Shleifer & Summers, 1988). As stakeholders of high-CSR targets possess more

favorable terms in implicit contracts with target firms, greater potential for wealth transfer emerges as acquirers may alter or default on the stakeholders' implicit claims. For instance, acquirers may appropriate target stakeholders by dismissing target managers and employees, defaulting on employee promotion opportunities and pension plans, and renegotiating contracts with customers and suppliers to enhance their market power (Fee & Thomas, 2004; Shleifer & Summers, 1988).

Taken together, both perspectives may predict a positive relationship between target CSR and gains for acquirers. However, their underlying mechanisms (new value creation versus wealth transfer) differ. Our purpose is to tease out the relationship between the two perspectives (*i.e.*, whether one perspective is more dominant than the other or both are relevant under different contingencies). Given the difficulty of directly observing the perspective an acquirer adopts in an acquisition, we specify conditions under which the underlying mechanisms of the two perspectives are likely to prevail. By doing so, we are able to infer the relevance of each perspective in an acquisition. Specifically, we introduce two moderators—stakeholder value congruence and business similarity—as contingencies that are expected to alter the positive relationship between target CSR and acquirer gain. Following the logic of prior studies (Edwards & Cable, 2009), value congruence captures the extent to which merging firms are similar in values, norms, and philosophies about stakeholder management. Business similarity indicates the resource overlap between merging firms (King, Dalton, Daily, & Covin, 2004).

The two different perspectives predict opposite moderating effects for each of the two contingency factors. From the stakeholder preservation perspective, value congruence fosters the formation of common ground and trust and reduces the in-group/out-group bias between the merging firms, amplifying the positive effect of high-

CSR targets on acquirer announcement return. Conversely, business similarity favors the elimination of redundancies in terms of physical and human resources, which are in conflict with the key tenets of the stakeholder preservation perspective. Therefore, business similarity increases the cost of honoring target stakeholders' implicit contracts, thereby weakening the relationship between target CSR and acquirer gain. By contrast, from the stakeholder appropriation perspective, high value congruence between the merging firms makes wealth transfer through target stakeholder appropriation more challenging because of the potential resistance of acquirer stakeholders, weakening the positive effect of target CSR on financial gain for the acquirer. By contrast, business similarity is expected to strengthen the above effect because high business similarity indicates that acquirers can better justify their defaulting on stakeholders' implicit contracts.

Given the recognized efficiency and forward-looking nature of financial market, potential acquirer gains from target CSR, either from new value creation due to greater trust between the acquirer and target stakeholders based on the rent preservation perspective, or from defaulting on implicit contracts with target stakeholders based on the rent appropriation perspective, are likely reflected in market responses and incorporated into changes in stock prices upon acquisition announcement. Market reaction to an acquirer has long been regarded in previous studies as effective in capturing gain from potential value-added activities for the acquirer (*e.g.*, Cuypers, Cuypers, & Martin, 2017; Kim & Finkelstein, 2009; Sears & Hoetker, 2014; Zaheer, Hernandez, & Banerjee, 2010). We accordingly develop our hypotheses and test our key arguments by examining how target CSR affects market reaction to acquisitions. Using a dataset of US public firms involved in acquisitions, we find that target CSR is positively associated with acquirer abnormal returns upon acquisition announcement.

Moreover, stakeholder value congruence between the merging firms strengthens this positive relationship, whereas business similarity between them weakens it. These results suggest that the stakeholder preservation perspective prevails against the stakeholder appropriation perspective. This finding, along with our conceptualization, is important to reconcile the debate on how target stakeholders affect acquisition outcomes in the acquisition literature.

THEORETICAL BACKGROUND AND BASELINE HYPOTHESIS

Target CSR and Implicit Contracts with Target Stakeholders

CSR reflects firms' broad array of strategies and operating practices that are designed and developed to deal with internal and external stakeholder relationships (Surroca, Tribó, & Waddock, 2010; Waddock, 2004). CSR is also considered equivalent to "meeting the demands of multiple stakeholders" (Ruf, Muralidhar, Brown, Janney, & Paul, 2001: 143), and the level of a firm's CSR captures the quality of the firm's stakeholder relations (Waddock & Graves, 1997). Therefore, it is widely acknowledged that the CSR of firms is positively associated with the quality of its relational capital (Thompson & Heron, 2006) and stakeholder management (Freeman, 1984; Waddock & Graves, 1997).

A firm's relational capital is in turn commonly associated with valuable implicit contracts between the firm and its stakeholders. The notion of the firm as a nexus of explicit and implicit contracts posits that the value of the firm is the sum of the values of all existing claims on the firm (Coff, 1999; Jensen & Meckling, 1976). Unlike explicit contracts that are normally court enforceable, implicit contracts—which are based on informal agreement and unwritten codes of conduct—are vague and not legally binding (Baker, Gibbons, & Murphy, 2002). Thus, no explicit cost is involved

in defaulting on an implicit contract. Meanwhile, an implicit contract is a mutual and reciprocal obligation, involving exchanges over time among parties in the relationship and binding the actions of one party to those of the other by making invasion costly (Rousseau, 1989). Implicit contracts are thus generally self-enforcing: the promised continuity of practices and commitments is the key to sustain these contracts (Weick, 1981). Therefore, neither of the two parties are willing to breach the implicit contract (McGuire, Sundgren, & Schneeweis, 1988) because the value of relational capital based on implicit contracts is usually sufficiently large that neither party wishes to renege (Baker et al., 2002). From the firm's perspective, the breaches of implicit contracts commonly carry substantial implicit costs, such as those associated with lost trust (Robinson, 1996) and reputation (Aguinis & Glavas, 2012: 940), which can have negative long-term implications for firm financial performance and even competitive advantages (Berman, Wicks, Kotha, & Jones, 1999).

However, the relationship between the potential loss of reputation and the invasion of implicit contracts is no longer relevant when there are changes in the contractual environment. Such changes may occur when the firm becomes a target of takeover and the control right is transferred to the acquirer (Shleifer & Summers, 1988; Walsh & Ellwood 1991). Given its non-involvement in establishing the implicit contracts with target stakeholders, the acquirer is not bound by the contracts formed between the target and its stakeholders (Davis & Stout, 1992). Thus, the reputation of the acquirer is not as closely tied to target stakeholders as that of the target firm. Consequently, in the case of an acquisition, the implicit claims of target stakeholders face a greater risk of not being honored by the acquiring firm.

Two perspectives—stakeholder preservation and stakeholder appropriation—exist, which may help understand what may happen to target stakeholders and their

implicit contracts during acquisitions and their implications for acquirer gain, which is reflected in market reaction to acquisition announcement. We highlight two distinct mechanisms (*i.e.*, new value creation and value transfer) to clarify the predictions from the two perspectives, respectively.

Stakeholder Preservation Perspective

The stakeholder preservation perspective emphasizes the benefits of protecting target stakeholders by honoring the claims of their implicit contracts. In an acquisition, actions from the acquirer and the target are perceived as unpredictable and easy to misinterpret, and target stakeholders particularly are in a vulnerable position (Stahl & Sitkin, 2010). Instead of considering defaulting on stakeholder implicit contracts as an opportunity for wealth transfer, the stakeholder preservation perspective recognizes the potential negative effects of such an action, which commonly causes "anxious paralysis" among target stakeholders (Cannella & Hambrick, 1993). From this perspective, not exploiting the vulnerability of target stakeholders in an acquisition helps the acquirer build trust and establish new implicit contracts with target stakeholders, which constitute an important source of new value creation for acquirers.

Specifically, honoring implicit contracts with target stakeholders can mitigate the uncertainty and vulnerability they face. Target stakeholders are likely to reciprocate by cooperating with the acquirer (Gouldner, 1960; Stahl & Sitkin, 2010), facilitating the extension of existing trust (which originates from stakeholders' good relationships with the target) to the acquiring firm (Stahl & Sitkin, 2010). With great trust, the communication between the acquirer and target stakeholders will be well facilitated (Bauer & Matzler, 2014; Conant & Kaserman, 1989). Moreover, target stakeholders likely develop a sense of belonging and a shared identity with the acquirer (Colman & Lunnan, 2011) and thus can "enter" new implicit contracts with the acquiring firm

proactively (Mahoney, 2012).

Such positive effects are likely to be more salient when a target has a high level of CSR for two reasons. First, in a high-CSR target, stakeholders are treated better and commonly enjoy more favorable terms in their implicit contracts with the target firm. Thus, stakeholders of a high-CSR target are more vulnerable in an acquisition due to the higher stakes involved in their implicit contracts. If the implicit contracts are not honored by the acquirer, then these stakeholders will experience much greater losses than their counterparts of a low-CSR target. In this case, if target stakeholders' vulnerabilities are not exploited (*i.e.*, their implicit contracts are preserved by an acquirer), then the stakeholders will feel more goodwill from the acquirer, which in turn fosters greater trust between the two parties (Dyer & Chu, 2003; Krishnan, Geyskens, & Steenkamp, 2016). Consequently, the stakeholders become more willing to reciprocate by participating in a coordinative and active manner during acquisition integration processes.

Second, a high-CSR target firm has generally developed a positive culture of mutual trust between the firm and its stakeholders (Surroca et al., 2010). Given that such a culture fosters the stakeholders' beliefs, values, and practices over time, the stakeholders may internalize the trust culture as part of their disposition (Jones, Felps, & Bigley, 2007), which make them likely to trust others. More importantly, such a propensity to trust can be carried across situations and contexts even when interacting with unfamiliar parties or actors (Colquitt, Scott, & LePine, 2007; Mayer, Davis, & Schoorman, 1995; Whitener, Brodt, Korsgaard, & Werner, 1998). McKnight, Cummings, and Chervany (1998) suggest that propensity to trust based on trusting intention and beliefs helps foster the trust between two parties that do not even have any interactions or common experiences before.

Thus, an acquirer is able to enlist greater trust from stakeholders of a high-CSR target than a low-CSR target due to the greater goodwill they feel from the acquirer as well as their inherent propensity or disposition to trust others. Consequently, the acquirer is likely to obtain more reciprocal actions from target stakeholders, thereby realizing greater new value creation. Accordingly, shareholders can perceive acquiring a high-CSR target as a sound investment, evoking positive market reaction.

Stakeholder Appropriation Perspective

In contrast with the stakeholder preservation perspective, the stakeholder appropriation perspective emphasizes that acquirers realize gains through the breach of implicit contracts of target stakeholders, such as employees, suppliers, and managers (Krug, Wright, & Kroll, 2014). This idea originates from a classical study by Shleifer and Summers (1988). As argued earlier, given that the acquiring firm does not have the same obligations as the target in honoring stakeholders' implicit claims, an acquisition offers an ideal timing and setting for acquirers to appropriate target stakeholders. In addition, given that targets are generally positioned in disadvantageous standings after the acquisition (Krug & Nigh, 2001; Shen, Tang, & Chen, 2014), acquirers commonly act as "leaders" and targets act as "followers" (Haspeslagh & Jemison, 1991). Such an imbalance between the merging firms further provides acquirers with greater power to appropriate target stakeholders (Fee & Thomas, 2004).

This perspective posits that acquiring high-CSR targets enhances acquirers' value gain, which may positively affect shareholders' perception, leading to high acquirer announcement returns. The value gain for acquiring firms is primarily a result of wealth transfer from target stakeholders to the acquirer because target stakeholders are expendable (Shleifer & Summers, 1988). Replacing or cutting the compensations

of target managers and other overpaid employees and renegotiating price or other contractual terms with customers and suppliers, for instance, are regarded as the important sources of value creation (Fee & Thomas, 2004; Krug, Wright, & Kroll, 2014; Shleifer & Summers, 1988). Specifically, an acquirer may benefit from refusing to compensate the supplier of a target for investing in a buyer-specific plant (Shleifer & Summers, 1988). An acquirer can also gain value at the expense of customers by raising product prices (Fee & Thomas, 2004; Stigler, 1964) and of suppliers by lowering the input prices to the earlier agreed-upon levels (Hoskisson, Gambeta, Green, & Li, 2018). Moreover, an acquirer may appropriate target managers by revising or defaulting on implicit contracts with them, including reducing compensations, forfeiting promotion promises, or even dismissing them altogether (Agrawal & Walkling, 1994; Haleblian, Devers, McNamara, Carpenter, & Davison, 2009; Jensen & Ruback, 1983). Pontiff, Shleifer, and Weisbach (1990) show that an acquirer may default on the pension plans of target employees to reduce costs.

According to the stakeholder appropriation perspective, the potential for target stakeholder appropriation is likely to increase with the level of target CSR. In a high-CSR target, target stakeholders are likely to have more favorable terms in their implicit contracts with the target, providing greater opportunities for wealth transfer from the stakeholders to the acquiring firm. Consistent with this argument, Davis and Stout (1992) suggest that in a takeover deal, an acquirer can potentially abrogate the implicit contracts between the target and its stakeholders (*e.g.,* layoffs or other concession bargaining) to realize value, especially when a target is saddled with high and increasing stakeholder benefits. Agrawal and Walkling (1994) also find that target firm managers who are highly compensated prior to takeovers are more likely to receive reduced compensation after the acquisition. Similarly, high-CSR targets usually

provide favorable terms in implicit contracts with their employees, such as generous pension plans. In this case, acquirers may gain more from defaulting on a target pre-existing employee pension plan contract with generous terms and re-signing a less costly one (Pontiff et al., 1990). For instance, when Honeywell acquired Elster in 2015, Honeywell was facing a decision about whether to close Elster's two generous pension funds with its employees. Investors and analysts estimated that honoring the two pension funds would result in a direct cost of roughly £134 million to Honeywell and thus insisted that Honeywell should default on these pension contracts.

Therefore, high CSR in a target not only offers greater potential for wealth transfer according to the stakeholder appropriation perspective but also enables new value creation from greater trust between the merging firms according to the stakeholder preservation perspective. And these potential value gains are often reflected in positive market reaction to the acquisition of a high-CSR target. In line with these arguments, Zaheer et al. (2010) document that the level of trust between merging firms, fostered by their prior alliances, is positively associated with acquirer abnormal returns around the acquisition announcement date. In another study, Alderson and Chen (1986) argue and find that the stock market reacts positively to the reversion of pension plans in acquisitions, a signal of appropriation of target stakeholders.

In sum, both perspectives predict a positive relationship between target CSR and market reaction to an acquirer upon acquisition announcement. We thus offer the following baseline hypothesis:

Hypothesis 1: Target CSR is positively associated with acquirer announcement returns.

UNPACKING THE TWO PERSPECTIVES

Although stakeholder preservation and appropriation perspectives make the same prediction, the underlying mechanisms suggest two distinct ways of redeploying target stakeholders, which require a nuanced approach to understand which perspective is more likely to prevail. Our purpose in this section is to tease out the two perspectives by exploring the boundary conditions under which the proposed relationship in Hypothesis 1 may vary. Specifically, we introduce *stakeholder value congruence* and *business similarity* between merging firms as two contingencies and clarify how, under these contingencies, the mechanisms underlying the two perspectives play out differently in terms of the benefits and costs associated with honoring versus defaulting on implicit contracts with target stakeholders.

Moderating Role of Stakeholder Value Congruence

The concept of value congruence originates from research on person–organization fit (Chatman, 1989; Kristof, 1996). It is defined as "the similarity between values held by individuals and organizations" (Edwards & Cable, 2009: 655). This concept is also used in the analysis of person–person fit such as value congruence between employees and supervisors (Meglino, Ravlin, & Adkins, 1989) and that between leaders and followers (Zhang, Wang, & Shi, 2012). The concept is further applied in the inter-firm context, especially in the strategy field. Inter-firm value congruence is argued to be helpful in cultivating inter-firm trust and promoting inter-firm commitment (Sarkar, Cavusgil, & Evirgen, 1997; Stahl & Sitkin, 2010). For instance, value congruence between alliance partners has been found to have a positive influence on collaborative relationships between the partners (Lavie, Haunschild, & Khanna, 2012).

We apply the concept of value congruence to the acquisition context to refer to

the similarity between values held by the acquiring and target firms. Specifically, we focus on the merging firms' values pertaining to their respective stakeholders. Accordingly, we propose a construct termed *stakeholder value congruence*, referring to the extent to which the merging firms are overlapped in terms of philosophies of stakeholder management and beliefs about the importance of stakeholders.

Stakeholder preservation and stakeholder value congruence. From the stakeholder preservation perspective, we expect that stakeholder value congruence between merging firms strengthens the effect of target CSR on acquirer gain for the following reasons.

