Buy the rumor, shape the news:

How firms use rumor reactions to anticipate and manage impressions

by

Jason Thomas Kiley

(Under the Direction of Jerayr (John) Haleblian)

Abstract

I develop and test theory about the tactics and antecedents of organizational anticipatory impression management. For some types of events, organizations can anticipate negative audience perceptions and proactively plan to manage those perceptions. Prior anticipatory impression management research has examined tactics that affect the informational environment of an event, rather than the focal behavior, and assumed that organizations anticipate controversies without explaining the mechanism. I argue that organizations will also change characteristics of the focal behavior of an event in anticipation of negative audience perceptions. Further, I argue that organizations exhibit feedback-seeking behavior, such that they both monitor their environment and seek preliminary event-specific information, in order to anticipate potentially negative audience perceptions. I find that organizations are more likely to announce an acquisition as market reactions to rumors of that acquisition are more positive. I also find limited support for price changes from rumor to acquisition and moderators of those relationships.

Index words: Rumors, Mergers and Acquisitions, Firm impression management, Feedback–seeking behavior, Firm perceptions

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Jason Thomas Kiley

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J.D., Hofstra University, 2007

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Jason Thomas Kiley

Approved:

Major Professor: Jerayr (John) Haleblian

Committee: Scott Graffin
Michael D. Pfarrer

Electronic Version Approved:

Julie Coffield
Interim Dean of the Graduate School
The University of Georgia
May 2015

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Jason Thomas Kiley

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Chapter 1

Introduction

Recent organizational research has examined how organizations plan and act to manage impressions around events and controversies that they anticipate (e.g. Graffin, Carpenter, & Boivie, 2011; Graffin, Haleblian, & Kiley, 2014). This line of research builds on prior organizational research on impression management as a reaction to controversies whose occurrence or disclosure could not be anticipated by organizations (see Elsbach, Sutton, & Principe, 1998). In turn, the organization-level research more broadly builds on individual-level impression management theory and research (see Bolino, Kacmar, Turnley, & Gilstrap, 2008). So far, organization-level impression management research has mainly focused on differences in tactics between *reactive* impression management and *anticipatory* impression management. One general finding across studies is that reactive impression management tactics tend to provide information about the controversy directly, whereas anticipatory impression management tactics often use information in an attempt to prevent or attenuate perceptions of controversy (cf. Elsbach, 1994; Graffin et al., 2011). Though existing research demonstrates that anticipation allows organizations to use different, and potentially more effective, tactics to manage impressions, many unanswered questions remain.

I examine two primary questions in this study, and I draw on theories of organizational impression management, feedback seeking, and, more generally, social cognitions, to develop theory and hypotheses. First, when an organization anticipates a controversy, does it change the focal behavior—or its characteristics—at the center of the potential controversy? Often, organizations anticipate controversies related to events where the organization has control of the event or its disclosure (Elsbach, 2006). In prior research, anticipation precedes actions that are largely symbolic, such as apportioning costs in hospital bills to prevent patients from disputing high charges for common items (Elsbach et al., 1998). I argue that organizations that anticipate that an event may be perceived as a controversy will consider potential impressions in their decision-making about the focal event itself, in addition to their planning for impression management tactics.

Second, how do organizations anticipate controversies that give rise to impression management? Prior research generally assumes that organizations will anticipate the types of controversies suggested by their research settings (e.g. Elsbach, 1994; Graffin et al., 2011). While those assumptions are logical, we do not yet have a theoretical framework for understanding how organizations anticipate controversies. I argue that organizations exhibit behavior similar to feedback-seeking at the individual level, in that they both monitor the environment for general trends and inquire after bahavior-specific information (see Ashford, 1986; Ashford & Cummings, 1983). Feedback seeking is broadly consistent with the monitoring behavior implicitly suggested by prior research in this area, and I extend prior research by examining an indirect form of inquiry.

I test my theory by examining organizations' behaviors following investors' stock market reactions to published acquisition rumors. In addition, I test how characteristics of both organizations and feedback information may moderate the relationship between reactions and subsequent impression management, including changes in focal acquisition behaviors. Acquisition rumors provide a setting where organizations can see event-specific feedback information while the potential event is still taking shape (i.e., in the acquisitions context, negotiations are ongoing). A rumor is unverified,

material information that is intended to be believed, and individuals, including investors, often act upon rumors as if they were verified news (see DiFonzo & Bordia, 1997). This news–like property of rumors allows organizations to anticipate perceptual threats using event-specific information. Importantly, in this setting, the rumors, reactions, and subsequent organization behaviors are all public and observable to researchers.

I find that organizations are more likely to announce an acquisition as market reactions to rumors of that acquisition are more positive. This finding supports the central idea of this paper—that organizations will use available feedback to change their subsequent focal behaviors. In addition, I find limited support for changes in prices from rumor to acquisition announcement and some moderation hypotheses. Due to a number of restrictions on sample size—from both data availability and design (e.g. price change from rumor to acquisition requires a price in the rumor content, a subsequently announced acquisition, and a publicly announced price)—some of my tests have low statistical power. However, this issue presents an opportunity for additional findings in future studies on an expanded sample.

Below, in chapter two, I review the impression management and feedback seeking literatures, followed by the relevant contextual literature on rumors and acquisitions. In chapter three, I develop theoretical arguments and hypotheses explaining how organizations seek feedback in order to anticipate perceptual threats and controversies, and make changes in focal behaviors to manage impressions. In chapter four, I describe my sample, variables, and a set of analyses to test my hypotheses. Next, in chapter five, I report my results. Finally, in chapter six, I discuss the implications of my findings and suggest avenues for future research.

Chapter 2

Literature Review

This study looks at organizational impression management after an organization observes a market reaction to an acquisition rumor with the organization as a potential acquirer, and I review the relevant literature below. First, I review the impression management literature, identifying two unanswered questions about anticipatory impression management: whether organizations alter focal behaviors as impression management and how organizations anticipate controversies that give rise to impression management. Next, I review the literature on feedback-seeking behavior, which I use as a framework to theorize about how organizations anticipate perceptual threats, and how characteristics of organizations or the feedback information may moderate the relationship between the feedback and subsequent behavior. Moving to the context of the study, I review rumors and how individuals react to them as if they are verified news, providing organizations with insight into investors' thinking when the organization can still change the focal behavior suggested in the rumor. Finally, I review relevant parts of the acquisitions literature, particularly the significance of acquisitions, the potential for acquisition announcements to pose perceptual threats, and the negotiation process that may be affected by feedback.

IMPRESSION MANAGEMENT

Organizations' concerns about perceptions of them, and how to manage those perceptions, drive the overall relationships in this study. Impression management ("IM") describes actions made by an actor with the intent to create, strengthen, change, or weaken a perception by a target audience—usually a perception of the actor (see Bolino et al., 2008; Elsbach et al., 1998; Gardner & Martinko, 1988; Graffin et al., 2011). Early work in impression management was done by social psychology scholars (e.g. Goffman, 1959; Schlenker, 1980; Tedeschi, 1981). In this work, researchers distinguished actors' theoretical motives for altering their perceptions or descriptions of causality (see Bradley, 1978; Miller, 1978). Internally, actors may alter their actual perceptions of causality to protect and enhance self-esteem and resolve cognitive dissonance (see Festinger, 1957; Heider, 1958; Riess, Rosenfeld, Melburg, & Tedeschi, 1981; Staw, McKechnie, & Puffer, 1983). In contrast, externally, actors may make descriptions of causality that misrepresent their actual perceptions in order to manage the impressions that others have of them (Miller, 1978; Riess et al., 1981; Staw et al., 1983).[1]

This line of impression management research translated rather naturally to the organizational setting, particularly in studying individuals' impression management behaviors (Bolino et al., 2008). While not representative of this large body of individual-level organizational research, two strands are particularly relevant to this study. First, actors who are high self monitors (i.e. those who are sensitive to social cues and adapt their behavior to fit situations) tend to use IM more often and more effectively (see Bolino et al., 2008). For example, Snyder (1974) studied theater actors, undergraduate students, and psychiatric ward patients, and found that those who scored higher on a self-monitoring scale were better at determining what behavior is socially appropriate and then

[1]Though I focus on organizational impression management in this study, prior research suggests that these internal and external processes may both be behind the justifications made by individual actors (see Riess et al., 1981). However, Staw et al. (1983) found that self-serving attributions in organizations' annual reports were more consistent with impression management than actual optimism, as managers tended to sell stock after making enhancing statements.

using that information to create desirable impressions. Also, Bolino and Turnley (2003) found that high self monitors tended to actively use IM, and preferred techniques aimed at creating positive perceptions over those that involved confrontation.

Second and more generally, feedback-seeking behavior, is a mechanism by which actors obtain useful information in order to control their own work behaviors and outcomes (see Bolino et al., 2008; Morrison & Bies, 1991). Decisions to seek feedback may also be influenced by impression management concerns (Morrison & Bies, 1991). Actors may also be more interested in feedback when their recent performance has been negative (Morrison & Bies, 1991). I cover feedback-seeking behavior in more detail below.

Beyond this work in social psychology and individual–level organizational research, scholars have also examined how organizations manage impressions.

ORGANIZATIONAL IMPRESSION MANAGEMENT

Organizations—like individuals—use impression management to influence audience perceptions, which, in turn, influence how those audiences interact with the organization (see Bolino et al., 2008; Coombs, 2007; Elsbach et al., 1998). For example, in a study of impression management by California cattle industry organizations following controversial events, Elsbach (1994) found that these organizations were best able to protect their organizational legitimacy by acknowledging the issue and referring to institutional compliance (e.g. following rules or industry norms). Legitimacy, in turn, influences access to resources, organizational survival, stock prices, and stock market risk (see Bitektine, 2011; Deephouse & Suchman, n.d.). Another type of perceptual asset, organizational high reputation, is associated with a buffered (i.e. less negative) reaction to negative earnings surprises (Pfarrer, Pollock, & Rindova, 2010). Overall, favorable audience perceptions can provide meaningful benefits to organizations, and organizations act using IM to influence au-

dience perceptions in ways that serve organizations' interests (see Bolino et al., 2008; Deephouse & Suchman, n.d.).[2]

Organizations manage audience impressions using a number of different tactics in response to different types of perceptual threats. In particular, organizational IM research often examines *specific events* that present perceptual threats like crises and controversial actions (e.g. Elsbach, 1994; Elsbach et al., 1998; Graffin et al., 2011; Porac, Wade, & Pollock, 1999; Staw et al., 1983).[3] These events differ in whether the organization can anticipate them, and, consequently, in the IM tactics available to the organization (see Cain, 2014; Elsbach et al., 1998; Graffin et al., 2011). When an organization responds to an actual event that it could not—or did not—anticipate with impression management, that IM is *reactive*. In contrast, an organization may *anticipate* an event, allowing it to coordinate impression management tactics in advance.

Reactive impression management

Reactive impression management occurs when an event (e.g. a crisis) occurs that threatens an audience's perceptions of organization, and the organization then responds in order to influence those perceptions (see Bolino et al., 2008; Elsbach et al., 1998). From the organization's perspective, either the focal event or its disclosure could not be anticipated (Coombs, 2007). As a result, the organization—especially when threatening events are ongoing—must make sense of the issue and then manage impressions without the benefit of advance planning (see Coombs, 2007; Gioia & Chittipeddi, 1991). Some organizations do anticipate classes of threatening events and develop plans for reacting to them—both in information gathering and impression management—but these plans merely enhance the organization's ability to engage in effective reactive IM (see e.g. Carr,

[2]Though organizations use IM in a self-serving manner, there are practical limits to its effectiveness if audiences detect and discount it (see Puffer & Weintrop, 1991).