First, larger stakeholder value congruence between merging firms suggests a higher level of common ground between the acquirer and target in managing and relating with their stakeholders. Common ground refers to the sum of two parties' mutual, common, or joint knowledge, beliefs, and suppositions (Clark, 1996). On the one hand, high common ground allows a target to better anticipate and interpret an acquirer's intentions and actions (Puranam, Singh, & Chaudhuri, 2009). Thus, the potential goodwill resulting from the protection of a high-CSR target is more readily received and reciprocated by target stakeholders through greater trust and cooperative actions. On the other hand, higher common ground facilitates the communication between merging firms and makes them more willing to learn and accept new practices from each other (Allatta & Singh, 2011). Thus, the high common ground allows an acquirer and its stakeholders to better understand and be more receptive of pre-existing implicit contracts with stakeholders of high-CSR targets, making it eraser to honor these contracts with little resistance from acquirer stakeholders.

Second, the merging firms with high stakeholder value congruence are likely to

have similar stakeholder management styles in terms of beliefs, value, and practices, which can reduce the in-group/out-group bias between the merging firms (Stahl & Sitkin, 2010). Consequently, the merging firms less likely emphasize their own distinctiveness and instead highlight the importance of cohesiveness, thereby making the reciprocal exchanges more efficacious.

By contrast, merging firms with incongruent stakeholder values likely confront difficulties by anticipating, interpreting, and adjusting to each other's actions, causing larger in-group/out-group bias. For target stakeholders, adapting to the acquirer's stakeholder management style is difficult. They may then be more likely to develop feelings of hostility (Chatterjee, Lubatkin, Schweiger, & Weber, 1992). Consequently, an acquirer experiences more difficulty enlisting the trust and reciprocity of target stakeholders even with the intended protection of a high-CSR target. In addition, value incongruence raises barriers from the acquirer and its stakeholders to understanding and appreciating the terms of stakeholder implicit contracts, especially when the target stakeholders have generous claims in their implicit contracts with a high-CSR target, causing greater resistance to honor the implicit contracts with the target stakeholders.

Synthesizing the aforementioned arguments, the stakeholder preservation perspective suggests that stakeholder value congruence between merging firms is more likely to facilitate an acquirer's effort to enlist trust and reciprocity from target stakeholders through the protection of a high-CSR target. Greater perceived trust between the merging firms is then expected to result in more positive market reactions to acquirers upon acquisition announcement. Thus, we predict the following:

Hypothesis 2a (stakeholder preservation perspective): Stakeholder value congruence strengthens the positive relationship between target CSR and acquirer announcement returns.

Stakeholder appropriation and stakeholder value congruence. As noted, the stakeholder appropriation perspective focuses on wealth transfer from target stakeholders to the acquirer by defaulting on implicit contracts with them. According to this perspective, the market may react positively to the acquisition by anticipating potential value gain for the acquirer from appropriating target stakeholders. However, in the case of high stakeholder value congruence, the acquirer and the target have a higher level of common ground and share a similar philosophy in stakeholder management. As argued earlier, such value congruence generally allows a better understanding, as well as a lower in-group/out-group bias between the merging firms, facilitating reciprocal exchanges (Stahl & Sitkin, 2010). Accordingly, the market often associates a high value congruence with a greater level of cooperation and mutual support between the merging firms and thus anticipates potential value gain for the acquirer (Bauer & Matzler, 2014; Chatterjee, Lubatkin, Schweiger, & Weber, 1992).

However, when an acquirer breaches the implicit contracts with the stakeholders of a target that has high value congruence with the acquirer, it sends conflicting signals to the market. While high value congruence signals that the firm achieves value gain by cooperating with target stakeholders, appropriating the target stakeholders is clearly in conflict with such a signal, raising doubts among investors about the potential benefits of stakeholder appropriation. With the presence of stakeholder value congruence between the merging firms, market reaction to the acquisition becomes less positive. We thus predict the following:

Hypothesis 2b (stakeholder appropriation perspective): Stakeholder value congruence weakens the positive relationship between target CSR and acquirer announcement returns.

Moderating Role of Business Similarity

Business similarity captures the extent to which an acquirer and its target are similar in business operations, reflecting the degree of resource and/or product–market overlap between them (King, Dalton, Daily, & Covin, 2004). With high business similarity, acquirers may suffer from resource redundancies that reduce the firms' efficiency (Capron, Mitchell, & Swaminathan, 2001). To improve efficiency, acquiring firms may take appropriate steps to combine similar resources by eliminating redundancies. For instance, the merger between computer makers Hewlett-Packard and Compaq was expected to achieve a cost saving of $2 billion by eliminating resource redundancies across all functions from administration, procurement, and manufacturing to product development and marketing (Dyer, Kale, & Singh, 2004).

Stakeholder preservation and business similarity. From the stakeholder preservation perspective, reducing resource redundancies under high business similarity, which inevitably hurt at least some of the target stakeholders, sends a conflicting signal to the market. In particular, the stakeholder preservation perspective emphasizes trust building, reciprocal behaviors, and enhancement of motivation (especially intrinsic motivation) by protecting target stakeholders. To this end, the market expects the acquirer to ensure target stakeholders' autonomy to a certain extent to promote their commitment and foster their sense of belonging and trust (Datta & Grant, 1990). However, high business similarity favors elimination of redundancies that help improve efficiency. Thus, an acquisition under high business similarity generally leads to disruptions to target stakeholders and their implicit contracts, such as employee lay-offs and other forms of contract alterations or terminations (Aguilera & Dencker, 2004; Graebner, Heimeriks, Huy, & Vaara, 2017; Puranam, Singh, & Chaudhuri, 2009).

According to the stakeholder preservation perspective, the market reacts positively to an acquisition by anticipating potential value gain for the acquirer by protecting the implicit contracts with target stakeholders. However, high business similarity signals a high likelihood of potential disruptions of target stakeholders associated with redundancy elimination, which is incompatible with the tenets of stakeholder preservation. For the above reasons, we expect that high business similarity is likely to dampen the impact of preserving stakeholders of high-CSR targets on new value creation from an acquisition and thus lead to less positive market reaction. According to the stakeholder preservation perspective, we predict the following:

Hypothesis 3a (stakeholder preservation perspective): Business similarity weakens the positive relationship between target CSR and acquirer announcement returns.

Stakeholder appropriation and business similarity. By contrast, the stakeholder appropriation perspective suggests that acquirer gain is more likely to be realized through wealth transfer from target stakeholders. In the case of high business similarity, given the existence of resource redundancies between the merging firms, the appropriation of target CSR is in line with the necessity of generating efficiency-based synergies (Sears & Hoetker, 2014). In the earlier example of the HP–Compaq merger, Carly Fiorina, CEO of Hewlett-Packard, claimed that along with the effort to eliminate redundancies, HP was expected to cut 15,000 jobs to boost the business.[1] In the case of business similarity, target stakeholder appropriation is in line with efficiency gains. In addition, such appropriation actions are more likely to be perceived as legitimate and

[1] News source: *https://www.myplainview.com/news/article/First-job-cuts-announced-by-Hewlett-Packard-after-8777211.php*

are less likely to trigger strong negative sentiments of the public.

Second, an acquisition with high business similarity is known as "related acquisition" (Ellis, Reus, & Lamont, 2009), which can often quickly increase the market share of the acquirer due to potential economies of scale (Fee & Thomas, 2004; Singh & Montgomery, 1987) and provide the acquirer with greater bargaining power in negotiating with stakeholders (*e.g.*, suppliers and customers). Consequently, the acquirer may become even more dominant in controlling "price, quantity, and the nature of the product in the marketplace" (Singh & Montgomery, 1987: 379) and thus implement wealth transfer from target stakeholders (*e.g.*, renegotiating or defaulting on unfavorable contracts) effectively.

In sum, when business similarity is high, acquirers are in a better position to take advantage of the implicit contracts with stakeholders of high-CSR targets and maximize the potential for value gain from wealth transfer. Anticipating these factors, the stock market will likely react more positively to acquisition announcement. According to the stakeholder appropriation perspective, we predict the following:

Hypothesis 3b (stakeholder appropriation perspective): Business similarity strengthens the positive relationship between target CSR and acquirer announcement returns.

METHOD

Data and Sample

We started our data collection on the basis of a sample of acquisitions from the Securities Data Company (SDC) database (e.g., Gong, Zhang, & Xia, 2017; Graffin, Haleblian, & Kiley, 2016; Iyer and Miller, 2008; Puranam, Singh, & Zollo, 2006). We then obtained stakeholder-related information for both the acquirer and target firms from the KLD (Kinder, Lydenberg, Domini, & Co.) dataset, which has been widely

used in stakeholder research and considered the best available database for compiling comprehensive measures of stakeholder relationships (e.g., Ioannou & Serafeim, 2015; Koh, Qian, & Wang, 2014; Shiu & Yang, 2017; Waddock & Graves, 1997; Wang & Choi, 2013). The stock market information on acquirer stock returns was obtained from the Center for Research in Security Prices, financial and corporate governance data from Compustat, and executive compensation data from ExecuComp. Data for constructing the measure of *business similarity* were mainly from SDC, the United States Patent and Trademark Office (USPTO), and the Occupational Employment Statistics (OES).

We focused on the following deal types: acquisition, merger, and acquisition of majority interests defined by SDC. To ensure that the acquisitions are meaningful, we required that the transaction value must exceed $1 million (Bereskin, Byun, Officer, & Oh, 2018; Shi, Hoskisson, & Zhang, 2017) to be included in the sample. With these criteria as basis, our initial sample had 3,829 deals. The sample size was reduced to 1,649 after merging with the Compustat database and then dropped further to 487 after merging with the KLD data. After the further removal of observations with missing data in our dependent variable, moderators, and key control variables, our final sample included 237 deals between 2000 and 2012. The other key variables based on KLD, ExecuComp, and Compustat and moderators were lagged by one year; thus, the data period of these variables was from 1999 to 2011. Among the 237 deals, 123 acquirers were involved in only one deal and 42 acquirers in two or more deals.

Dependent Variable

Following prior studies (*e.g.*, Haleblian, Pfarrer, & Kiley, 2017; Shen et al., 2014), we used acquirer cumulative abnormal return (CAR) to capture *acquirer announcement return*. If the market believes that an acquirer will benefit from the

acquisition, the market will react positively to an acquirer around the announcement of an acquisition deal (Zaheer et al., 2010). In our study, *acquirer announcement return* was the three-day CAR around the deal announcement date with the event window [−1, +1]. For better coefficient manifestation, acquirer CAR was multiplied by 100.

Following Wade, Porac, Pollock, and Graffin (2006), we used EVENTUS, a program from the Wharton Research Data Services, to calculate CAR. Given that the acquisition announcement may happen on a non-trading day, we used the "autodate-yes" option in EVENTUS (Gong et al., 2017) with an estimation window of [−210, −11], indicating that the estimation started 210 days and ended 11 days prior to the deal announcement date (Deng et al., 2013; Schuler, Shi, Hoskisson, & Chen, 2017). The interval offered sufficient time to estimate the expected stock returns and mitigate the concern of information leakage (Wade et al., 2006). Furthermore, we required that at least the 100-day stock returns within the above estimation window were available such that we had sufficient information to predict expected returns. Accordingly, the abnormal return (*AR*) on day *t* is estimated by the following:

$$AR_t = R_t - (\alpha + \beta * R_{mt}) \qquad (1)$$

where R_t is the daily stock return of a focal acquirer and R_{mt} is the daily stock market return on day *t* based on a value-weighted method. AR is the actual daily stock return minus the expected daily stock return. $Acquirer\ CAR_t$ for the event window [−1, 1] is the sum of abnormal returns in the three days. The formulation is as follows:

$$Acquirer\ annoucement\ return_t[-1,1] = \sum_{t=-1}^{t=1} AR_t \qquad (2)$$

Independent and Moderating Variables

Target CSR was measured on the basis of the five dimensions of KLD data: environment, employee, community, diversity, and product (*e.g.*, Choi & Wang, 2009; Koh et al., 2014; Tang, Qian, Chen, & Shen, 2015). Each dimension consists of two

components: strengths and concerns. Strengths represent "policies, procedures, and outcomes that enable a firm to have a positive impact on the focal issue," and concerns represent "policies, procedures, and outcomes that tend to have a negative impact on the focal issue" (Khan, Serafeim, & Yoon, 2016). Each component contains several items, and each item is a binary indicator showing whether a firm fulfills a certain criterion. For instance, the "generous giving" item in community dimension is coded as 1 if "the company has consistently given over 1.5% of trailing three-year net earnings before taxes (NEBT) to charity, or has otherwise been notably generous in its giving", and 0 otherwise.

We constructed *target CSR* in the following two steps. First, KLD dimensions are not comparable with each other. For instance, the community dimension consists of eight strength items and four concern items, whereas the product dimension comprises twelve strength items and five concern items. Following Koh et al. (2014) and Wang and Choi (2013), we standardized the strength and the concern scores in each dimension for each target firm. Specifically, we subtracted the strength or the concern score in each dimension from its sample mean and then divided them by its sample standard deviation. Second, we used the sum of standardized strength scores (*i.e.*, environment strength, employee strength, community strength, diversity strength, and product strength) minus the sum of standardized concern scores (*i.e.*, environment concern, employee concern, community concern, diversity concern, and product concern) to measure *target CSR*. The detailed descriptions of the KLD strengths and concerns, based on RiskMetrics (2010), are shown in the Appendix.

Stakeholder value congruence was measured as the degree to which the stakeholder portfolios of the acquirer and target were similar, which was further operationalized as the Mahalanobis distance (MD) between the merging firms'

stakeholder portfolio (multiplied by −1). The MD has been widely used to measure the structural difference between two portfolios (*e.g.*, Kim & Finkelstein, 2009; Zhou & Guillén, 2015).[2] Specifically, by combining the five dimensions of KLD data (environment, employee, community, diversity, and product) and the two indexes (strength and concern), we constructed a column vector comprising ten elements to capture the stakeholder portfolio of the merging firms, *S*.

$$S=\begin{Bmatrix}\text{Environment strength}\\ \text{Environment concern}\\ \text{Employee strength}\\ \text{Employee concern}\\ \text{Community strength}\\ \text{Community concern}\\ \text{Diversity strength}\\ \text{Diversity concern}\\ \text{Product strength}\\ \text{Product concern}\end{Bmatrix} \quad (3)$$

The *stakeholder value congruence* was then computed as follows:

$$Stakeholder\ value\ congruence = -\sqrt{\left(S_{Acquirer} - S_{Target}\right)^{T} W^{-1}\left(S_{Acquirer} - S_{Target}\right)} \quad (4)$$

where W^{-1} was the inverse of the pooled covariance matrix. As expressed in the formula, the *stakeholder value congruence* is equal to the MD between the column vector $S_{Acquirer}$ and column vector S_{Target}, multiplied by −1.

Business similarity was captured as the degree of similarity between the merging firms in terms of resources and strategies. In particular, we utilized three indicators to construct this variable: (1) *similarity in product market*, (2) *similarity in human capital*, and (3) *similarity in technology resource*. Following Lubatkin,

[2] Regarding the distinction between *target CSR* and *stakeholder value congruence*, target CSR is a point in a multi-dimensional space, whereas stakeholder value congruence is the reverse value of geometric distance between two points in such space. Thus, the two variables differ from each other theoretically and empirically.

Srinivasan, and Merchant (1997: 66), we calculated *similarity in product market* based on the four-digit SIC industries in which the merging firms participate. In particular, it was measured as the reverse value of the sum of the numbers of the acquirer's four-digit SIC industries and the target's four-digit SIC industries minus the number of overlapped four-digit SIC industries between the merging firms.

Similarity in human capital captures the similarity in occupation types that the merging firms contain because employees' occupation is the main domain for human capital development (Grimpe, Kaiser, & Sofka, 2019; Lee, Mauer, & Xu, 2018). The more similar the human capital portfolio, the more similar the employee knowledge and skills and, to an extent, the product features are (Hatch & Dyer, 2004; Mayer, Somaya, & Williamson, 2012). *Similarity in human capital* was calculated as the reverse value of the Mahalanobis distance in occupation portfolio between the acquirer and the target. The occupation portfolio of a certain firm was denoted with a column vector, *H* as $(occupation_1, \dots, occupation_n, \dots, occupation_N)^T$, capturing the scope of occupations in a firm. The subscript n in (1, N) was the occupation code index. The scalar ($occupation_n$), also called vector element, was the proportion of firm employees in a certain occupation. We took several steps to identify occupations and computed scalars for each firm. First, we extracted the occupation employment data from the Occupational Employment Statistics of the US Bureau and Labor Statistics. The program reported the occupation data at the aggregate level by state, metropolitan area, and industry for over 800 occupations. Given that some firms may operate in multiple industries, we utilized the Compustat Business Segment database to extract industry information. Accordingly, the scalar ($occupation_n$) was computed as $occupation_n = \sum_{i=1}^{I} w_i O_{n,i}$, where w_i represented the ratio of sales in industry segment i to total sales. $O_{n,i}$ represented the proportion of firm employees in

occupation n of industry segment *i*. Applying the above procedures, the similarity in human capital was measured as follows:

$$\textit{Similarity in human capital} = -\sqrt{\left(H_{Acquirer} - H_{Target}\right)^{T} W^{-1} \left(H_{Acquirer} - H_{Target}\right)} \quad (5)$$

where W^{-1} was the inverse of the pooled covariance matrix, H_{Acquirer} was the acquirer's human capital profile, and H_{Target} was the target's human capital profile. A negative sign was added to take the reverse value such that a higher value means greater similarity in human capital.