[3]Despite the tendency toward "event-driven" IM, there are studies examining more general uses of IM (see Bolino et al., 2008). For example, organizations have used IM to help recruit job applicants (Avery & McKay, 2006) and for influencing perceptions of environmental responsibility (Bansal & Kistruck, 2006).

2014, about home-rental website, Airbnb, using scenario planning to accelerate crisis responses).

Organizations may use reactive IM tactics following threatening events or issues at multiple levels, including the organization, industry, or larger environment (see Elsbach, 1994; Mohamed, Gardner, & Paolillo, 1999; Zavyalova, Pfarrer, Reger, & Shapiro, 2012). For issues where the organization's level of responsibility is not clear, it can deny responsibility, point to external causes, or claim that it is a victim (Bettman & Weitz, 1983; Coombs, 2007; Elsbach, 1994). When there is some link between the organization and the issue or event, the organization may acknowledge it and provide additional information to diminish, explain, or distract from it (Coombs, 2007; Elsbach, 1994).

Research on reactive IM tactics used by organizations suggests that they are used for a variety of threatening issues and are often effective in influencing audience perceptions (see e.g. Elsbach, 1994; Marcus & Goodman, 1991). Examining self-serving attributions in organizations' annual reports to shareholders, Staw et al. (1983) found that managers tended to blame bad news on external factors while taking credit for good news, and these attributions influenced investors' perceptions in a positive direction. In addition, they found that managers tended to sell stock following these attributions, suggesting that managers were managing impressions rather than communicating actual optimistic biases (Staw et al., 1983). In the aforementioned California cattle industry study, Elsbach (1994) found that organizations successfully managed impressions following organizational and industry–level crises, particularly when acknowledging the issue. As a final example, social advocacy organizations that intentionally engage in illegitimate acts—such as disrupting events and spiking trees to frustrate lumber harvesting—react to bad publicity by redirecting attention from their actions toward their more broadly acceptable goals (Elsbach & Sutton, 1992).

An important aspect of reactive IM is that audiences learn of, and react to, the focal behavior, and organizations then act to change those perceptions. Because the focal event has already hap-

pened and drawn audience reactions, organizations do not have the option of choosing not to engage in a focal behavior, changing its characteristics, or attempting to prevent negative perceptions.[4] Consequently, reactive IM tactics tend to address the event itself directly by providing information about the event itself—even if that information is a denial of responsibility. In contrast, events that are anticipated by organizations may be harder to deny, as they may be unambiguous organization actions, but they allow for preplanned, coordinated *anticipatory* impression management. I argue below that anticipatory IM tactics include changes in focal behaviors, but the impossibility of that option in the more-developed reactive IM literature may explain why scholars have yet to consider it in the anticipatory IM literature.

Anticipatory impression management

Anticipatory impression management occurs when an organization anticipates a specific future threat to external perceptions of the organization and acts preemptively to influence those perceptions in line with the organization's interests (see Arndt & Bigelow, 2000; Elsbach et al., 1998; Graffin et al., 2011; Higgins & Snyder, n.d.). A key difference between reactive and anticipatory IM is that anticipatory IM generally allows the organization some control over the timing and content of the initial information release or its context; thus, the organization can plan and act strategically to manage impressions (Elsbach, 2006). By anticipating and influencing audiences' initial perceptions of an event or announcement, organizations may prevent situations where they need to use reactive IM in an attempt to change audiences' minds (see Elsbach et al., 1998).

Anticipatory IM tactics are generally designed to obfuscate an upcoming event (Elsbach et al., 1998). I classify these tactics in two general ways. One form, *blurring*, occurs when an or-

[4]Sometimes, organizations react with IM by undoing a forward-looking change that sparks controversy, but the damage may persist. Netflix announced a price increase and split of their DVD and streaming businesses in 2011, and then rolled back some changes in response to audience backlash. Apparently learning from that experience, Netflix raised prices in 2014 without backlash, though the media recounted the 2011 events in their reporting of the 2014 price increase (Neal, 2014).

ganization acts to diminish or overwhelm an audience's attention to the event. (see Elsbach et al., 1998). For example, Elsbach et al. (1998) found that hospitals attempt to prevent an initial conflict with patients over billing. These hospitals used tactics such as itemized bills in plain language, reasonable charges for items that patients recognize (e.g. aspirin), and language that highlighted favors (e.g. billing a patient's insurance company) and suggested that the hospital was "caring and friendly" (Elsbach et al., 1998). Graffin et al. (2011) found that organizations used "strategic noise" to obfuscate stock market reactions following CEO successions, and that CEO successions with perception-threatening characteristics were more likely to be accompanied with this form of anticipatory IM. Strategic noise is a tactic whereby an organization announces a focal event and other, unrelated information contemporaneously to prevent an audience from considering the focal event in isolation (Graffin et al., 2011). Analogously, in the finance literature, Dellavigna and Pollet (2009) found that earnings announcements on Fridays have longer and delayed responses, suggesting that they are timed to coincide with low investor attention.