Similarity in technology resource was constructed by comparing patent classes of the merging firms using information from the United States Patent Classification (USPC) system of the USPTO (Bloom, Schankerman, & Van Reenen, 2013; Grieser & Liu, 2019; Li, Qiu, & Wang, 2019). This measure was similarly constructed as the reverse value of the Mahalanobis distance in terms of technology resources, captured by comparing the patent portfolios between the merging firms. Like the procedures of constructing the similarity in human capital, the patent portfolio of a firm was denoted as the column vector P, which was defined as $(patent_1, \ldots, patent_n, \ldots, patent_N)^T$, capturing the scope of technology-related activities in a firm. The subscript n in (1, N) was the patent class index that was extracted from the USPC system. The scalar ($patent_n$) was the proportion of patents awarded to a firm (*i.e.,* the ratio of patents in patent class *n* to the total number of patents in the same year). Applying the above procedures, the similarity in technology resource was measured as follows:

$$\textit{Similarity in technology resource} = -\sqrt{\left(P_{Acquirer} - P_{Target}\right)^{T} W^{-1} \left(P_{Acquirer} - P_{Target}\right)} \quad (6)$$

where W^{-1} was the inverse of the pooled covariance matrix. P_{Acquirer} was the acquirer's technology resource profile, and P_{Target} was the target's technology

resource profile.

As each of the three components captures a different aspect of firm resources, combining them can help provide a comprehensive measure of business similarity. Therefore, we constructed a composite measure by taking the average of the standardized scores of the above three similarity measures, with a higher score representing greater *business similarity* between merging firms. Such an operationalization[3] was consistent with practices in prior studies (*e.g.,* Lara, Osma, & Penalva, 2016; Miner-Rubino & Cortina, 2007). In a robustness test, we reran all models using the three similarity measures separately. The results are highly consistent with our reported findings as shown in Table 3.

Control Variables

We included a set of control variables typically considered in the acquisition literature. At the firm level, we controlled for *acquirer size* and *target size* by including acquirer and target market values given that the size of merging firms may affect acquisition processes and acquirer announcement returns (*e.g.,* Moeller, Schlingemann, & Stulz, 2004; Shen et al., 2014). We then used the natural logarithm transformation of these two variables to mitigate the skewness concern. In addition, we included *acquirer slack* and *target slack,* which were also considered to affect acquisition outcomes (Hitt, Harrison, & Ireland, 2001). Slack was measured as the ratio of the sum of cash and cash equivalent to market value (Tang et al., 2015). We also included *acquirer CSR*, which had been argued to have influence on acquirer announcement returns (Deng, Kang, & Low, 2013). Acquirer CSR is measured by following the same procedure for

[3] To validate this operationalization, we perform a confirmatory factor analysis to further assess its appropriateness (*i.e.,* using the three similarities in product market, human capital, and technology resource to capture *business similarity* between the merging firms). The results show that the one-factor model fits the data well (RMSEA < 0.05, CFI > 0.95, TLI > 0.95). Therefore, the selection of the three similarity measures for the composite similarity measure is further validated (Hooper, Coughlan, & Mullen, 2008; Taasoobshirazi & Wang, 2016).

constructing target CSR.

We controlled for *acquirer recent announcement return*, which may affect acquirer announcement returns (Haleblian, Pfarrer, & Kiley, 2017). It was measured as the average abnormal returns (with window [−1, 1]) of a focal acquirer's acquisitions over the past three years (Haleblian, Pfarrer, & Kiley, 2017). Moreover, *acquirer acquisition experience* was included because it may affect an acquirer's ability to extract value from a target (Cuypers, Cuypers, & Martin, 2017). This variable was calculated as the number of acquisitions that an acquirer conducted over the past three years. Executives' interests may also affect the financial outcome of a takeover deal (Devers, McNamara, Haleblian, & Yoder, 2013). *Acquirer CEO total compensation* was included because CEOs may seek increase in compensation through acquisitions (Haleblian et al., 2009; Wowak, Mannor, & Wowak, 2015). CEO total compensation (in millions) was measured as the sum of salary, bonus, other annual pay, and the total value of restricted stock. Given the skewness of this measure, we transformed it using natural logarithm.

We considered *target financial distress*, measured by the Altman-Z score (Miller & Reuer, 1996), which reflects the asset quality of a target and may consequently affect shareholder reaction. We included *target debt ratio* as an additional control as it affects a target's financial capability and reflects its potential slack (Gong et al., 2017; Iyer & Miller, 2008; Morrow, Sirmon, Hitt, & Holcomb, 2007). In addition, acquirer announcement returns may be better when the acquirer had prior alliances with the target preceding the takeover deal (Zaheer et al., 2010). Therefore, we also included the number of *prior alliances between the merging firms*.

At the deal level, we included a *hostile takeover* dummy variable, which was coded as 1 if the deal attitude was hostile; 0, otherwise, because an acquirer is likely to

appropriate target stakeholders if a deal is hostile (Shleifer & Summers, 1988). The n*umber of bidders* in an acquisition was also controlled (Deng et al., 2013; Shen et al., 2014). To control for potential estimation bias caused by serial acquirers, we constructed a dummy variable called the *serial acquisition indicator,* which was coded as 1 if an acquirer had more than one takeover deal in our sample; 0, otherwise.

At the macro level, we controlled for *bull market*, indicating whether the stock market was in the bull stage, following the procedure outlined by Gabisch and Lorenz (1987). The rationale is that investors may react differently to the bull market versus other market stages (Lubatkin, Srinivasan, & Merchant, 1997). We identified the market trend by examining the turning points (peaks and troughs) in a time series of historical stock market. A bull market trend was characterized by a general upward movement lasting at least six months, as a stable cycle was represented by at least a six-month period that showed no discernible movement.[4] Finally, we applied industry and year fixed effects to mitigate the concern for unobserved time-invariant heterogeneity.

Estimation Procedures

We used Heckman two-stage models to estimate our coefficients with robust standard errors adjusting for acquirer-level clustering. Our study may be subject to self-selection bias (Shaver, 1998), as our explanatory variable, target CSR, was not a random treatment variable: acquirers may select which targets to acquire based on their CSR levels. To address this concern, we employed a Heckman two-stage model. In the first-stage *probit* model, we coded the dependent variable as 1 if the level of target CSR was

[4] Alternatively, we used a more comprehensive measure from the NBER, called "business cycle." This dataset maintains a chronology in the US business cycle. The chronology comprises the alternating dates of peaks and troughs in economic activity. A recession is a period between a peak and a trough, and an expansion is a period between a trough and a peak (*http://www.nber.org/cycles/recessions.html*). The results using the NBER business cycle data are consistent with our main findings.

higher than that of the acquirer, and 0 otherwise (it is reasonable to assume that an acquirer uses its own CSR level as a reference point in evaluating the target).

We included three instrumental variables in the first-stage model. The first was the *religiosity* of the state where the acquirer is located, which proxies for the religious orientation of the acquirer. Religious denominations generally promote the values of integrity, kindness, trust, loyalty, and fairness, thus disciplining managers to be more stakeholder oriented (Angelidis & Ibrahim, 2004; Deng et al., 2013). Therefore, *religiosity* is likely to be positively associated with acquirers' CSR tendency. However, it is unlikely that *religiosity* will affect acquirer announcement return, but it likely has an impact on their tendency to acquire a target with higher CSR. This variable was measured as the rates of adherents per 1000 population in the state where an acquirer firm was located. The data were from the Association of Religion Data Archive. The second instrumental variable was acquirers' *CSR discrepancy*, which captures the extent to which an acquirer has lower than expected CSP. A firm with high *CSR discrepancy* has a greater incentive to increase its CSR level than that with low *CSR discrepancy*. Accordingly, an acquirer with high *CSR discrepancy* may be more likely to select a target with higher CSR, which helps reduce the discrepancy. Meanwhile, no direct or systematic mechanism links *CSR discrepancy* to *acquirer announcement return*. This variable was constructed in the following steps. We initially regressed firm size, R&D intensity, ROA, firm slack, dividend paid, and institutional ownership on firm CSR. This regression gave us the residual value (*i.e.*, the actual CSR minus the

expected CSR). Thereafter, we changed the sign of the residual value to obtain a measure that indicates the directional difference between the expected CSR and the actual CSR. The third instrumental variable was *corporate tax rate in acquirer state*. Due to potential tax savings associated with CSR, acquirer state tax rate may affect the propensity for a firm to acquire a high-CSR target. However, the state tax rate will unlikely affect acquirer announcement return. Data for corporate tax rate are compiled based on the Tax Foundation and the University of Michigan's World Tax Database.[5] Further examining the strength of our instrumental variables empirically, we applied an F-test by regressing the first-stage dependent variable on the instruments only (Koh et al., 2014; Kotha, Zheng, & George, 2011). The F-statistic was 26.07, significantly above the critical value of 12.83 (Larcker & Rusticus, 2010; Stock, Wright, & Yogo, 2002), indicating that the three variables—*corporate tax rate in acquirer state*, *religiosity*, and *CSR discrepancy*—jointly serve as strong instruments. Following prior studies (*e.g.*, Lee, Mun, & Park, 2015; Wang, Choi, & Li, 2008), we included control variables in the second-stage into the first-stage selection model. Year and industry dummies (two-digit SIC codes) were also included.

RESULTS

Table 1 presents the descriptive statistics and correlations for the variables in our study. In line with previous studies, the mean value of CAR as a measure of the

[5] The World Tax Database provided information on state corporate tax rates from 1913 to 2002, and the Tax Foundation provided data on state corporate tax rates from 2000 to 2014. We used the Tax Foundation as the main source of corporate tax rate data and utilized the World Tax Database as a complementary source.

acquirer announcement return is negative (Campbell, Sirmon, & Schijven, 2016; Cuypers, Cuypers, & Martin, 2017; Graffin et al., 2016). As expected, the correlation between *target CSR* and *acquirer announcement return* is positive and significant, providing preliminary evidence for the argument that target CSR enhances acquirer announcement return. We conducted the variance inflation factor (VIF) test to check for the multicollinearity problem. The maximum VIF is 4.16, and the mean VIF is 1.73, which are both below 10. Thus, our estimations were not subject to multicollinearity concerns (Cohen, Cohen, West, & Aiken, 2003).

--- Insert Table 1 about here ---

In the first-stage Heckman model, we find that *acquirer size* is negatively associated with the propensity to acquire a target with high CSR. For the three instrumental variables, *CSR discrepancy* is positively significant, indicating that firms with high CSR discrepancy are more likely to acquire a high CSR target, which is consistent with our prediction. However, the *corporate tax rate in acquirer state* and *religiosity of acquirer* are insignificant, although with expected signs. Possibly, the state-level measures of these variables cannot capture the social orientation of a firm effectively.

Table 2 reports the results of second-stage Heckman regressions used to test our main hypotheses. Model 1 is the baseline model including the control variables only. Among the control variables, *acquirer size*, *acquirer recent announcement return*, *acquirer acquisition experience*, and *number of bidders* show positive and significant effects on acquirer announcement return, whereas the effect of *target size* is significantly negative. Model 2 adds the two moderators. Models 3 to 5 add the main predictor and its interactions terms, respectively. Model 6 is the fully specified model that includes all predictor variables and interactions terms.

--- Insert Table 2 about here ---

Hypothesis 1 posits that *target CSR* is positively associated with the *acquirer announcement return*. Models 3 to 6 reveal that this relationship is positive and significant ($\beta = 0.189$, $p < 0.1$ in Model 3; $\beta = 0.734$, $p < 0.05$ in Model 6). Thus, Hypothesis 1 is supported. In terms of economic magnitude, one standard deviation increase in *target CSR* will result in 0.682% higher return than the mean *announcement abnormal return*.

Hypotheses 2a and 2b provide the opposite predictions of the interaction between *stakeholder value congruence* and *target CSR*. Specifically, Hypothesis 2a suggests that *stakeholder value congruence* strengthens the positive relationship between *target CSR* and *acquirer announcement return*. By contrast, Hypothesis 2b posits that *stakeholder value congruence* weakens the positive relationship. The coefficient of the interaction between *target CSR* and *stakeholder value congruence* is positive and significant ($\beta = 0.126$, $p < 0.05$ in Model 4; $\beta = 0.157$, $p < 0.01$ in Model 6). The result supports Hypothesis 2a, suggesting that the stakeholder preservation perspective dominates.

Hypotheses 3a and 3b are also competing hypotheses regarding the interaction between *business similarity* and *target CSR*. Hypothesis 3a states that *business similarity* weakens the positive relationship between *target CSR* and *acquirer announcement return*. By contrast, Hypothesis 3b maintains that *business similarity* strengthens the positive relationship. The coefficient of the interaction between *business similarity* and *target CSR* is negative and significant ($\beta = -0.272$, $p < 0.05$ in Model 5; $\beta = -0.328$, $p < 0.001$ in Model 6). This result supports Hypothesis 3a, suggesting that the stakeholder preservation perspective also prevails.

Figures 1-1 and 1-2 illustrate the results, which further confirm our findings.

The relationship between *target CSR* and *acquirer announcement return* becomes stronger when the level of *stakeholder value congruence* is high but becomes weaker when the level of *business similarity* is high. Specifically, the cross lines in Figure 1-1 suggest that, when *target CSR* is low, *stakeholder value congruence* between the merging firms can damage firm performance (low congruence is better), and *stakeholder value congruence* only helps when *target CSR* is high. Thus, the figure shows that the *acquirer announcement return* is the highest with the existence of high *target CSR* and *stakeholder value congruence,* which is consistent with the expectations from the stakeholder preservation perspective. The cross lines in Figure 1-2 suggest that, when *target CSR* is low, higher *business similarity* enhances *acquirer announcement return*, but *acquirer announcement return* is the highest with high *target CSR* and low *business similarity*. This finding is again more in line with the stakeholder preservation perspective and less with the stakeholder appropriation perspective.

--- Insert Figures 1-1 and 1-2 about here ---

SUPPLEMENTARY TESTS

To ensure the robustness of our key results, we conducted a number of additional analyses.[6]

Alternative measures of moderators. While we applied a composite measure of *business similarity* in our main model, as robustness checks, we ran separate analyses on the three measures of business similarity separately. As shown in Table 3, we found largely consistent results with the main findings, lending additional support or the robustness of our results.

--- Insert Table 3 about here ---

[6]If not specifically mentioned, we did not show the detailed results here given the page limitation. The detailed results of robustness checks are available from authors upon request.

Our measure of *stakeholder value congruence* captured differences in the levels and portfolio structure of stakeholder management (CSR) between the merging firms. To understand the independent influences of differences in portfolio structure, we separated the structure difference from the level difference following the methodology of Mishina, Dykes, Block, and Pollock (2010: 709). Specifically, we extracted the common variance between the original measure of stakeholder value congruence and the level difference by regressing the original measure of stakeholder value congruence on the level difference (*i.e.*, the absolute difference between the aggregate acquirer CSR and the aggregate target CSR). We then used the residuals from the regression as a proxy of stakeholder value congruence in structure (Cohen, Cohen, West, & Aiken, 2003).

Issues associated with the KLD data. In the KLD database, the items included for each stakeholder dimension were unbalanced across years. Some items appeared in a specific year but were absent in another year. For instance, the "non-layoff policy" item in the employee dimension only had non-missing data from 1991 to 1993, and the "environmental management system" in the environment dimension was not recorded until 2006. In the product dimension, "R&D/innovation" and "social opportunities-access to health care" items were removed from the KLD dataset for several years, implying that the KLD scores may not be perfectly comparable across years. Therefore, we examined the distribution of each item over time and required it to be considered in the calculation of target CSR as robustness checks; an item should have non-missing values in at least half of the sample period. After deleting unqualified items, we followed the standard procedures discussed above to construct an alternative measure of target CSR. The results are consistent with findings in our main analyses.

Model Overfitting. Given our relatively small sample size and the large set of

variables included in the regressions, concern for potential model overfitting may emerge. To address this issue, we used two alternative sets of control variables to rerun all regression models based on the sample used in the main analyses. We started with the model specification without any control variable. The main effect is positive and significant. The moderating effect of stakeholder value congruence was qualitatively the same as our reported findings. The moderating impact of business similarity is also negatively significant. Subsequently, we used the model specification with essential control variables (*i.e.*, acquire CSR, acquirer size, and target size). The results are again largely consistent with our main findings.

Variation in target ownership after acquisitions. Previous studies suggest that the level and success of acquisition integration may be affected by the extent of target ownership held by an acquirer (Chatterjee, 1992; Pablo, 1994). Therefore, we conducted robustness analyses by rerunning models using different ownership percentages as cut-off points to determine the sample used for our regression analyses. When we limited the acquisition deals to those with acquirers having full (100%) target ownership, the results were fully consistent with our main findings. The results held with a 50% ownership cutoff.

Post-hoc analyses of primary and secondary stakeholder-related CSR. Some scholars (Freeman, Harrison, & Wicks, 2008; Godfrey, Merrill, & Hansen, 2009) have classified stakeholders into primary and secondary groups based on the extent of their relation to business operations. An acquirer may have different preferences for primary versus secondary stakeholders in terms of stakeholder preservation and appropriation. We conducted additional post-hoc analyses by dividing CSR into primary stakeholder-related and secondary stakeholder-related CSR. We constructed two sets of measures to capture the two different types of CSR. In the first set, the primary stakeholder-

related CSR is the sum of KLD scores in the employee, product, and environment dimensions, whereas the secondary stakeholder-related CSR is the sum of KLD scores in the community and diversity dimensions. Given that some controversy emerges in terms of whether the environmental dimension should be included in the primary or the secondary stakeholder category (Buysse & Verbeke, 2003; Eesley & Lenox, 2006). In the second set, following the instructions of Mattingly and Berman (2006), we treated environment-related stakeholders as secondary stakeholders to come up with alternative measures. Specifically, the primary stakeholder-related CSR was the sum of KLD scores in the employee and product dimensions, whereas the secondary stakeholder-related CSR was the sum of KLD scores in the community, diversity, and environment dimensions. Overall, the results show that the impact of CSR in terms of primary stakeholders is stronger than that of secondary stakeholders on acquirer announcement return. This distinction confirmed the viewpoint of Godfrey, Merrill, and Hansen (2009) that primary stakeholders are closer to the core of business operations and that secondary stakeholders exert influences on those operations through primary stakeholders. Thus, when an acquirer undertakes stakeholder preservation or appropriation, it tends to pay more attention to the primary ones because of their greater influences. While more nuanced analyses on the differentiation of stakeholder types may be beyond the scope of this study, the question of how primary and secondary stakeholders in a target may make any difference in an acquisition is an interesting venue for future research.

Unobserved cultural factors. The construct of stakeholder value congruence may, to some extent, overlap with similarity in organizational culture between the merging firms. To ensure that the results associated with stakeholder value congruence are robust, we conducted additional analyses by including several widely used proxies

of cultural similarity as additional controls, including similarities in religion, ethnicity, and political ideology.

The first variable was constructed on the basis of religion, which has been argued to play an important role in organizational life and to be an important component of organizational attributes (Chan-Serafin, Brief, & George, 2013). The religion data were collected from the Association of Religion Data Archive. This dataset recorded the population of various religions including American Baptist, Catholic, Episcopal, and United Church of Christ. Religion similarity was measured as the Mahalanobis distance of religion composition in the states where the merging firms were located. The state information was obtained from the Compustat. Second, we controlled for ethnic similarity, measured as the Mahalanobis distance of ethnic origin composition in the states where the merging firms were located. The ethnicity of a region reflects the cultural background of the people in the region,[7] which might be directly related to the organizational culture of firms located in the region. The ethnic origin data were collected from the US census, which recorded the population of various ethnic origins including British, German, Dutch, Irish, and West Indian. Although the ethnic origin data in the US census only covered the data in 2000 and 2010, we used the data in 2000 because the data in 2010 did not cover questions pertaining to a respondent-level ethnic origin. They are integrated into single measure based on the factor analysis to represent the aggregate influence of these two measures.

Moreover, we controlled for the political ideology of the states where the merging firms are located, as political ideology also influences cultural domains (Jost, Federico, & Napier, 2009). Following the logic of previous studies (Deng et al., 2013;

[7] The assumption is that when individuals emigrate from their native country to a new country, their cultural beliefs and values travel with them, but their external economic and institutional environment are left behind (Fernández, 2011; Liu, 2016).

Ge & Liu, 2015),[8] we coded political ideology similarity as 1 if the merging firms are located in the state(s) with same political ideology (democratic state or republican state), and 0 otherwise. Although the three dimensions of culture similarity (*i.e.*, religion similarity, ethnicity similarity, political ideology similarity) do not necessarily capture all aspects of corporate culture, they account for general organizational culture-related attitudes or tendencies. The results of our robustness tests with these variables included are largely consistent with our primary findings.

In addition, we conducted several additional robustness tests. First, to ensure that our results were not deflected by outliers, we re-estimated the models by winsorizing all continuous variables at the 1% and 99% levels (Chen, Kale, & Hoskisson, 2018; He & Tian, 2013). The results were fully consistent with those using non-winsorized measures. Second, we addressed the concern about artificial correlation (Hitt, Hoskisson, & Kim, 1997; Wiseman, 2009) as some control variables with common denominators may give rise to the issue. This issue applied to the size and slack of the acquirer and target. We re-estimated our models using the raw value of cash and cash equivalent to capture merging firms' slack. The results are fully consistent. As raw values may be highly skewed, we reran the models using the natural logarithm transformations of the raw values and found that the key results continued to hold.

DISCUSSION AND CONCLUSION

This study is motivated by the mixed arguments and evidence in how target stakeholders may affect acquirer value gain in an acquisition. There are two contrasting perspectives (*i.e.*, stakeholder preservation vs. appropriation) about the role of target

[8] The list of democratic (blue) states can be found at *http://en.wikipedia.org/wiki/File:Red_state,_blue_state.svg*. The information at *http://azpundit.com/list-of-the-mostdemocratic-republican-states/* cannot be accessed for now.

stakeholders in affecting acquirer gains (Bettinazzi & Zollo, 2017; Deng et al., 2013; Shleifer & Summers, 1988). Specifically, the stakeholder preservation and appropriation perspectives provide distinct implications about how target stakeholders should be treated in an acquisition in terms of whether their implicit contracts should be preserved or appropriated. In this study, we have carefully developed theoretical arguments based on each of the two perspectives and designed our research in a way that enables us to examine and compare the two perspectives directly. Our empirical results provide stronger support for the stakeholder preservation perspective, highlighting that, in general, establishing trusting and cooperative relationships with stakeholders offers greater benefit than exploiting stakeholder vulnerabilities.

In addition to its direct contributions to the conversations in the M&A literature, especially those that focus on the period during the occurrence of an acquisition and the process of post-acquisition integration, our arguments and findings provide important implications for the role of market in corporate control and anti-takeover devices more generally. A prevalent view in the field, especially in the corporate finance literature, regards the presence of takeover threat as playing the role of disciplining incompetent managers and diminishing agency problems (Agrawal & Knoeber, 1996; Jensen & Ruback, 1983; Qiu & Yu, 2009). This view lends support to the notion that the market for corporate control is an effective monitoring device that leads to enhanced resource allocation and managerial efficiencies (Manne, 1965). However, our findings suggest that such a view may be limited and even inappropriate, as it overlooks the various negative effects of takeover threat on target firms and their stakeholders (*e.g.*, Cen, Dasgupta, & Sen, 2015; Chemla, 2005). By contrast, our study suggests that providing autonomy, security, and protection for target stakeholders is more conducive to value creation. Recent works in the related areas provide evidence in line with this argument.

For example, Wang, Zhao, and He (2016) argue and find that a larger level of takeover protection, by reducing the power of market for corporate control, leads to managers' greater willingness to adopt a strategy toward firm-specific knowledge accumulation, which is an important source of a firm's superior performance and competitive advantage. Our study highlights the importance of providing a sense of security for stakeholders and protecting stakeholder benefits in general through role security and continuity of firm stakeholders.

Second, our study provides new insights into the literature on the relationship between CSR and market response in terms of abnormal returns. Given that firm social practices have become increasingly prominent, some studies have directly examined market reactions to firms' CSR activities. For example, previous studies show that shareholders are likely to react positively to firms' CSR announcements (Arya & Zhang, 2009; Griffin & Sun, 2013), the issuance of CSR reports (Wang & Li, 2016), and firms' addition to the Domini Social 400 index (Ramchander, Schwebach, & Staking, 2012). Moreover, an emerging stream of inquiry looks into the role of CSR in the acquisition context, but it is confined to acquirer CSR. For example, Deng et al. (2013) demonstrated how acquirer CSR affects acquirer announcement returns and found a positive relationship between the two. Bettinazzi and Zollo (2017) revealed that acquirer stakeholders' orientation toward employees, customers, suppliers, and local communities matters for acquisition integration and acquisition success. Our study extends this stream of inquiry by providing novel theoretical approaches linking target CSR with acquirer announcement returns. Thus, it provides new insights into the conversation between the CSR and the acquisition literature (Parvinen & Tikkanen, 2007).

In addition, this study contributes to the acquisition literature that examines the

role of similarities between acquirers and targets by highlighting the dark sides of similarity in the acquisition context. Previous studies in this area have generally documented positive effects of similarities between merging firms (Finkelstein & Haleblian, 2002). For example, Stahl and Sitkin (2010) propose a model of trust dynamics and suggest that similarities between merging firms are crucial for acquisition success through their influences on target stakeholders' attitudinal and behavioral response to an acquirer. Studies in other contexts such as firm diversification also suggest that similarities across multiple businesses enable a firm to leverage resources and capabilities better and reduce coordination costs (Palich, Cardinal, & Miller, 2000; Robins & Wiersema, 1995). By contrast, our study suggests that the influences of similarities between merging firms on acquisition outcomes are contingent on how the types of similarity interact with the treatment of target stakeholders. Under certain conditions, each type of similarity can be potentially detrimental. In particular, our results unveil that stakeholder value congruence increases the difficulties of implementing stakeholder appropriation, whereas business similarity may hinder stakeholder preservation. In this regard, our study suggests that the impact of similarities on value gain for an acquirer depends on what the acquirer intends to do with target stakeholders. Future studies should be cautious not to over-simplify the role of similarity in acquisitions.

It is necessary to note that our discussion of "stakeholder preservation" vs "stakeholder appropriation" in this paper should be differentiated from the discussion of "value creation and capture" in prior research. First, value creation and capture have been largely discussed in the within-firm context (Coff, 1999; Garcia-Castro & Aguilera, 2015; Mizik & Jacobson, 2003), while our discussion is across firms (i.e., between the acquirer and the target). The "value creation and capture" framing indicates

that value creation is a process in which a firm and its stakeholders bring in resources and capabilities to create value, whereas value capture is a process of distributing value in a firm based on the negotiation between the firm and its stakeholders. However, this framing does not apply to our research setting in which the acquirer is not involved in the value creation/generation process of the target firm, but it can gain benefits through stakeholder appropriation. Second, value creation and capture are sequential processes in previous studies (Lavie, 2007; Lepak, Smith, & Taylor, 2007; Priem, 2007), whereas stakeholder preservation and appropriation are essentially parallel in our study. Lepak et al. (2007: 180) interpret that value creation is "the process by which value is created," and value capture includes "the mechanisms that allow the creator of value to capture the value." In our study, however, stakeholder preservation is not a prerequisite for stakeholder appropriation. Instead, the acquirer must choose between stakeholder preservation and stakeholder appropriation when redeploying the target stakeholders and their implicit contracts. Therefore, the introduction of "stakeholder preservation vs. appropriation" is indispensable in our study.

The results of this study also have important practical implications for managers. First, when evaluating a potential acquisition, the managers of an acquirer should consider the role of target stakeholders. Our study finds support for the stakeholder preservation perspective. Accordingly, the managers should pay more attention to enlisting target stakeholder cooperation and support for a smooth acquisition process by preserving the implicit contracts with the target stakeholders. Nevertheless, the managers are not recommended to protect target stakeholders blindly without appropriate actions to deal with ineffective or unhelpful target stakeholders. Instead, managers should be aware of the complexity surrounding the ways in which target stakeholders contribute to new value creation. In practice, an acquirer should consider

the benefits and costs of stakeholder preservation and appropriation and exert efforts to achieve better financial gains by integrating both sides.

Second, the managers of an acquirer should not assume that similarities between the merging firms are always beneficial for the acquirer. Practically, managers are commonly unaware of the potential adverse effects of similarities on the new value that an acquirer can obtain. The role of similarities in an acquisition is complex, which cannot be simplified as "black or white" in terms of their influence on acquirer gains (Bauer & Matzler, 2014). As demonstrated in our study, although stakeholder value congruence facilitates new value generation from the acquisition of a target with good CSR, business similarity can have a negative effect on new value creation from CSR. Thus, managers should be aware that although business similarity may independently be a source of synergy and acquirer gains from acquisitions, it may hurt acquiring firms when the target has good CSR.

Our study also has several limitations, which may provide avenues for future research. First, the underlying mechanism of the stakeholder preservation perspective involves a positive role of target stakeholders in terms of their cooperation and support. However, given data limitations, we were unable to measure directly how target stakeholders behave and react in an acquisition. Thus, it presents an opportunity for future research to explore this issue further, perhaps by utilizing other data and methods such as qualitative or survey approaches, to obtain an in-depth understanding of stakeholder behaviors during acquisition integration processes. Particularly, future study might consider developing direct measures of stakeholder appropriation and preservation following the empirical approach proposed by Lieberman, Garcia-Castro, and Balasubramanian (2017), which allows an estimation of a firm's value creation and distribution among stakeholders, by comparing various stakeholders' inputs with their

outputs. Similarly, our current measures of business similarity, while incorporating several aspects of firm resources and strategies, may still have limitations, as it may not be able to capture similarities between the acquirer and target's businesses fully in terms of strategies and resources. Further research may consider exploring other potential methods such as applying survey data to confirm and substantiate our empirical work and theoretical propositions further.

Second, despite supporting findings for the dominance of the stakeholder preservation perspective, we do not intend to claim that appropriation of target stakeholders is entirely irrelevant in explaining acquisition outcomes. Appropriation may still be relevant under certain specific conditions, which deserves systematic examinations by future studies. For instance, acquisitions between firms in labor-intensive industries may favor the appropriation of target stakeholders more than acquisitions between firms in knowledge-intensive industries (*e.g.,* the high-tech industry). In labor-intensive industries, employees of firms have little specialized knowledge, and, consequently, acquisitions in such industries likely benefit more from the reduction of redundancies and improvement of efficiencies. In addition, as processes of acquisition integration may comprise progressive changes, target stakeholder preservation and appropriation may occur in different stages of the integration process. For example, it might be possible that acquirers engage in stakeholder preservation in the earlier years after acquisition announcements for easing target resistance and motivating resource sharing but undertake the appropriation of target stakeholders in a later period for cost cutting and redundancy reduction. Future research may be able to identify some other contexts and boundary conditions that help provide a more dynamic and balanced understanding of the interplay between the two perspectives and discover when the stakeholder appropriation perspective may still play

a role.

Third, our analysis focused on the overall CSR of target firms, but it does not discuss the heterogeneities among different stakeholder groups. As the main purpose of our paper is to analyze the two contrasting perspectives, a commonly used comprehensive measure of CSR was applied to avoid further complicating the theoretical arguments and potential misinterpretations of our main purpose. However, we do realize that examining heterogeneities among different stakeholder groups is potentially valuable. For instance, a firm's stakeholders in the areas of communities, minorities, and the natural environment are often regarded as secondary. On the one hand, they may be considered as intangible and difficult-to-measure resources that are undervalued by the stock market. Employees and customers, on the other hand, are often categorized as primary or technical stakeholders that have an explicit contribution to firms' value creation (Kacperczyk, 2009). Given such distinctions, preservation and appropriation may occur simultaneously with different stakeholder groups. For instance, acquirers may preserve primary stakeholders, while implementing the appropriation of secondary stakeholders. The distinction between internal stakeholders and external stakeholders may also deserve future attention and investigation (Hawn & Ioannou, 2016). We hope that future studies can build on our work to explore these possibilities.

Fourth, given that the KLD database only covers the social performance of large US companies (*e.g.*, the 3000 largest US companies), the sample of our study consists of acquisitions between large public firms. Future research may extend our framework to explore a broader range of firms with different sizes in different institutional contexts. Moreover, we recognize the difficulty in measuring CSR and stakeholder relationships and the existence of certain reliability concerns associated with KLD data (*e.g.*, Chatterji, Durand, Levine, & Touboul, 2016), even though they have been

acknowledged as the most frequently used data source for CSR research to date. In addition, we acknowledge the limitation of using the net CSR score (strength score minus concern score) to construct the key variables. Future research may explore other databases with either broad coverage of corporate social activities or in-depth coverage of certain aspects of social performance that allows the further development of CSR measures.

In conclusion, we have proposed a theoretical framework to untangle how target stakeholders affect acquisition outcomes, as reflected in announcement returns for an acquirer. Our results provide support for the stakeholder preservation perspective, which prevails against the stakeholder appropriation perspective. Our framework may inspire future research to enrich the understanding of the relationship between target CSR and acquisition outcomes further.