A common thread in these blurring tactic studies is that the focal event may not necessarily drive audience behaviors without considerable attention. A hospital bill can be crafted in a way that does not arouse enough suspicion to drive patient action (Elsbach et al., 1998). CEO successions are material events, but the uncertainty that makes market predictions difficult for boards and organizations may allow them to exploit a difficult interpretation for investors and overwhelm them with IM (see Graffin et al., 2011; Khurana, 2002). Friday announcements may similarly overwhelm investors by targeting a time likely to coincide with non-investing attention and obligations (see Dellavigna & Pollet, 2009). Accordingly, blurring tactics may be more likely in contexts where audiences may default to no or little action (e.g. not disputing a bill; making smaller or no trades) when the event is ambiguous or attention is constrained.

The second form, *directing*, occurs when an organization acts to redirect an audience's attention relative to the focal event (see Elsbach et al., 1998). For example, Graffin et al. (2014)

found that organizations use impression offsetting—a contemporaneous release of unrelated positive announcements—along with acquisition announcements, to direct market reactions in a positive direction. In addition, organizations used impression offsetting more when acquisitions had characteristics that are often received negatively by investors (Graffin et al., 2014). Also, Cain (2014) found that organizations use earnings forecasts to manage impressions, not to neutrally mitigate information asymmetry. Similarly, in the accounting literature, Elliott and Shaw (1988) found that organizations used large, discretionary accounting write-offs to negatively influence perceptions and lower expectations by piling additional bad news onto a negative focal event—a tactic called "big bath accounting." This tactic may work by exhausting bad news in the short term and taking perceptual damage in order to position the organization to exceed these lowered expectations in the future (see Walsh, Craig, & Clarke, 1991).

These studies all examine focal events that audiences may perceive and act upon in a particular direction—often negative. Acquisition reactions vary, but the average reaction is weakly negative, and there are known characteristics which influence the reaction (Haleblian, Devers, McNamara, Carpenter, & Davison, 2009). Unsurprisingly, negative earnings surprises tend to garner negative reactions (Cain, 2014; Pfarrer et al., 2010). When audiences can more easily understand an event and react accordingly, directing tactics may be more likely to either push against (e.g. impression offsetting) or pull with (e.g. big bath) the direction of that reaction in ways that serve an organization's interests.

When considering stock market reactions and anticipatory IM, the relationship can be expressed mathematically as:

$$\text{Stock return}_f = \text{Market return} + \text{Event reaction}_f + \text{AIM reaction}_f$$

where f is the focal organization. Anticipatory IM ensures that this equation has at least two unknowns, and, thus, it is not possible to solve for both the event reaction and the anticipatory IM reaction. For directing IM, observers may have a sense of the sign of the focal event reaction, but they cannot estimate its magnitude. Accordingly, anticipatory IM forces investors to consider multiple items of information at once, and, by confounding the meaning of the market reaction, deprives them of clear additional information that could come from waiting to observe how the overall market reacts to one material announcement in isolation.

Unexplored questions in anticipatory IM

Perhaps as a consequence of the longer and more-developed reactive IM research stream, anticipatory IM research has yet to explore some significant questions that arise from the distinctions between the two. I examine two of those questions in this study. First, do organizations alter their focal behaviors as a consequence of anticipating a perceptual threat? As I describe above, the focal behavior or event becomes known first in a reactive IM scenario, so an organization cannot fully undo the past, even if they reverse course. The same is not necessarily true when a perceptual threat is anticipated, as organizations may be able to change the focal behavior before it becomes known. For example, though not visible to researchers, a board likely anticipates investors' perceptions and uses that information when choosing a new CEO (cf. Graffin et al., 2011). Similarly, caregivers in a hospital, knowing that patients are more likely to dispute charges for items that they are familiar with, may choose a different product (e.g. bandage, pain reliever) to achieve the same medical objective (cf. Elsbach et al., 1998). In this study, I explore whether organizations alter their focal behaviors using published rumors of acquisitions as a source of feedback.

Second, I examine the question of how organizations anticipate perceptual threats. In a reactive IM scenario, negative perceptions are a given because they have already happened. However,

anticipatory IM requires anticipating that a future event or situation presents the threat of negative perceptions of the organization by an audience. Past studies have logically assumed that organizations anticipated perceptual threats associated with the contexts of those studies (e.g. Elsbach et al., 1998; Graffin et al., 2011). I explore how organizations anticipate perceptual threats and argue that organizations exhibit feedback-seeking behavior to anticipate perceptual threats and consider those threats when planning focal behaviors and related impression management tactics.

FEEDBACK-SEEKING

Overall, I draw on social cognitive theory in viewing organizations and their managers as "self-organizing, proactive, self-regulating, and self-reflecting" (see Bandura, 2005, p. 9). They make goals, anticipate outcomes of their actions, and seek feedback to regulate their behaviors (Bandura, 2005). Their relationships with their environments are bidirectional, and those relationships are sources of structure, resources, and information. Below, expanding past this general framework, I draw on theories of feedback seeking to further explain how organizations gather feedback in order to regulate their impression management and focal behaviors toward a goal of protecting, maintaining, and enhancing perceptions of the organization.

I argue that feedback seeking explains how organizations anticipate perceptual threats and how organizational and informational characteristics moderate the influence of anticipated perceptual threats on subsequent behavior. Feedback seeking is the "conscious devotion of effort toward determining the correctness and adequacy of behaviors for attaining valued end states" (Ashford, 1986, p. 466; see Ashford & Cummings, 1983). Actors can then use this information to alter their behavior in order to better achieve their goals (Ashford, 1986).

Forms of feedback seeking

Feedback seeking takes two forms: monitoring and inquiry (Ashford & Cummings, 1983). Monitoring occurs when an actor obtains feedback information from the environment by observation (Ashford, 1986; Ashford & Cummings, 1983). The actor watches other actors and their behaviors, and then observes how others respond to those behaviors (Ashford, 1986; Ashford & Cummings, 1983). As I describe in more detail in the moderators section below, existing anticipatory IM research assumes that organizations know how audiences react to certain event types in general (e.g. CEO successions, earnings announcements), implicitly suggesting that organizations monitor their environments for feedback (cf. Cain, 2014; Graffin et al., 2011).

The other form of feedback-seeking behavior is inquiry, which is the form I focus on in this study. Inquiry occurs when actors directly seek feedback information that is specific to their own behaviors and desired outcomes (Ashford, 1986; Ashford & Cummings, 1983). At the individual level, this is often accomplished by directly asking others for specific feedback, but this feedback-seeking behavior is tempered by impression management concerns (see Ashford, 1986). At the organizational level, public markets and the media provide a wealth of specific information about organizations to investors and other audiences, providing the same specific information typical of individual-level inquiry without the perceptual disincentive. Though it has yet to be examined in the anticipatory IM literature, an organizational-level inquiry behavior is implied by organizations' reactive IM behaviors, as they are using event-specific information to inform subsequent behavior (cf. Coombs, 2007; Elsbach, 1994; Elsbach & Sutton, 1992).

Varying value of feedback information

An important aspect of feedback seeking of either form is the value of the information for an actor. Overall, information has value when it mitigates uncertainty about some issue or goal that is important to an actor (see Ashford, 1986). In other words, uncertainty and information are inversely related (Gifford, Bobbitt, & Slocum Jr., 1979). This explains why information is potentially more valuable when uncertainty is high, as a given level of uncertainty sets a ceiling on the value of information (see Gifford et al., 1979).

In prior research at the individual level, information also varies in value across individual-level factors (see Ashford, 1986). Individual characteristics may affect the value of feedback information by providing substitutes for feedback, adding uncertainty, or increasing the value of the outcome (see Ashford, 1986). Employees with longer tenure in a particular job tend to place a lower value on feedback, suggesting that first-hand experience is a substitute (Ashford, 1986). They also tend to engage in more feedback-seeking behavior when their recent performance is poor (Ashford, 1986; Morrison & Bies, 1991), suggesting that feedback information has an increased value for them.

Applied to this study, feedback information—in the form of investors' reactions to an acquisition rumor—may allow an organization to alter its acquisition behaviors and impression management tactics to manage audience perceptions. In addition, characteristics of an organization and the level of information gained from a rumor reaction may moderate those relationships.

RUMORS

In this study, event-specific inquiry feedback is operationalized as the reaction to a published acquisition rumor. Below, I review research on rumors, particularly how rumors can act as a sort of "improvised news" that provides insight into how individuals view an organization given a rumored

course of action, despite the unverified nature of rumors. Using that feedback, an organization can then alter its behavior to manage impressions.

A rumor is information that (a) is not verifiably true or false, (b) is of material interest to those who propagate or receive it, and (c) is intended to be believed by those who receive it (DiFonzo & Bordia, 1997). The unverified characteristic of rumors differentiates them from news, which is always confirmed (DiFonzo & Bordia, 1997; Shibutani, 1966). Rumors are intended to convey information that is plausibly factual—even if it turns out not to be true. These qualities differentiate rumors from gossip, folklore, and legend (see DiFonzo & Bordia, 1997).

Rumors and individual sensemaking

At the individual level, rumors may be generated by people in an attempt to make sense of ambiguous or uncertain situations (see Allport & Postman, 1947; DiFonzo & Bordia, 1997; Dubois, Rucker, & Tormala, 2011). When confronted by uncertain situations, individuals "search for meaning, settle for plausibility, and move on" (Weick, Sutcliffe, & Obstfeld, 2005, p. 419). If there is no news—that is, verified information—available, individuals may improvise their own news to fill in the gap, thereby creating a rumor (Shibutani, 1966). An important attribute of rumors at the individual level is the causal and motivational attributions that they include to explain events (see Allport & Postman, 1947; Weick, 1995; Weick et al., 2005). For example, DiFonzo (2008) describes how a community tried to make sense of a fatal automobile accident involving recent high school graduates and an eighteen-wheeler. Before the results of an investigation were available, false rumors circulated that another driver sped up as he was being passed and that the truck driver did not slow down. Weeks later, investigators held a news conference to provide evidence refuting the rumors and suggesting the actual cause: texting while driving. Taking the basic facts that were available immediately after the accident, the community attempted to make sense of the

unanswered questions by attributing causes to the few available facts. Overall, when confronted with uncertainty, individuals will improvise their own news or spread the improvised news (i.e. rumor) from others, if the available verified information does not resolve their uncertainty.

Beyond these individual and small-group levels, rumors also occur at the organizational level with large audiences.

Rumors in the organizational context

Organizations are often the topic of rumors, and the contextual characteristics of organizations and their audiences make those rumors particularly potent (DiFonzo & Bordia, 2000). Organizations and their audiences have an asymmetric information relationship, such that an organization's managers have more and more recent information about the organization than audiences do (Eisenhardt, 1989). This information asymmetry is an ongoing source of uncertainty for organization audiences. In addition to this uncertainty, many audiences, particularly investors, have financial motives to pay attention to, and seek to explain, organizations' actions (see Van Bommel, 2003). These qualities provide a fertile soil for the emergence and transmission of rumors.

Organizational rumors affect audience behavior, even at aggregated levels like stock market reactions and product preferences (DiFonzo, 2008; Pound & Zeckhauser, 1990; Van Bommel, 2003; Zivney, Bertin, & Torabzadeh, 1996). For example, rumored target organizations often surge in price when a rumor is published (Pound & Zeckhauser, 1990) As a product example, in 2009, internet rumors spread about Pyrex glassware exploding following an acquisition of the brand, a change to a cheaper material, and a move of production from the U.S. to China (Snopes.com, 2010). In response, World Kitchen added a webpage, which is still in place five years later, refuting claims that Pyrex is unsafe and made outside the U.S., while acknowledging that all glassware has a small chance of breakage, particularly if used improperly (World Kitchen, 2014). Recognizing

their potency, organizations pay attention to rumors and, in some cases, take action to influence audiences (DiFonzo & Bordia, 2000).