Table 1. Descriptive statistics

Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9
1. Acquirer CSR	1.305	7.155	1								
2. Acquirer size	9.422	1.745	0.115	1							
3. Acquirer slack	0.137	0.153	0.072	-0.188	1						
4. Acquirer recent announcement return	-0.005	0.029	0.118	-0.083	0.035	1					
5. Acquirer acquisition experience	0.835	1.329	0.155	0.431	-0.144	-0.091	1				
6. Acquirer CEO total compensation	2.035	1.044	0.002	0.595	-0.095	-0.062	0.307	1			
7. Target size	6.892	1.370	-0.125	0.353	-0.181	-0.101	0.021	0.189	1		
8. Target slack	0.196	0.209	0.185	-0.170	0.315	0.031	0.061	-0.139	-0.315	1	
9. Target financial distress	1.991	8.327	0.071	0.150	-0.028	0.025	0.030	0.136	0.239	-0.264	1
10. Target debt ratio	0.191	0.300	-0.208	0.047	-0.051	-0.051	-0.027	0.021	0.086	0.030	-0.148
11. Prior alliances between the merging firms	0.105	0.489	0.174	0.122	-0.016	0.037	0.229	0.153	0.153	0.082	0.029
12. Hostile takeover	0.030	0.170	-0.031	-0.074	-0.035	-0.050	-0.035	-0.137	0.069	-0.061	-0.023
13. Number of bidders	1.110	0.375	-0.039	-0.111	0.037	-0.070	-0.057	-0.115	-0.001	0.031	-0.130
14. Bull market	0.287	0.453	0.125	0.080	0.141	0.091	0.156	0.056	-0.037	0.154	0.052
15. Serial acquirer indicator	0.481	0.501	0.207	0.450	-0.121	-0.113	0.451	0.211	0.060	0.021	0.035
16. Stakeholder value congruence	-3.619	1.789	-0.259	-0.515	0.051	-0.052	-0.163	-0.280	-0.186	0.049	-0.047
17. Business similarity	-0.449	0.811	0.029	-0.155	0.174	-0.079	0.035	-0.106	-0.145	0.067	-0.099
18. Target CSR	-1.018	3.609	0.251	-0.071	0.005	0.122	0.070	-0.091	-0.054	0.058	0.075
19. Acquirer announcement return	-1.172	5.839	0.112	0.037	-0.114	0.216	0.082	-0.005	-0.232	0.013	-0.132

Variables	10	11	12	13	14	15	16	17	18	19
11. Prior alliances between the merging firms	-0.028	1								
12. Hostile takeover	0.028	-0.038	1							
13. Number of bidders	-0.022	-0.064	0.149	1						
14. Bull market	-0.036	0.092	-0.001	0.063	1					
15. Serial acquirer indicator	-0.053	0.069	-0.018	-0.057	0.024	1				
16. Stakeholder value congruence	-0.080	-0.046	0.093	-0.018	-0.023	-0.157	1			
17. Business similarity	-0.077	0.042	-0.020	0.077	0.054	0.041	0.195	1		
18. Target CSR	-0.116	0.131	-0.085	0.063	0.039	0.036	0.070	0.033	1	
19. Acquirer announcement return	0.114	-0.050	0.048	0.101	-0.006	-0.074	-0.067	-0.102	0.104	1

Notes: N=237. Correlations with absolute value greater than or equal to 0.128 are significant at the 0.05 level.

Table 2. Results of main analyses: predicting acquirer announcement return

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Acquirer CSR	-0.009	-0.014	-0.057	-0.076	-0.065	-0.090
	(0.067)	(0.068)	(0.065)	(0.063)	(0.065)	(0.062)
Acquirer size	0.823*	0.828*	0.822*	0.780*	0.793*	0.735*
	(0.330)	(0.345)	(0.352)	(0.354)	(0.347)	(0.348)
Acquirer slack	-3.695	-3.873	-3.692	-3.461	-3.895	-3.650
	(3.045)	(3.094)	(3.152)	(3.168)	(3.065)	(3.063)
Acquirer recent announcement return	37.460**	37.923**	36.531*	38.123**	35.961*	37.828**
	(14.228)	(14.386)	(15.142)	(14.520)	(14.974)	(14.304)
Acquirer acquisition experience	0.652**	0.641**	0.588*	0.704**	0.570*	0.711**
	(0.237)	(0.242)	(0.255)	(0.264)	(0.247)	(0.258)
Acquirer CEO total compensation	-0.611	-0.618	-0.609	-0.630	-0.625	-0.655
	(0.412)	(0.416)	(0.422)	(0.428)	(0.422)	(0.431)
Target size	-1.016**	-1.009**	-0.997**	-0.915**	-1.021**	-0.924**
	(0.303)	(0.306)	(0.308)	(0.323)	(0.307)	(0.320)
Target slack	-1.124	-0.993	-1.069	-1.237	-1.118	-1.338
	(2.183)	(2.219)	(2.216)	(2.232)	(2.246)	(2.283)
Target financial distress	-0.056	-0.055	-0.055	-0.053	-0.062	-0.061
	(0.086)	(0.087)	(0.089)	(0.090)	(0.089)	(0.091)
Target debt ratio	2.355	2.348	2.292	2.170	2.501	2.392
	(1.738)	(1.749)	(1.812)	(1.795)	(1.896)	(1.886)
Prior alliances between the merging firms	-0.356	-0.370	-0.483	-0.684	-0.318	-0.534
	(1.092)	(1.105)	(1.113)	(1.060)	(1.080)	(1.004)
Hostile takeover	1.939	2.076	2.599†	3.283*	2.577†	3.424*
	(1.467)	(1.464)	(1.442)	(1.497)	(1.474)	(1.564)
Number of bidders	2.613**	2.578**	2.400*	2.356*	2.525**	2.497**
	(0.909)	(0.935)	(0.976)	(1.011)	(0.947)	(0.954)
Bull market	-0.060	-0.030	-0.022	-0.007	0.011	0.036
	(0.901)	(0.917)	(0.907)	(0.906)	(0.906)	(0.900)
Serial acquirer indicator	-2.007*	-2.046*	-1.998*	-2.128*	-1.802†	-1.925†
	(0.972)	(0.982)	(0.992)	(0.996)	(1.003)	(1.005)
Stakeholder value congruence		-0.049	-0.100	0.008	-0.125	0.003
		(0.253)	(0.259)	(0.250)	(0.259)	(0.249)
Business similarity		0.235	0.279	0.282	0.042	-0.004
		(0.501)	(0.480)	(0.486)	(0.487)	(0.479)
Target CSR			0.189†	0.792*	0.018	0.734*
			(0.106)	(0.332)	(0.126)	(0.314)
Target CSR x Stakeholder value congruence				0.126*		0.157**
				(0.060)		(0.057)
Target CSR x Business similarity					-0.272*	-0.328***
					(0.120)	(0.097)
Inverse mills ratio	0.639	0.642	0.814†	1.041*	0.821†	1.104**
	(0.477)	(0.482)	(0.433)	(0.413)	(0.446)	(0.420)
Constant	-7.949*	-7.941†	-8.464*	-8.993*	-8.125*	-8.714*
	(3.989)	(4.098)	(3.975)	(3.833)	(3.887)	(3.622)
N	237	237	237	237	237	237
R^2	0.385	0.386	0.396	0.407	0.410	0.427

*Notes: Standard errors in parentheses. Year and industry dummies are included. All tests are two-tailed. † 0.1, * 0.05, ** 0.01, *** 0.001*

Table 3. Robustness tests predicting acquirer announcement return (alternative measures of business similarity)

	Panel A Business similarity in product market					Panel B Business similarity in human capital					Panel C Business similarity in technology resource				
Variables	**Model 1**	**Model 2**	**Model 3**	**Model 4**	**Model 5**	**Model 6**	**Model 7**	**Model 8**	**Model 9**	**Model 10**	**Model 11**	**Model 12**	**Model 13**	**Model 14**	**Model 15**
Controls	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Stakeholder value congruence	-0.089	-0.158	-0.043	-0.197	-0.067	-0.019	-0.065	0.044	-0.088	0.022	-0.025	-0.071	0.036	-0.075	0.038
	(0.293)	(0.295)	(0.284)	(0.286)	(0.271)	(0.254)	(0.258)	(0.251)	(0.258)	(0.251)	(0.247)	(0.253)	(0.245)	(0.253)	(0.246)
Business similarity	0.184	0.246	0.219	0.238	0.203	0.102	0.087	0.100	-0.083	-0.069	-0.108	-0.086	-0.057	-0.146	-0.141
	(0.340)	(0.318)	(0.306)	(0.274)	(0.258)	(0.284)	(0.281)	(0.281)	(0.305)	(0.304)	(0.420)	(0.402)	(0.399)	(0.377)	(0.349)
Target CSR		0.196†	0.786*	0.068	0.749*		0.185†	0.790*	0.121	0.725*		0.185†	0.786*	0.180†	0.826*
		(0.106)	(0.334)	(0.126)	(0.313)		(0.105)	(0.331)	(0.109)	(0.335)		(0.106)	(0.331)	(0.107)	(0.328)
Target CSR x Stakeholder value congruence			0.123*		0.149**			0.126*		0.126*			0.125*		0.135*
			(0.061)		(0.057)			(0.060)		(0.061)			(0.060)		(0.060)
Target CSR x Business similarity				-0.101†	-0.125**				-0.123*	-0.122*				-0.096	-0.137†
				(0.061)	(0.043)				(0.055)	(0.049)				(0.099)	(0.079)
Constant	-7.818†	-8.334*	-8.850*	-7.371†	-7.764*	-7.902†	-8.384*	-8.922*	-9.113*	-9.646*	-7.750†	-8.260*	-8.809*	-8.233*	-8.813*
	(4.014)	(3.878)	(3.762)	(3.863)	(3.648)	(4.118)	(3.988)	(3.845)	(3.915)	(3.792)	(4.103)	(3.987)	(3.857)	(4.001)	(3.832)
N	237	237	237	237	237	237	237	237	237	237	237	237	237	237	237
R^2	0.387	0.397	0.408	0.406	0.422	0.386	0.395	0.407	0.401	0.413	0.386	0.395	0.406	0.396	0.409

*Notes: Standard errors in parentheses. Year and industry dummies are included. All tests are two-tailed. † 0.1, * 0.05, ** 0.01, *** 0.001. Control variables are included in the regression analyses but omitted in the table to save space.*

Figure 1-1. Interaction between target CSR and stakeholder value congruence

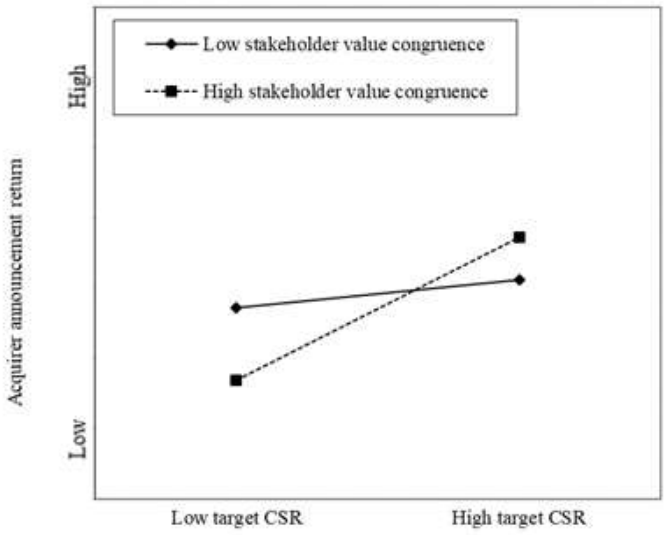
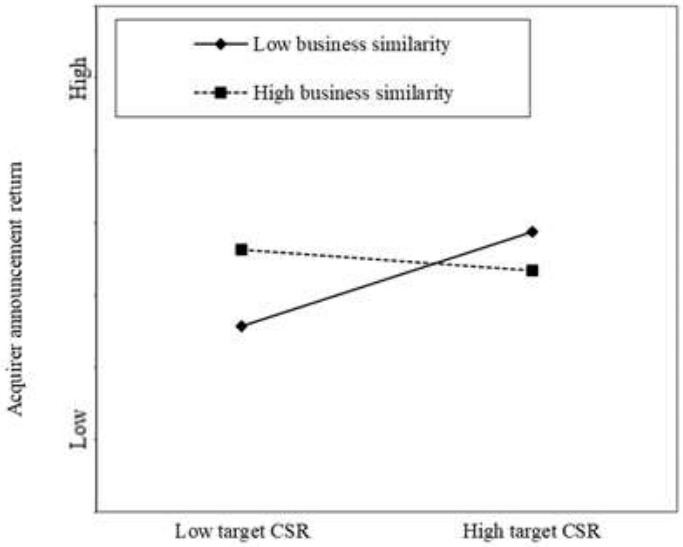


Figure 1-2. Interaction between target CSR and business similarity



CHAPTER 3: CEO NARCISSISM AND CORPORATE DECOUPLING PRACTICES: EVIDENCE FROM CORPORATE STOCK BUYBACK BEHAVIORS

ABSTRACT

Drawing CEO narcissism and decoupling literature, I investigate antecedents of corporate decoupling behaviors from the perspective of CEO attributes. It is conducted in the context of corporate buyback program. Corporate decoupling happens when a firm announces a buyback policy but does not implement the buyback program. The findings suggest that there is a positive relationship between CEO narcissism and buyback policy adoption whereas, following a buyback policy adoption, there is a negative relationship between CEO narcissism and buyback program implementation. Also, this study examines the peer influence on a focal firm's buyback practice and finds that peer buyback policy adoption will weaken the relationship between CEO narcissism and firm buyback policy adoption. In addition, the buyback policy adoption initiated by more narcissistic CEOs receives less favorable stock market reactions.

INTRODUCTION

There has been a long-standing interest in institutional theory (Meyer & Rowan, 1977; Tilcsik, 2010) in understanding the phenomenon of "decoupling", or the gap between organizational adoption of practice and the implementation of the practice (e.g., Crilly, Hansen, & Zollo, 2016; David, Bloom, & Hillman, 2007; Fiss & Zajac, 2006; Luo, Wang, & Zhang, 2017). More specifically, decoupling behavior refers to "the organization signals the adoption of certain practices to the external environment but at the same time maintains an internal structure that is not necessarily legitimacy-driven" (Kostova & Roth, 2002). For example, with the presence of institutional pressures such as regulatory appeal/requirement or stakeholder pressures, a firm may adopt a long-term incentive plan but only implement it limitedly or don't implement the plan at all (Westphal & Zajac, 1994), or a firm may issue a corporate social responsibility report but care less about how substantive its real social activities are (Marquis & Qian, 2014).

Extant studies have offered valuable insights for understanding the reasons for decoupling behaviors. Across various settings, these studies reveal that the decoupling of corporate social responsibility results from conflicting institutional pressures from the central government and local government (Luo, Wang, & Zhang, 2017), that firms may choose different decoupling strategies consisting of evasive decoupling and emergent decoupling to respond to institutional pressures with different characteristics (Crilly, Zollo, & Hansen, 2012), that decoupling strategy can help a firm to resist external pressure such

as sanctioned norms and retain internal flexibility (David, Bloom, & Hillman, 2007) and etc. Even decoupling behaviors also exist among countries. For instance, Lim and Tsutsui (2012) finds that countries may use ceremonial commitment to respond to the global institutional pressure about the adoption of corporate social responsibility framework due to the lack of "will" (Durand, Hawn, & Ioannou, 2019). Thus, the dominant component in decoupling literature is the appearance of institutional pressure.

Interestingly, although the extant decoupling literature has greatly enhanced our understanding of corporate decoupling behaviors, they have almost entirely focused on decoupling strategy as "a convenient agreement" for a firm to respond to institutional pressures originated from regulatory appeal/requirements, stakeholder pressures or conflicting institutional government goals (Crilly, Hansen, & Zollo, 2016; Crilly, Zollo, & Hansen, 2012; Fiss & Zajac, 2006; Luo, Wang, & Zhang, 2017; Westphal & Zajac, 1994). However, what has yet to be considered is how the attributes of the leaders may play a role in affecting the likelihood of corporate decoupling behaviors. It's a surprising omission as firm leaders are important to strategy process, strategic decisions according to the upper echelons theory (Bromiley & Rau, 2016; Hambrick & Mason, 1984), and the attributes of leaders have also aroused keen interest among scholars in strategic management filed (Hambrick, 2007; Hambrick & Mason, 1984; Neely Jr, Lovelace, Cowen, & Hiller, 2020; Wang, Holmes Jr, Oh, & Zhu, 2016). Echoing with this notion, Tilcsik (2010: 1488), in his qualitative article, has documented the potentially salient influence of decision-makers' (in

particular, CEOs) interests, ideology, values, and beliefs on firms' evaluation on policy adoption and actual implementation.

Our study fills this gap by investigating how the psychological characteristics of CEOs affect the likelihood of firm decoupling behaviors. In particular, we focus on one feature of CEO that has been often examined previous literature, CEO narcissism. Our study proposes that CEO narcissism may influence the extent of corporate decoupling behaviors. Specifically, narcissistic CEOs are characterized with attention-seeking trait, that is – they have a substantial craving for social attention (e.g., media attention, stakeholder praise) and propensity for exhibitionism opportunity (Chatterjee & Hambrick, 2007, 2011; Cragun, Olsen, & Wright, 2020; Gerstner, König, Enders, & Hambrick, 2013). They thus are enthusiastic about behaviors that are attention-getters such as an announcement of big acquisition deal or trendy socially responsible policy. Nevertheless, narcissistic CEOs have the tendency of exploitativeness which manifests the general lack of regard for others and the manipulation of situations and other persons for personal gains (Cragun, Olsen, & Wright, 2020). Relatedly, Gupta and Misangyi (2018) and Offermann, Kennedy, and Wirtz (1994) also suggest narcissistic leaders have the quality of "manipulative". Thus, we expect that decoupling behaviors may be the desired option for narcissistic CEOs because narcissistic CEOs may announce an attention-seeking policy but do not implement the practice related to the policy eventually. By doing that, narcissistic CEOs manipulate the situation and stakeholders fully to benefit themselves most with least resource consumption.

Indeed, this is possible. This argument is indeed implied in previous studies. Chatterjee and Hambrick (2007: 359) regards acquisition activities (especially more frequent and larger ones) as “attention-getters” and attention-getting “strategic initiatives”. No matter whether these acquisitions are successful or failed, narcissistic CEOs’ needs for exhibitionism and social attention can be fulfilled through the announcement of bold strategic movement. In addition, Petrenko, Aime, Ridge, and Hill (2016) finds that CEO narcissism will weaken the positive relationship between corporate social responsibility and financial performance. They further theoretically imply that narcissistic CEOs care less about the operationalization of corporate social responsibility. Therefore, it’s rational to expect the linkage between CEO narcissism and corporate decoupling behavior.

Our study is conducted in the context of corporate buyback program, in which a firm repurchase its own stock by distributing cash to existing shareholders in exchange for a fraction of the firm’s outstanding equity. It’s an ideal context for investigating narcissistic CEOs’ decoupling tendency, as the stock buyback context offers a clear distinction between policy adoption and program implementation and the gap between them is the tenet of corporate decoupling behaviors (Bromley & Powell, 2012). We propose that CEO narcissism is positively associated with the likelihood of buyback policy adoption because buyback policy adoption triggers numerous media attention and positive stock market reaction, which will satisfy narcissistic CEOs’ needs for exhibitionism. However, after the buyback policy adoption, narcissistic CEOs may be less likely to engage in the buyback

program implementation through manipulating the situation. This is because media and general investors are insensitive to buyback program implementation and the implementation is non-mandatory.

Further, we examine how the buyback program adoption of a focal firm's peers moderates the relationship between CEO narcissism and buyback policy adoption and how the market reacts to buyback program adoption initiated by narcissistic CEOs. Because peers' buyback program adoptions will make it difficult for the focal firm to stand out, we expect that a high level of peer buyback program adoptions will weaken the positive relationship between CEO narcissism and firm's buyback program adoption. Further, as narcissistic CEOs engage in buyback policy adoption for the purpose of seeking attention and praise rather than driven by sound economic rationale, this would represent a form of agency costs for shareholders, leading to more negative market reactions and thus lower announcement return.

Our study makes several notable contributions. First, we extend the research on corporate decoupling behaviors from the "reactive" to "proactive" perspective. Corporate decoupling studies so far focused on explicating decoupling behavior as a reactive measure (i.e., to signal compliance with institutional requirement symbolically without changing their practices substantively) to deal with institutional pressure (Bromley & Powell, 2012; Scott, 2008). Our study enriches this literature by demonstrating that narcissistic CEOs will choose to proactively engage in decoupling behavior. Second, our study contributes to the

CEO narcissism literature in the strategic management field by differentiating between adoption and implementation of narcissistic CEOs' strategic behaviors. Narcissism research has devoted most attention to which type of strategic behaviors can meet narcissistic CEOs' needs for exhibitionism. Our study enriches this literature by showing that narcissistic CEOs may just announce their plan for strategic behaviors but don't substantively carry out these behaviors. Third, our study makes an additional contribution to narcissism literature by attesting to how general investors evaluate narcissistic CEOs' strategic decisions. Extant research on narcissism has paid disproportional attention to what narcissistic leaders prefer to do. Our study highlights that buyback policy announced by narcissistic CEOs realizes lower announcement returns and thus indicate that narcissistic CEOs will receive negative feedback from the evaluators.

THEORETICAL BACKGROUND AND HYPOTHESIS DEVELOPMENT

Corporate Decoupling

The concept of decoupling originated from the setting that firms respond to the external environmental pressures or institutional pressure/demands, as originally inspired by institutional and resource-dependence theories (Durand, Hawn, & Ioannou, 2019; Oliver, 1991). Decoupling is defined as a gap between policy and practice. For instance, a firm shows commitment to socially desirable policies without substantively changing practices accordingly (King, Lenox, & Terlaak, 2005). Decoupling is a convenient strategy

for a firm to respond to institutional pressures related to government, regulators, shareholder activists, etc. By doing this, a firm can not only gain legitimacy and avoid punishment, but also can retain its internal discretion or flexibility (Bromley & Powell, 2012; David, Bloom, & Hillman, 2007). For instance, with the confrontation of conflicting government demands, firms may choose CSR reporting as the response to such institutional complexity (Luo, Wang, & Zhang, 2017). David, Bloom, and Hillman (2007) suggest that firms may demonstrate conformance but continue to resist making the substantive change in corporate social performance as a response to the shareholder proposal with the advocation of corporate social performance. Crilly, Zollo, and Hansen (2012) states that firms decouple their behavior from stated commitment to corporate social responsibility when facing institutional pressure not only for intentional, exploitative reasons but also as a result of uncoordinated, exploratory attempts to respond to diverse and conflicting demands in a generally well-intended "muddling through" process.

Scholars have recently drawn attention to the role of top managers in the decoupling process by acknowledging the decision-makers' influence on both corporate policy adoption and practice implementation. For instance, when confronting external pressures to adopt policies, firms with more powerful CEOs will choose to avoid institutional pressure and engage in decoupling behaviors (Westphal & Zajac, 2001). In a qualitative study, Tilcsik (2010) suggests that the demography and ideology of powerful organization members may influence whether decoupling occurs, how it unfolds, and whether it is

sustainable. In another study, Marquis and Qian (2014) suggest that corporate leaders' connection to political councils and positions as government officials will affect the extent to which a firm responds to the government legitimacy guidelines about CSR and CSR reporting.

The above evidence clearly points to the role of corporate leaders' characteristics in influencing the firm's decoupling behavior in practice adoption and implementation. Nevertheless, extant research on decoupling mainly treats the role of corporate leaders as the send-order factor affecting corporate decoupling behaviors. In other words, extant studies first acknowledge that corporate decoupling behaviors are triggered by institutional pressure and then discuss how corporate leaders play a role in affecting the tendency of choosing a decoupling strategy to cope with institutional pressure. One exception to this stream of research is Petrenko, Aime, Ridge, and Hill (2016) mentioning that the psychological attribute of corporate leaders may have a direct impact on corporate decoupling behaviors. Corporate leaders may just be enthusiastic about corporate social responsibility as the "means" for narcissistic CEOs to gain attention, but disregard how to implement the relevant practices well. While this study doesn't explicitly discuss how corporate leaders impinge on corporate decoupling behaviors, it implies the possibility of corporate decoupling behaviors driven by the direct influence of corporate leaders as the first-order factor, apart from the institutional pressure.

However, these studies rarely incorporate the attributes of corporate leaders (as the

first-order factor) into the analysis framework of decoupling literature to discuss the potential direct linkage between CEO narcissism and corporate decoupling behavior. In particular, the decoupling behavior, in our study, refers to the gap between corporate policy adoption and practice implementation, which is consistent with the suggestion and definition in extant research on decoupling.

CEO Narcissism

Studies affiliated with upper echelons theory have explored the implications of CEO narcissism (Chatterjee & Hambrick, 2007). Narcissism is defined as the degree to which an individual has an inflated sense of self and is preoccupied with having that self-view continually reinforced. The chief manifestations of narcissism include a feeling of superiority, exploitativeness/entitlement, and a strong need for continuous affirmation, applause, attention, and admiration (Bogart, Benotsch, & Pavlovic, 2004; Chatterjee & Hambrick, 2007). In strategic leadership literature, CEO narcissism has been widely identified as a fundamental personality dimension of CEOs that influence major organizational outcomes.

Prior research has revealed that narcissism can be delineated into three inter-related subdimensions: leadership/authority, grandiose exhibitionism, and exploitativeness/entitlement (Ackerman, Donnellan, & Robins, 2012; Ackerman, Witt, Donnellan, Trzesniewski, Robins, & Kashy, 2010; Emmons, 1984, 1987). The

leadership/authority dimension indicates that narcissists perceive themselves as natural leaders with a high sense of assertiveness and self-efficacy in the leadership domain. Such zeal for leadership/authority will make them like to have authority over other people. The grandiose exhibitionism dimension is associated with the tendencies toward self-absorption, as well as the mentality of superiority over others. In particular, narcissists are exhibitionists and engage in bold and attention-getting behaviors to garner the attention and admiration of others (Chatterjee & Hambrick, 2007; Raskin & Terry, 1988; Wallace & Baumeister, 2002). The exploitativeness/entitlement will result in "a general lack of regard for others" in the interpersonal contexts and a willingness to exploit situations or manipulate other persons for personal gain (Cragun, Olsen, & Wright, 2020: 2; Liu, Chiang, Fehr, Xu, & Wang, 2017). The guidelines of the American Psychiatric Association (2013) included in the Diagnostic and Statistical Manual for Mental Disorders also has a similar summary of manifestation of narcissism trait: narcissism is a multifaceted personality trait that combines grandiosity, attention-seeking, an unrealistically inflated self-view, a need for the self-view to be continuously reinforced through self-regulation, and a general lack of regard for others.

The strategy scholars have been long interested in exploring how CEO narcissism plays a role in affecting corporate strategic decisions and behaviors. Firms with narcissistic CEOs, for instance, are more likely to have bold actions such as large acquisitions and venturing into new technology domains so that narcissistic CEOs can garner attention and

admiration from external audiences. By doing this, their needs for leadership/authority and grandiose exhibitionism can be satisfied (Chatterjee & Hambrick, 2007; Gerstner, König, Enders, & Hambrick, 2013). Narcissistic CEOs' tendency of chasing after grandiose strategies and actions bringing exhibitionism opportunity also results in organizational side effects such as extreme and fluctuating financial performance (i.e., big wins or big losses) (Chatterjee & Hambrick, 2007). Due to the leadership/authority characteristic, narcissistic CEOs are more likely to engage in controversial activities such as corporate downsizing than non-narcissistic ones, disregarding the resistance from others (Gupta, Nadkarni, & Mariam, 2018).

Extant studies also reveal the negative outcomes such as financial performance induced by CEO narcissism. For instance, Petrenko, Aime, Ridge, and Hill (2016) shows that narcissistic CEOs manipulate corporate social responsibility to fulfill their personal needs for social attention and praise, but disregard stakeholders' influences on corporate financial performance. This evidence (i.e., they put themselves on top of firms), to some degree, reflects narcissists' dimension of entitlement/exploitativeness. Using game-level longitudinal data from NBA teams, Grijalva, Maynes, Badura, and Whiting, (2019) find that teams with higher mean and maximum levels of narcissism as well as higher narcissism members in core roles (i.e., central and influential roles) had poor coordination and in turn performance than team with lower levels. Gupta and Misangyi (2018) find that peer firms are less willing to imitate firms with narcissistic leaders because narcissistic

leaders are characterized by negative images such as being self-centered, face-savers, autocratic, and manipulative.

CEO Narcissism and Buyback Policy Adoption

Corporate stock buyback, as a dominant form of firm cash payout, is not rare among firms (Farre-Mensa, Michaely, & Schmalz, 2014; Rossi, Weber, & Michaely, 2020). The Wall Street Journal stated that companies on the S&P 500 have poured more than $5.3 trillion into repurchasing their own shares since 2010. A stock buyback plan usually involves the adjustment of financing flow, ownership structure, and asset composition (Franz, Rao, & Tripathy, 1995; Westphal & Zajac, 2001). Given these salient outcomes, stock buyback programs usually draw investor and media attention (Vernimmen, Quiry, Dallocchio, Le Fur, & Salvi., 2014).

Extant studies on narcissism have suggested that differences in narcissistic tendencies among CEOs can result in distinctly different corporate strategic behaviors (Chatterjee & Hambrick, 2007, 2011; Gerstner, König, Enders, & Hambrick, 2013). Following arguments in this stream of studies, we expect that a narcissistic tendency might motivate a CEO to engage in buyback policy adoption for two main reasons. The first reason is that narcissistic CEOs are more willing to take controversial actions, albeit with disagreement or resistance from others. This is because controversial actions are good attention-getters and thus narcissistic CEOs are more likely to be spotlighted for taking such actions. For

instance, Gerstner, König, Enders, & Hambrick, (2013) found that narcissistic CEOs venture into new technological domains that other competitors are hesitant to enter. In this context, the buyback policy adoption can also be considered a controversial decision, in that it raises controversy among various stakeholders in terms of resource allocation. On the one hand, to the extent firms distribute a significant amount of cash to shareholders through stock repurchase stockholders generally benefit from such a program, as reflected in the often positive market reaction to firm stock buyback announcements. On the other hand, the buyback policy adoption has also raised concerns about resource efficiency, as it may deplete firm cash resources that could have been deployed to more valuable projects such as R&D, investment in employees, mergers and acquisitions and other long-term goals. For instance, Lazonick and Hopkins (2015) asserts that General Motors' buyback program is a sacrifice of workers' and taxpayers' interests and is bad for the United States. They even appeal that "Taxpayers and workers should demand that open-market repurchases by all companies be banned". Thus, the controversy over the buyback policy adoption can place narcissistic CEOs in the spotlight, which can feed narcissistic CEOs' need for attention (Wallace & Baumeister, 2002).

Second, as aforementioned above, CEOs with narcissistic tendencies construe reality in part as it reflects on their self-image, and constantly seeking attention and "high-exposure"/exhibitionism opportunity (Campbell, Goodie, & Foster, 2004; Chatterjee & Hambrick, 2007, 2011; Ham, Seybert, & Wang, 2018). It's well-known that the buyback

program usually involves large amount of cash payout. The Wall Street Journal report of Thurm and Ng (2013) documented that S&P 500 firms spent nearly $408 billion on share buybacks in 2012. and thus its announcement often draws enormous attention of media (Vernimmen, Quiry, Dallocchio, Le Fur, & Salvi., 2014), including such as Wall Street Journal, Bloomberg, and the Financial Times. Synthesizing above arguments, we argue that the controversy of buyback policy and large payout make the buyback policy adoption become a large attention-getter, and then narcissistic CEOs are more likely to engage in buyback policy adoption than non-narcissistic CEOs. We thus propose the following hypothesis.

Hypothesis 1: There is a positive relationship between CEO narcissism and buyback policy adoption.

CEO Narcissism and Buyback Program Implementation

Although, as aforementioned, buyback policy adoption attracts stakeholders' attention and narcissistic CEOs can garner corresponding narcissistic supply, buyback program implementation is not guaranteed. Rather, it's possible (actually, not rare) that some firms announcing stock buyback policy don't implement buyback programs at all (Westphal & Zajac, 2001). In other words, firms may decouple formally adopted buyback programs from actual buyback program implementation, so that plans remain more symbolic than substantive.

We suggest that narcissistic CEOs may engage in attention-seeking symbolic management and decoupling of buyback program implementation from the original plan of buyback policy adoption. This is because narcissistic CEOs consider stock buyback mainly for the purpose of attention attraction and feed their exhibitionism, which can be well fulfilled through the buyback policy adoption. Following this logic, for narcissistic CEOs, the implementation of buyback programs highly depends on whether the implementation can feed them with the necessary narcissistic supply. Specifically, we suggest that narcissistic CEOs are less incentivized to conduct the buyback program implementation for three reasons.