Researchers have also examined how rumors about organizations produce aggregated audience behavior changes. First, audiences may not be meaningfully affected by the unverified nature of rumors. In the marketing literature, Dubois et al. (2011) found that the uncertainty of a rumor is less likely to be transmitted than its content. In addition, DiFonzo and Bordia (1997) found that simulated investors react to rumors as if they are news, even when they rate those rumors as being unlikely to be true, suggesting that audiences have a relatively low threshold for using rumors to inform their behaviors.

Another mechanism, stable-cause attribution, may also explain rumor effects on audience behaviors (DiFonzo & Bordia, 2002). When an individual attributes an uncertain event to a stable cause, he or she tends to make antiregressive predictions (see DiFonzo & Bordia, 2002). As an illustration, if a sports team has a 0.400 record but has won its last four games, a regressive prediction would be a loss (i.e. the more likely result given the overall record), and an antiregressive prediction would be a win and may be attributed to a stable cause such as "the team is 'hot"' (see DiFonzo & Bordia, 1997; DiFonzo & Bordia, 2002). Along those lines, Andreassen (1987) found that stock market prices move in a manner consistent with an antiregressive prediction following causal attributions made by the media in news stories. These stable causes may also help explain observations in the finance literature that stock prices tend to "drift" after material news (Chan, 2003).

Investors treat rumors as if they were news, providing insight into how a potential acquisition would change their perceptions of an organization. Because rumors occur before negotiations are complete, the potential acquirer may use this information to reconsider the terms of the potential acquisition or to anticipate the need to manage impressions when announcing this specific

acquisition.

MERGERS AND ACQUISITIONS

The acquisitions context brings together material, strategic organization behaviors, investor and media interest, and perceptual threats that can be anticipated (see Graffin et al., 2014). When added to this context, acquisition rumors and their reactions provide an organization with event-specific feedback, in the form of insight into investor perceptions during negotiations, allowing for changes in the underlying acquisition behavior (e.g. price, terms). To describe the parts of the acquisitions context relevant to this study, I review the significance of acquisitions, their potential as perceptual threats, and how they are negotiated.

Acquisitions are important events for acquiring organizations, targets, and the capital markets (Fuller, Netter, & Stegemoller, 2002). Given that materiality to investors, the financial media (e.g. the Wall Street Journal, CNBC) thoroughly covers acquisition announcements, using the information provided by organizations in press releases. In addition, the media covers acquisition rumors that surface from the work of their reporters, and researchers tend to use media sources to capture the set of rumors that are disseminated widely to investors (e.g. Pound & Zeckhauser, 1990). An important aspect of these publicized rumors is that organizations can observe the public reactions of investors in the stock market, and use those reactions to inform their subsequent decisions.

Acquisitions as perceptual threats

Acquisitions present perceptual threats to organizations by virtue of the average negative reactions they engender and the underlying attributions made by investors that may drive those reactions. Investors tend to react negatively to acquisition announcements on average, though reactions

vary from positive to negative (see Haleblian et al., 2009; King, Dalton, Daily, & Covin, 2004). Prior research has identified a number of acquisition motives that investors may react to poorly (see Haleblian et al., 2009). Acquisitions raise the risk that organizations will not realize the potential of a deal by failing to transfer knowledge appropriately (see Finkelstein & Haleblian, 2002; Haleblian & Finkelstein, 1999). Another stream of research suggests that some acquisitions and their price premiums are driven by managerial biases, like hubris (Hayward & Hambrick, 1997; Malmendier & Tate, 2008) and compensation motives (Harford & Li, 2007). Also, implicating future organizational performance, acquisitions may signal that an acquiring organization's organic growth is slowing (Kim, Haleblian, & Finkelstein, 2011).

With these examples in mind, it is reasonable to expect that investors may react negatively to acquisition announcements, and that those reactions may have roots in stable cause attributions (see DiFonzo & Bordia, 2002). Along those lines, some organization event announcements are effectively "branded," positively or negatively, with investors' reactions (see Graffin et al., 2011). This idea is consistent with research in finance suggesting that "bad" news can cause an organization's stock price to drift for months (Chan, 2003), and with social psychology research suggesting that media attributions that accompany news may reduce stock price mean regression (Andreassen, 1987).

With these potential perceptual threats in mind, it is logical to expect organizations to consider investors' reactions as a type of event-specific feedback when negotiating acquisitions and anticipating the need for impression management.

Negotiating acquisition agreements

A typical acquisition negotiation process begins with discussions between the acquirer and target on the overall framework of a potential deal, represented in document form as a term sheet.[5]

These discussions tend to involve advisors—both investment bankers and lawyers—and any third parties that will provide financing for the deal. Once the framework is agreed upon, the parties typically sign a letter of intent (Batterson, 2011).[6]

Then, the parties begin a due diligence phase. Due diligence is "[a] prospective buyer's or broker's investigation and analysis of a target company" (Garner, 1999). In this phase, the parties investigate each other, though the target's investigation of the buyer is mostly focused on the buyer's ability to pay at closing. As the buyer learns more about the target, there are often negotiated changes in overall price,[7] escrow amounts, materiality thresholds, and warranties (see Batterson, 2011). These continue right up to the time of the signing of the agreement of merger. It is not at all uncommon to have an agreement draft produced by the target in the last couple of days before a planned signing, with long schedules of exceptions to representations and warranties, and new executive compensation agreements providing for generous payouts at closing. These drafts are often followed by furiously-paced negotiations—sometimes with actually furious bankers and lawyers—to change the price or rescind compensation changes. A key aspect of these negotiations is that the acquirer is actively seeking and processing information and adjusting their acceptable set of terms accordingly, even at the "final hour" of negotiations.

Once the agreements[8] are signed, the acquirer and target promptly issue a press release, jointly or separately. At that point, the negotiation process is essentially over. Small problems in executing the promises contained in the pre-closing covenants of the agreement are often below the materiality threshold that would trigger a remedy. Absent a regulatory problem or materially adverse event,

[5]From the outset of negotiations, and up until the time of any announcement, the likelihood that a rumor is published may increase over time as the size of a deal team grows. The "published" qualifier is important here; large, reputable media organizations may look for at least circumstantial support of negotiations or discussions, even to report "unverified" information.

[6]Letters of intent do not create an obligation to consummate a deal, and they may include provisions for a "break up fee" or period of exclusivity for negotiations.

[7]Some agreements include provisions that vary with changes in the finances of the target that result from the ordinary operation of the business (Batterson, 2011). In addition to those types of provisions, the parties may negotiate on substantive issues that arise during the due diligence process.

problems that cross the materiality threshold are rare. Finally, once the covenants are fulfilled—or will be fulfilled contemporaneously with the closing—the parties close the deal and the acquirer issues a press release announcing the closing.

[8]The principal agreement is usually the merger agreement between the acquirer and target. In addition, there are often financing agreements between a consortium of banks or funds and the acquirer. These include separate items like side letter agreements that provide for particular rights allowing for notes to have qualities that make them feasible investments for pension plans.

Chapter 3

Theory and Hypotheses

Below, I make two principal arguments. First, I argue that organizations that anticipate negative reactions to their announcements using rumor reactions as feedback will change the *focal behaviors* of those announcements, not just impression management actions. Second, characteristics of both organizations and the rumors that prompt investor reactions may moderate the relationships between rumor reaction feedback and subsequent organization behaviors. Some organizations may have characteristics making them more or less sensitive to feedback, moderating the influence of feedback subsequent organizational actions. Also, the characteristics of the information contained in investors' reactions may affect the utility of that information for organizations, similarly moderating the feedback to behavior relationships.

ALTERING BEHAVIOR AS IMPRESSION MANAGEMENT

Anticipatory impression management research has generally examined how organizations anticipate a perception-threatening event and then act to manage impressions without changing the

underlying focal behavior. In some cases, the focal behaviors are unavoidable events like earnings announcements (Cain, 2014), CEO successions (Graffin et al., 2011), and hospital bills (Elsbach et al., 1998). In these cases, it is highly unlikely that organizations would violate reporting requirements, go without a CEO, or decide not to bill a patient, all following an anticipated likelihood of controversy or unfavorable perceptions.

However, in other cases, organizations anticipate these unfavorable perceptions while the organization has a substantial freedom to act. For example, an organization, by virtue of its inside information, may anticipate that a potential acquisition presently in negotiations could produce unfavorable perceptions of the organization (Graffin et al., 2014). Similarly, an organization preparing a new product announcement for a product still in development may anticipate that audiences will have unfavorable perceptions if a certain—currently missing—feature is not present. In cases like these, the organization retains some control over the focal behavior (e.g. the acquisition terms; the product features or release date). While prior research tends to assume that the focal behavior and reaction are fixed (e.g. Elsbach et al., 1998), I theorize that an organization will alter the focal behavior in cases where it has that option and impression management concerns warrant such alterations (see also Bolino et al., 2008).[1] In other words, I expect that organizations will seek to alter the focal event reaction itself, by changing the focal behavior, as a complement or substitute to obfuscating the reaction using blurring or directing anticipatory IM tactics.

This notion of changing behavior to manage impressions is broadly consistent with impression management research at the individual level and a reactive IM study at the organization level. For example, the tactic of exemplification occurs when individuals do more or better work (i.e. changing aspects of focal work behaviors) in order to positively influence perceptions (see Bolino

[1] Prior research tends to examine contexts where behavior alteration is unlikely to be available, making that implied assumption reasonable in those contexts. As a practical matter, there are not many contexts where researchers have insight into in-process announcements where organizations have the control to change course. This study, using rumors published by reputable media organizations as insight into in-process negotiations, examines one such context.

et al., 2008). Exemplification includes specific behaviors like arriving to work early, working late, acting like a model employee, and volunteering to help (Bolino & Turnley, 1999). Similarly, the tactics of other enhancement, other-focused IM, and self-focused IM all involve changing behavior in order to manage impressions(see Bolino et al., 2008). At the organizational level, Ward, Brown, and Graffin (2009) found that organizations reacted to their inclusion on poor performer lists by making substantive changes to their corporate governance. The common theme is that substantive behaviors and their characteristics may be changed to manage impressions, though the effects are more than just symbolic or informative.

In the acquisitions context, an organization that observes the market reaction to a rumored acquisition may incorporate that feedback into its internal assessments of how investors will view the organization following the announcement and the value of the proposed acquisition. As a result, the organization may update the set of terms that it finds acceptable for the deal (see Batterson, 2011). In the case of a negative rumor reaction, the organization may update its set of acceptable terms in a generally negative direction, such that it requires some combination of a lower price or more favorable contractual terms. The organization's change will have the effect of reducing the overlap of acceptable terms under which a deal could be agreed upon if the target does not similarly adjust its set of acceptable terms.