First, market participants such as financial media and investors are not conscious of buyback program implementation. Westphal and Zajac (1998) suggest that the stock market won't make significant adjustments even though the buyback program isn't implemented after the announcement of buyback policy adoption. Meanwhile, the symbolic actions are not costless (Durand, Hawn, & Ioannou, 2019). After the buyback policy adoption, the non-implementation of buyback program might be associated with the risk of loss of credibility and trust that possibly hurt CEOs' reputation. Yet, narcissistic CEOs have exploitativeness tendency and show less regard for others (Cragun, Olsen, & Wright, 2020; Liu, Chiang, Fehr, Xu, & Wang, 2017). They may take no notice of the cost related to the non-implementation. Moreover, the risk of credibility and trust is not the main concern for narcissistic CEOs as they are dominantly enthusiastic about the attention

and exhibitionism opportunity (Chatterjee & Hambrick, 2007; Cragun, Olsen, & Wright, 2020; Gerstner, König, Enders, & Hambrick, 2013). Also, the buyback policy adoption is not a commitment to implement the buyback program in the near term. Thus, for narcissistic CEOs, the perceived benefits of buyback policy adoption outweigh the perceived costs, and they will deal with the buyback program in symbolic way. Second, after buyback policy adoption, there are lesser opportunities for the CEO to generate more exhibitionism arena or to gain more attention from media and other stakeholders even though buyback programs are implemented. This is because, even if firms dedicate resources to implement buyback programs, it is within the expectations of shareholders and media and well stated in the fillings of stock buyback policy. Third, as aforementioned, buyback program is one that a firm uses its own cash to repurchase its own shares from the stock market. The buyback program will cost tremendous resources of a firm (usually, millions or even billions U.S. dollars). Since the marginal attention that buyback program implementation can offer is relatively small and even negligible for narcissistic CEOs, implementing a buyback program maybe not the most effective way to utilize resources for exhibitionism generation and gaining attention. Instead of implementing a buyback program, narcissistic CEOs may be more willing to engage in other alternative strategic behaviors such as mergers and acquisitions, innovative activities, and corporate social responsibilities (Chatterjee & Hambrick, 2007; Gerstner, König, Enders, & Hambrick, 2013; Petrenko, Aime, Ridge, & Hill, 2016) to feed their need for attention. Taken together,

this research leads us to hypothesize that:

Hypothesis 2: Following a buyback policy adoption, there is a negative relationship between CEO narcissism and buyback program implementation.

Peer Influence on a Firm's Buyback Policy Adoption

We have just argued that narcissistic CEOs are motivated by the exhibitionism tendency to engage in attention-getting behaviors. They are more willing to engage in highly visible initiatives to be at the center of attention (Bogart, Benotsch, & Pavlovic, 2004; Campbell, Goodie, & Foster, 2004; Deluga, 1997; Wink & Donahue, 1997). However, the extent to which behaviors are attention-getting is relative rather than absolutive. In particular, the volume of attention that behavior can attract for a focal firm is highly affected by the degree of prevalence of such behavior among peer firms. Assuming a focal firm and its peer firms engage in the same type of behavior, it's very hard for the focal firm to catch people's attention. For instance, Gerstner, König, Enders, and Hambrick (2013) suggest that to maximize the chance of garnering social attention, firms should invest in the discontinuous technology domain that peer firms hesitate to do.

Following this logic, it's expected that the narcissistic CEOs have less chance of garnering social attention through buyback policy adoption when there are more peer firms engaging in the same adoption. From the perspective of exhibitionism tendency, narcissistic CEOs are enthusiastic about behaviors that peer firms hesitate to undertake so

that they are at the center of social attention (Gerstner, König, Enders, & Hambrick, 2013). This feature of going against the crowd is also the key factor distinguishing narcissism from other primary personalities such as overconfidence and hubris (Tang, Mack, & Chen, 2018). Therefore, the marginal social attention of buyback policy adoption will decrease with the degree of prevalence of such adoption among peer firms. As a result, narcissistic CEOs are less likely to adopt buyback policy when buyback initiatives become mundane among peers and in the eyes of the public. Thus, we hypothesize the following hypothesis:

Hypothesis 3: Peer buyback policy adoption will weaken the positive relationship between CEO narcissism and firm buyback policy adoption.

CEO Narcissism and Market Reaction to Buyback Policy Adoption

There is a long-standing debate about the rationale of buyback policy adoption. Some studies argue that buyback policy adoption signals a firm's future prospects whereas buyback policy adoption is driven by CEOs' self-interested motivation (Edmans, Fang, & Huang, 2017). CEOs may take advantage of the positive stock market reaction to the announcement of buyback policy adoption to boost the stock market price so that they can sell their own stocks shortly. This implies that buyback policy adoption may be driven by the ill-natured motivation (De Cesari, Espenlaub, Khurshed, & Simkovic, 2012; Evgeniou & Vermaelen, 2017; Huang & Vermaelen, 2018). Relatedly, Kracher, & Johnson (1997: 1677) further revealed a risk that "many firms announcing repurchase plans did not actually

repurchase any share and, by their own admission, had no intention of repurchasing shares".

Following previous studies' findings that differences in narcissistic tendencies among CEOs are associated with observers' and evaluators' perceptions of firm behaviors, we expect that market reactions to a firm's buyback policy adoption will vary with the degree of CEO narcissism. Particularly, narcissistic leadership is generally perceived as ineffective or undesirable – i.e., narcissistic characteristics produce a negative leader categorization (Gupta & Misangyi, 2018), which in turn incur market investors' doubt about the effectiveness of buyback policy adoption as a signal of a firm's future prospects. In a similar vein, Offermann, Kennedy, and Wirtz, (1994) states that narcissistic leadership involve nearly all of characteristics related to ineffective leadership such as "domineering", "pushy", "dominant", "manipulative", "power-hungry", "conceited", "loud", "selfish", "obnoxious", "demanding" and etc. As a result, market investors might think that the buyback policy adoption, signaling positive prospects of firms, is discredited and thus they will react to the announcement of buyback policy adoption less positively. Studies in strategic management also share a similar notion, suggesting that firms with narcissistic CEOs often undertake strategic behaviors that deviate from effective decision-making and often result in suboptimal outcomes (Chatterjee & Hambrick, 2007; Gupta & Misangyi, 2018). Narcissistic CEOs engage in buyback policy adoption for the purpose of craving social attention or exhibitionism space instead of economic rationality emphasized by market investors.

Furthermore, investors may doubt whether CEOs' narcissistic tendencies will affect the implementation of buyback programs. In this regard, we argue that investors may anticipate that narcissistic CEOs are less likely to implement the buyback programs. As argued earlier, narcissistic CEOs may be obsessed with the short period around the announcement date of buyback policy adoption because firms are under the spotlight during that period. However, buyback program implementation thus may not be a good attention-getter, especially given that the implementation is not new to the investors, media and other stakeholders after the buyback policy adoption has been announced. Narcissistic CEOs thus have less interest in actual implementation of buyback programs due to the lack of exhibitionism arena and possibility of garnering attention. In addition, strategic initiatives by narcissistic CEOs are usually regarded as less credible (e.g., Petrenko, Aime, Ridge, & Hill, 2016). Therefore, we expect that investors may perceive the low likelihood (as aforementioned in Hypothesis 2) of that firms with narcissistic CEOs implement the buyback programs after the buyback policy adoption. In this case, the low likelihood of buyback program implementation will cause the validity of buyback policy adoption as a signal of firms' future prospects (e.g., improved future cash flows) and commitment to shareholders. In addition, narcissistic CEOs' behaviors are largely motivated by needs for social attention and exhibitionism arena (Chatterjee & Hambrick, 2007; Gerstner, König, Enders, & Hambrick, 2013; Petrenko, Aime, Ridge, & Hill, 2016). As well known, the implementation of buyback program will cost large amount of cash resources that are very

vital for firms' survival and growth (Kim & Bettis, 2014). Thus, if firms' buyback policy adoption is the result of ill-natured motivation of narcissistic CEOs, market investors will deem the adoption ineffective in terms of resource utilization. Synthesizing above arguments, we argue that, if a firm's buyback policy adoption is initiated by a narcissistic CEO, market investors may suspect the credibility of commitment to buyback program implementation and the effects of resource utilization. We thus hypothesize that:

Hypothesis 4: There is a negative relationship between CEO narcissism and stock market reaction to the announcement of the buyback program.

METHOD

Sample

We tested our hypotheses on a sample of U.S. publicly listed firms from the S&P 1500 index. We began with a list of CEOs derived from the EXECUCOMP database and merged the data from various sources. Data on the stock buyback were obtained from the SDC Platinum. We followed Chatterjee and Hambrick (2007, 2011) and Tang, Mack, and Chen (2018) to collect data on CEOs' narcissistic characteristics. Firm- and board-related data were collected from COMPUSTAT and CRSP databases. To analyze how CEO narcissism affects the buyback policy adoption, we merged the SDC database on buyback announcement with one-year-lagged CEO narcissism data, COMPUSTAT data, other CEO-related data from the EXECUCOMP. The resulting data set included the CEO

narcissism starting from 2003 and the final year of buyback announcement is 2010, and the sample size consists of 1406 firm-year panel observations. We further analyze whether the buyback program will be implemented and how the stock market reacts to the buyback program announcement. The sample is at the SDC deal level consisting of 364 observations. The latter sample size is reduced because we only focus on firms with buyback policy adoption.

Measures

Dependent variables. Since our research question consists of two empirical parts – that are (1) the influence of CEO narcissism on corporate buyback policy adoption; and (2) the influence of CEO narcissism on corporate buyback program implementation. Therefore, our study has three main dependent variables. The first dependent variable is the buyback policy adoption. We measured the buyback policy adoption in three ways. First, we constructed a binary variable indicating whether a firm announces any buyback program in a year. If yes, this variable is coded as 1, and 0 otherwise. Second, we constructed a count variable, measured as the number of buyback programs that a firm announced in a year. Third, we computed a continuous variable, measured as the size of buyback programs in a year. The second dependent variable is whether a firm implements a buyback program. We extracted the buyback program implementation information from the SDC platinum. If a firm's buyback program is completed, this variable is coded as 1, and 0 otherwise. The

third dependent variable is the buyback announcement return. Following Brown and Warner (1985), we computed cumulative abnormal returns, or the returns over the event window minus the normal returns, which represent the expected returns if the event had not taken place. To calculate the cumulative abnormal return, we first obtained abnormal returns for buyback announcements. Next, we accumulated the abnormal return for a period of the days surrounding the buyback announcement of the deal [-2, 2].

Independent variable and moderating variable. Chatterjee and Hambrick (2007, 2011) developed a composite measure of CEO narcissistic tendencies using a set of unobtrusive indicators extracted from archival data. This unobtrusive approach has been validated and adopted by recent studies (e.g., Gerstner, König, Enders, & Hambrick, 2013; Patel & Cooper, 2014). We followed the same approach and constructed the CEO narcissism using a four-item index: 1) the prominence of the CEO's photograph in annual reports, 2) the CEO's prominence in the company's press releases, 3) the cash as well as 4) the non-cash compensation of the CEO relative to those of the other top executives at the same company. We took the two-year moving average of each narcissism indicator (excluding observations pertaining to the first year of the CEO's tenure to avoid issues related to succession) and computed the CEO narcissism by taking the mean of each indicator after standardization (Zhu & Chen, 2015). There is one caveat that CEO narcissism, as CEO personality, is time-invariant over time (Harrison, Thurgood, Boivie, & Pfarrer, 2019). Thus, we used the

random-effects regressions to test our hypotheses. Year and industry dummies are included to control the heterogeneity across time and industries. Given that the CEO narcissism is time-invariant, we thus replace the missing value of CEO narcissism with the nearest value in previous years in a given firm and CEO. Given CEO personality is relatively time-invariant, we replaced these missing values in CEO narcissism variable as the nearest value in the prior year.

To measure peer buyback policy adoption, we first need to identify a firm's peers. To this end, we follow the method of Hoberg-Phillips Text-based Network Industry Classifications (TNIC-3). Hoberg and Phillips (2016) apply a text-based analysis of firms' 10-K filings to determine product similarity between firms to estimate the degree of competitiveness between two firms (assuming A firm and B firm). This method has been used in previous studies to capture the degree of competitiveness (e.g., Shi, Zhang, & Hoskisson, 2017). Larger competitiveness means that A firm is more aware of B firm's strategic initiatives and movements. The firm-by-firm similarity measure is based on firm product descriptions. Because Item 101 of Regulation S-K requires that firms describe the significant products they offer, firm product descriptions are legally required to be accurate and updated in the current fiscal year in the 10-K. The level of competitiveness between two firms is measured by the relative number of words in common that product descriptions contain when examining two companies. Any two firms *i* and *j* have a product similarity, which a real number bounded between zero and one. Hoberg-Phillips Text-based Network

Industry Classification (TNIC-3) applied a minimum threshold to produce industries that have the same fraction of membership pairs as 3-digit SIC industries. To ensure this consistency in terms of fraction of membership pairs, Hoberg and Phillips (2016) use 21.32% minimum similarity threshold to classify whether two firms belong to the same industry. Likewise, we followed this logic to treat the two firms with 21.32% or larger similarity as being each other's peer firm. Following this procedure, we can identify a focal firm's peer firms. Then, we collected the information of peer firms' buyback policy adoption announcement. The peer buyback policy adoption is measured peer firms' average number of buyback policy adoption.

Control variables

We controlled for the *firm size* measured as the natural logarithm of the book value of total assets that are related to the degree of exposure to shareholder pressure for stock buyback programs. We also controlled for the firm *age*. We further controlled for factors that potentially affect corporate financial capability. We controlled for ROA, financial leverage, and firm slack. *ROA* is measured as the return to assets. *Financial leverage* is measured as the debt to assets ratio. *Firm slack* is measured as the sum of cash and cash equivalent to firm assets. Relatedly, we also include the cash flow variable in our models because the cash flow affects a firm's ability to make a stock buyback decision. We thus include the net cash flow that is measured as the sum of operating cash flow, financing

cash flow, and investing cash flow, scaled by the firm total sale. Since the stock buyback programs have direct impact on firm stocks, we thus controlled for factors that are directly related to stock price and return. Specifically, we controlled for firm stock performance that is measured as the stock price appreciation in a given year plus the dividend and ESP that is captured by the earnings per share.

We included several measures of CEO characteristics to control for their potential influence on buyback policy adoption and buyback program implementation. CEO duality is coded as 1 if a CEO and chairman person are the same, and 0 otherwise. CEO gender is coded as 1 if a CEO is female. We also controlled the firm age. CEO ownership is measured as the percentage of shares owned by a CEO. Since CEO ownership has a significant amount of observations with missing value, we replace these missing values with 0 to avoid the large sample size reduction. We thus introduced a variable, CEO ownership (missing value indicator), to indicate the observation in which the zero value of CEO ownership is the result of value replacement. This operation can help our study prevents the significant sample reduction because our main research question is about the influence of CEO narcissism on corporate decoupling practices. We further controlled for CEO in-the-money option which captures the total value of stock options granted in prior years still held by the executive. As Wiseman and Gomez-Mejia (1998), in-the-money options may affect CEOs' investment or resource allocation decisions due to the risk-averse preference. More importantly, in-the-money options are directly related to CEOs' motivation to engage in

buyback programs. This is because buyback programs may be the result of agency problems, that is – CEOs are willing to boost the stock price to maximize the value of their unexercised stock options. In addition to above control variables, we controlled for the buyback size (deal-level data) in models examining the influence of CEO narcissism on buyback program implementation and the stock market reaction to a buyback program announcement.

Analysis

To test hypotheses 1 and 3 (*i.e., the relationship between CEO narcissism and buyback policy adoption and the moderating effect of peer buyback policy adoption*), we use the Poisson regression to test our hypotheses relating to the influence on CEO narcissism and buyback policy adoption. This is because our dependent variable is count variable, the number of buyback policy adoption, and doesn't have the over-dispersion concern. In addition, we ran the overdispersion test, likelihood-ratio test, and the test result shows that the *chibar2* is insignificant. It confirms that Poisson regression is appropriate. We included industry dummies variables (three-digit SIC) to control systematic differences across the industries explored in this study. We also included the year dummies to control the time-serial hetereogeneity and applied the robust standard errors clustered at the year level (As robustness test, we also used the clustered standard errors at both year and industry levels, and use the clustered standard errors at the industry level only. We find results remain

largely consistent with our main findings).

To test the hypothesis 2 (i.e., the relationship between CEO narcissism and buyback program implementation), we used the logit regression with random effect to conduct the analysis in models examining the influence of CEO narcissism and buyback program implementation. Because the buyback policy adoption is not frequent among firms, and in our sample, a large portion of firms only announce one stock buyback program. This sample characteristic makes it impossible to apply firm fixed effect in our study. Meanwhile, CEO narcissism is time-invariant conceptually. Given that CEO narcissism is our very key independent variable, it's supported to use the logit regression with random effect. Also, the industry and year dummies are also included to control for the heterogeneity across industries and over years. To test the hypothesis 4 (i.e., the relationship between CEO narcissism and market reaction to buyback policy adoption), we applied the ordinary least squares regression with the control of year and industry dummies, and robust standard errors clustered at the year and industry levels are included.

RESULTS

Our analyses are based on two distinct data structures. The analysis of the relationship between CEO narcissism and buyback policy adoption is based on the firm-year panel data, while that of the relationship between CEO narcissism and buyback program implementation is based on the buyback deal-level data. We, therefore, present two

descriptive tables for the analyses on buyback policy adoption (shown in Table 4a) and market reaction to buyback announcement and buyback program implementation (shown in Table 4b) respectively. Specifically, Table 4a suggests a significant positive correlation between CEO narcissism and buyback policy adoption. It offers the rudimentary evidence supporting our hypothesis 1. Table 4b suggests a negative relationship between CEO narcissism and buyback program implementation, offering the rudimentary evidence supporting our hypothesis 2. We also find that CEO narcissism is negatively associated with market reaction to buyback policy adoption consistent with our prediction in hypothesis 4.

--- Insert Table 4a and 4b about here ---

As shown in Table 5a, Hypotheses 1 is supported. Model 3 and 4 of Table 5a show that CEO narcissism has a significantly positive impact on buyback policy adoption (β=0.424, p<0.001 in Model 3; β=0.844, p<0.05 in Model 4). Consistent with our prediction, this suggests that narcissistic CEOs are more inclined to adopt buyback programs. It suggests that buyback policy adoption can still be the option for narcissistic CEOs to obtain the "narcissistic supply". The interaction term in Model 4 of Table 5a shows that peer buyback policy adoption strengthens the positive relationship between CEO narcissism and buyback policy adoption. This negative moderating effect is significant, offering support for hypothesis 3 (β= -0.445, p<0.01 in Model 4).

--- Insert Table 5a about here ---

The results in Table 5b provide support for Hypotheses 2. The relationship between CEO narcissism and buyback program implementation is negatively significant (β= -0.881, p<0.05 in Model 2). This confirms our theoretical prediction that narcissistic CEOs have less motivation to implement buyback program.

Table 5b also presents an analysis related to how stock market reacts to narcissism CEOs' buyback policy adoption. Model 3 is the basic model with control variables only. As shown in Model 4 of Table 5b, there is a significantly positive relationship between CEO narcissism and market reaction to buyback policy adoption (β= -2.064, p<0.1 in Model 4). It indicates that Hypothesis 4 is supported. The result offers evidence of negative market reaction to narcissistic CEOs' buyback policy adoption.

--- Insert Table 5b about here ---

DISCUSSION AND CONCLUSION

We began by suggesting that corporate decoupling behaviors may be associated with leaders' attributes and specifically result from leaders' needs for social attention and exhibitionism arena, and that, to some extent, the decoupling behaviors are subject to peer firms' influence. With insights from upper echelons and decoupling perspectives, we have theorized and shown that CEO narcissism is positively associated with corporate decoupling behaviors, that is – narcissistic CEOs are more likely to engage in buyback policy adoption for craving for social attention and exhibitionism arena while are less likely

to implement the buyback programs. We also revealed that narcissistic CEOs' tendency to buyback policy adoption is weakened when such policy adoption is prevalent among peer firms as narcissistic CEOs naturally are more willing to engage in behaviors that peers firm hesitate to do. Finally, we have shown that market investors have a sense of the downside of the situation that narcissistic CEOs initiate buyback policy adoption, and that market investors will call into question the motivation and economic rationality behind narcissistic CEOs' buyback policy announcement. These insights contribute to the literature on executive characteristics and decoupling literature.

Our study makes several notable theoretical contributions to existing research. The foremost contribution is that our study extends the research on corporate decoupling behaviors by highlighting the possibility and importance of leaders' attributes in affecting decoupling decisions. The dominant view of antecedents of corporate decoupling behaviors is that firms take advantage of decoupling strategy to tackle the institutional pressure. The key notion in this stream of research is that a decoupling strategy can help firms to gain legitimacy as well as retaining their internal flexibility and managerial discretion. This is a "reactive" perspective explicating corporate decoupling behavior. We provide new insights about the antecedents from the "proactive" perspective, which will be relevant for researchers interested in decoupling behaviors and institutional theory.

Second, our study contributes to the narcissism literature by differentiating between adoption ("prefer which type of behaviors") and implementation ("how is the

implementation of the behavior after the adoption") of narcissistic CEOs' behaviors. To our best knowledge, previous studies mainly examine narcissistic CEOs' predilection for behaviors that can garner attention and applause such as large acquisitions, corporate social responsibilities, and new discontinuous technologies (Chatterjee & Hambrick, 2007, 2011; Gerstner, König, Enders, & Hambrick, 2013; Petrenko, Aime, Ridge, & Hill, 2016). Our study shifts the attention from the narcissistic CEOs' behavioral preference to the actual implementation related to the behaviors. As such, this opens new opportunities for research in CEO narcissism in strategic management field.

Third, our findings also indicate how the attributes of leaders affect the evaluation of a firm's behaviors. Our study suggests that CEO narcissism will negatively affect market evaluation of a firm's buyback policy announcement. Most existing research has focused on narcissistic CEOs' behavioral preferences and influence on organizational outcomes but only from the angle of firm performance. Chatterjee and Hambrick (2007) document that CEO narcissism will engender extreme and fluctuating firm performance. Our findings offer more direct evidence of how CEO narcissism is perceived and evaluated.

Future research may wish to make several improvements based on our study. First, the measurements employed in our study can be further refined. Since it's challenging to directly capture and assess the psychological characteristics of CEOs (Hambrick and Mason, 1984), our study chooses to follow the conventional measure of CEO narcissism in upper echelons research and specifically, we utilize unobtrusive indicators to measure

CEO narcissism (Chatterjee & Hambrick, 2011; Tang, Mack, & Chen, 2018). This methodology stems from Webb, Campbell, Schwartz, and Sechrest, (1966) and Webb and Weick (1983), and subsequently is revived by personality theorists including Gosling, Ko, Mannarelli, and Morris (2002), Pennebaker and King (1999), etc. We sincerely acknowledge that the extant measure of CEO narcissism based on archival data might be defective and some noises associated with this measure cannot be perfectly eradicated. We thus appeal to scholars to keep improving this measure or developing a new and more direct measures through questionnaire or experimental design methodology. Second, findings from our study imply that CEO narcissism can motivate a firm to engage in buyback policy adoption but not the buyback program implementation. Yet, the degree of motivation effects may be also driven by other CEOs' personal traits (e.g., hubris). However, we think it's not a severe issue in our study because our study also investigates the peer influence in a focal firm's buyback policy adoption. To test the peer influence is the key pathway to distinguish between narcissism and hubris (Tang, Mack, Chen, 2018). Nevertheless, we acknowledge this limitation and call for future research to address this potential issue by exploring more the influences of CEOs' personal traits on corporate decoupling behaviors.

In summary, our study provides empirical evidence to show that CEO narcissism may lead to corporate decoupling behaviors that are captured by buyback policy adoption and buyback program non-implementation, and that market investors' reaction to buyback policy announcement varies with the degree of CEO narcissism. Our theoretical arguments

and empirical findings demonstrate that response to institutional pressure is not the only antecedent of corporate decoupling behaviors, but also CEO personality can help shed light on the drivers of decoupling behaviors.

Table 4a. Descriptive statistics for the hypotheses about buyback policy adoption

Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1. Buyback policy adoption	0.26	0.52	1															
2. CEO narcissism	-0.04	0.41	0.07	1														
3. Peer buyback policy adoption	0.92	0.44	0.02	-0.02	1													
4. Firm size	9.20	1.72	0.08	0.11	0.09	1												
5. ROA	0.10	0.09	0.13	0.06	-0.02	-0.09	1											
6. Financial leverage	0.22	0.17	-0.16	0.00	-0.10	0.07	-0.26	1										
7. Firm age	17.89	4.91	-0.05	0.08	-0.03	0.31	-0.08	0.05	1									
8. Firm slack	0.15	0.15	0.05	-0.17	0.08	-0.28	-0.01	-0.31	-0.25	1								
9. Net cash flow	0.02	0.16	0.01	-0.01	-0.01	-0.01	0.05	0.00	-0.04	0.17	1							
10. Firm stock performance	0.17	1.49	0.00	-0.04	-0.12	-0.04	-0.03	-0.01	-0.03	0.05	0.01	1						
11. EPS	1.95	4.89	0.09	0.10	0.05	0.14	0.27	-0.24	-0.05	-0.05	0.02	0.13	1					
12. CEO duality	0.68	0.47	0.03	0.20	-0.05	0.18	0.01	0.03	0.16	-0.13	-0.01	0.00	0.07	1				
13. CEO gender	0.03	0.18	-0.03	-0.06	0.02	0.01	0.06	-0.01	0.01	-0.01	0.00	-0.02	0.00	-0.08	1			
14. CEO age	55.62	7.10	-0.03	0.13	0.02	0.09	-0.01	-0.01	0.20	-0.15	-0.02	0.01	0.09	0.26	-0.11	1		
15. CEO ownership	1.89	5.73	-0.02	-0.10	-0.08	-0.19	0.03	-0.07	-0.11	0.11	0.03	0.01	0.10	0.01	-0.06	0.11	1	
16. CEO ownership (missing value indicator)	0.52	0.50	0.04	0.14	0.08	0.42	0.00	0.02	0.17	-0.17	-0.03	-0.07	0.02	-0.02	0.09	-0.08	-0.35	1
17. CEO in-the-money option	2.87	5.74	0.04	0.17	0.00	-0.36	0.13	-0.06	-0.21	0.12	0.03	0.04	0.05	0.09	-0.06	-0.01	0.15	-0.31

***Notes**: Coefficients greater than 0.05 are significant at $p<0.05$. N=1406.*

Table 4b. Descriptive statistics for the hypotheses about buyback program implementation

Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1. Buyback program implementation	0.17	0.37	1																
2. Market reaction to buyback policy adoption	1.07	5.65	0.00	1															
3. CEO narcissism	0.01	0.44	-0.02	-0.07	1														
4. Firm size	9.53	1.81	0.12	-0.06	0.17	1													
5. Relative buyback size	0.18	0.38	-0.07	-0.12	-0.08	-0.21	1												
6. ROA	0.12	0.08	0.01	0.05	0.03	-0.34	0.13	1											
7. Financial leverage	0.16	0.14	-0.07	0.09	-0.01	0.07	-0.13	-0.09	1										
8. Firm age	17.47	5.25	0.02	-0.10	0.10	0.40	-0.17	-0.14	0.03	1									
9. Firm slack	0.16	0.15	-0.04	0.04	-0.19	-0.30	0.23	0.23	-0.43	-0.22	1								
10. Net cash flow	0.02	0.08	0.07	0.00	0.14	-0.06	-0.01	-0.07	-0.08	-0.06	0.16	1							
11. Firm stock performance	0.18	0.45	0.03	-0.09	-0.04	-0.14	0.10	-0.05	-0.05	-0.08	0.18	0.17	1						
12. EPS	2.83	2.81	0.07	-0.04	0.23	0.39	-0.14	0.05	-0.03	0.09	-0.14	-0.11	0.04	1					
13. CEO duality	0.71	0.46	0.01	-0.03	0.22	0.25	-0.12	-0.08	0.04	0.13	-0.15	0.04	0.00	0.19	1				
14. CEO gender	0.03	0.16	-0.02	-0.01	-0.04	-0.01	0.09	0.09	0.07	0.03	-0.01	-0.01	-0.10	-0.05	-0.09	1			
15. CEO age	55.28	7.03	0.04	-0.01	0.33	0.19	-0.17	-0.09	0.01	0.16	-0.15	0.07	0.03	0.21	0.28	-0.10	1		
16. CEO ownership	1.69	5.80	-0.04	0.09	-0.02	-0.19	0.03	-0.04	-0.08	-0.09	0.18	0.23	0.10	-0.10	-0.05	-0.04	0.10	1	
17. CEO ownership (missing value indicator)	0.56	0.50	0.04	-0.04	0.14	0.42	-0.14	-0.05	0.12	0.24	-0.24	-0.17	-0.20	0.13	0.02	0.07	-0.11	-0.33	1
18. CEO in-the-money option	3.24	5.90	-0.09	-0.02	0.00	-0.46	0.12	0.13	0.02	-0.35	0.16	-0.02	0.18	0.03	0.14	-0.06	0.00	0.07	-0.36

***Notes**: Coefficients greater than 0.1 are significant at $p<0.05$. N=364.*

Table 5a. Regression models on buyback policy adoption

Variables	Model 1	Model 2	Model 3	Model 4
Firm size	0.219***	0.218***	0.191***	0.195***
	(0.048)	(0.047)	(0.046)	(0.045)
ROA	-0.151	-0.160	-0.048	-0.061
	(0.799)	(0.807)	(0.786)	(0.800)
Financial leverage	-1.438*	-1.437*	-1.478**	-1.539**
	(0.602)	(0.606)	(0.550)	(0.573)
Firm age	-0.021	-0.021	-0.026	-0.024
	(0.021)	(0.021)	(0.022)	(0.022)
Firm slack	-0.433	-0.448	-0.331	-0.339
	(0.438)	(0.441)	(0.422)	(0.432)
Net cash flow	0.546*	0.556*	0.511*	0.511*
	(0.254)	(0.240)	(0.231)	(0.242)
Firm stock performance	-0.026	-0.025	-0.027	-0.023
	(0.033)	(0.032)	(0.033)	(0.031)
EPS	0.044**	0.043**	0.043**	0.042*
	(0.017)	(0.017)	(0.017)	(0.017)
CEO duality	0.329+	0.331+	0.292	0.298+
	(0.170)	(0.171)	(0.181)	(0.180)
CEO gender	-0.585	-0.585	-0.571	-0.541
	(0.454)	(0.453)	(0.432)	(0.418)
CEO age	-0.010	-0.010	-0.009	-0.010
	(0.013)	(0.013)	(0.013)	(0.013)
CEO ownership	-0.030*	-0.031*	-0.036*	-0.035*
	(0.014)	(0.015)	(0.015)	(0.016)
CEO ownership (missing value indicator)	0.130	0.127	0.099	0.098
	(0.140)	(0.141)	(0.143)	(0.150)
CEO in-the-money option	0.021	0.021	0.016	0.017
	(0.014)	(0.014)	(0.014)	(0.015)
Peer buyback policy adoption		0.052	0.055	0.028
		(0.068)	(0.062)	(0.067)
CEO narcissism (**Hypothesis 1**)			0.424***	0.844**
			(0.111)	(0.261)
CEO narcissism * Peer buyback policy adoption (**Hypothesis 3**)				-0.445*
				(0.177)
Constant	-3.070*	-3.088*	-2.910*	-2.954*
	(1.290)	(1.293)	(1.327)	(1.300)
R^2	0.1817	0.1818	0.1848	0.1857

***Notes**: + 0.1 * 0.05 ** 0.01 *** 0.001. Two-tailed tests are applied. N=1406. Industry and year dummies are included. Standard errors in parentheses.*

Table 5b. Regression models on buyback program implementation

Variables	Model 1	Model 2	Model 3	Model 4
	DV=buyback program implementation (Hypothesis 2)		DV=Market reaction to buyback policy adoption (Hypothesis 4)	
Firm size	0.168	0.176	-0.421	-0.251
	(0.148)	(0.142)	(0.406)	(0.385)
Relative buyback size	-1.037	-1.232+	-2.438*	-2.472*
	(0.683)	(0.734)	(1.090)	(1.018)
ROA	2.442	3.166	-4.742	-5.621
	(2.157)	(2.236)	(6.256)	(6.210)
Financial leverage	-2.003	-2.557+	3.161	3.160
	(1.246)	(1.364)	(3.609)	(3.510)
Firm age	-0.027	-0.020	-0.049	-0.026
	(0.027)	(0.026)	(0.134)	(0.130)
Firm slack	-0.907	-1.758	6.416	5.924
	(1.496)	(1.702)	(4.597)	(4.647)
Net cash flow	2.951+	4.279**	0.275	1.504
	(1.775)	(1.570)	(3.633)	(3.732)
Firm stock performance	0.230	0.154	-1.042	-1.067
	(0.442)	(0.453)	(0.831)	(0.805)
EPS	-0.000	0.021	0.484*	0.513*
	(0.058)	(0.060)	(0.217)	(0.212)
CEO duality	-0.196	-0.189	-0.012	0.125
	(0.398)	(0.401)	(1.032)	(1.052)
CEO gender	-0.309	-0.309	0.788	0.768
	(1.090)	(1.128)	(1.782)	(1.901)
CEO age	0.010	0.024	0.027	0.033
	(0.022)	(0.023)	(0.068)	(0.069)
CEO ownership	-0.032	-0.024	0.142	0.169
	(0.057)	(0.045)	(0.162)	(0.153)
CEO ownership (missing value indicator)	-0.061	0.029	-0.837	-0.753
	(0.465)	(0.455)	(0.866)	(0.868)
CEO in-the-money option	-0.044	-0.038	-0.165	-0.139
	(0.079)	(0.073)	(0.117)	(0.113)
CEO narcissism		-0.881*		-2.064+
		(0.401)		(1.202)
Constant	-2.546	-3.460*	1.897	0.469
	(1.651)	(1.654)	(5.319)	(5.267)
R^2	0.0667	0.0765	0.301	0.306

***Notes**: + 0.1 * 0.05 ** 0.01 *** 0.001. Two-tailed tests are applied. N=364. Industry and year dummies are included. Standard errors in parentheses.*

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