In contrast, a positive rumor reaction may encourage an organization to complete an agreement, even if doing so requires flexibility on terms or price. Here, an organization's impression management concern may operate by a different mechanism, expectancy violations (see Graffin et al., 2014). After learning of an acquisition rumor and reacting positively, investors may develop an expectation that the rumored acquisition will be completed. If the organization then fails to complete the acquisition, investors may perceive a negative violation of their expectations and punish the organization (see Pfarrer et al., 2010). Recognizing this potential expectation, an organization may update its set of acceptable terms in a generally positive direction, generally increasing the

overlap of acceptable terms among the parties.[2]

Overall, I expect that an organization will alter its set of acceptable terms such that negative reactions will reduce overlap and positive reactions will increase overlap. Consequently, I expect to see changes in the likelihood of deal announcements and changes in rumored to actual deal prices that are associated with investors' aggregated reactions to rumors.

Acquisition announcement

As the overlap of acceptable terms among the parties decreases, agreement may be harder to reach. Because bankers, lawyers, and other advisors come with a substantial cost, some negotiations may fall apart, despite a small amount of overlap, when the cost of finding that overlap through negotiation becomes practically prohibitive. When overlap increases, an agreement may be easier to negotiate among the parties. Though the mechanisms underlying impression management motives differ between the positive and negative cases, I argue that investors' rumor reactions will have a positive association with the overlap in agreeable terms among the parties and, consequently, with the probability of an agreement.

> *Hypothesis 1. Rumor abnormal returns will be positively associated with the probability of a subsequent acquisition announcement.*

Price change

For acquisitions that are announced, a change in the overlap of acceptable terms among the parties may influence the price of the eventual agreement relative to the price at the time of the

[2]While an astute target or its advisors may use this situation to demand a higher price or better terms, the target's interest in completing the deal with even better terms may practically mean that it does not move far enough to fully negate the potential acquirer's positive move.

rumor.[3]Following a negative reaction, the potential acquirer may ask for a lower price or more favorable terms. In contrast, following a positive reaction, the potential acquirer may be willing to pay more (see Kim et al., 2011) to avoid violating investors' expectations. With these effects in mind, I argue that investors' rumor reactions will have a positive association with overlap and, consequently, price changes.

> *Hypothesis 2. Rumor abnormal returns will be positively associated with the change in price from rumor to announcement.*

DIRECTIONALLY INFLUENCING PERCEPTIONS AS IMPRESSION MANAGEMENT

In addition to changing characteristics of the focal behavior, organizations may also use event-driven anticipatory IM tactics for the acquisitions that they decide to make. Specifically, I argue that anticipatory IM tactics that change the focal behavior and those that are directed primarily at perceptions will be used as complements, rather than substitutes. Because the investor audience is broad, different IM tactics may each impact different segments of the overall audience (see Avery & McKay, 2006). In turn, the influence on those segments may add up to a more effective IM campaign at the aggregated audience level (see Avery & McKay, 2006).

When planning an anticipatory IM strategy for a future event, organizations have a variety of tactics from which to choose. Recall that the average market reaction to an acquisition is weakly negative (Haleblian et al., 2009), and that the use of directing strategies may make overall averages exhibit a positive bias (Graffin et al., 2014). In the acquisition context specifically, the wealth of disclosed information may make a blurring strategy less effective (cf. Graffin et al., 2011), as investors will likely have a sense of the sign of the "true" reaction from overall averages and a large

[3]It is logical that the influence on agreeable terms extends beyond the the deal price to provisions like representations and warranties, the dollar value considered to be material (e.g. for disclosures or minor breaches), material adverse event clauses, and restrictive covenants (e.g. refraining from new executive pay awards that will be triggered at closing). However, these kinds of terms are rarely—if ever—rumored, making a hypothesis to this effect infeasible to test.

body of research into the effects of acquisition characteristics on market reactions (see Haleblian et al., 2009). Accordingly, organizations may prefer directing anticipatory IM tactics to blurring ones.

Prior research identifies two organizational-level directing anticipatory IM tactics: big bath and impression offsetting (see Elliott & Shaw, 1988; Graffin et al., 2014; Walsh et al., 1991). The acquisitions context is different from the earnings announcement context, in that the negativity that accompanies acquisitions is fairly uncertain (see Haleblian et al., 2009), while negative earnings surprises are more certainly negative (see Pfarrer et al., 2010). In addition, an individual acquisition is often part of a larger strategic acquisitions program (Laamanen & Keil, 2008), making the big bath tactic counterproductive for future acquisitions. Taken together, these contextual characteristics suggest that big bath—or any other directing tactic that aims to amplify negative reactions—may not be a good fit for acquisitions, as big bath may poison the well of investor perceptions, rather than setting some lower baseline of expected performance (cf. Elliott & Shaw, 1988).

In contrast, a positive directing tactic, such as impression offsetting, may be particularly well suited for IM around an acquisition announcement (Graffin et al., 2014). By announcing clearly positive, unrelated news contemporaneously with the acquisition announcement, investors will individually have to evaluate multiple pieces of information without the benefit of a clear (i.e. not confounded) market signal as to the meaning of each (see Graffin et al., 2014). In this study's context, organizations may use investors' reactions to published acquisition rumors as feedback in order to anticipate the need for IM in general and impression offsetting in particular. Accordingly, a more negative rumor reaction may be associated with an organization's increased use of impression offsetting, and a more positive rumor reaction may suggest that IM is not needed.

> *Hypothesis 3. Rumor abnormal returns will be negatively associated with the count of positive, material, unrelated announcements made contemporaneously with the acquisition announcement.*

MODERATORS AT THE POTENTIAL ACQUIRER LEVEL

Some organizations may be more (or less) sensitive to anticipated perceptual threats and, consequently, more (or less) likely to engage in IM behaviors. Sensitivity to perceptual threats by organizations may be analogous to feedback-seeking behavior at the individual level (see Morrison & Bies, 1991). Individuals seek feedback when the information has value to them, and that value is higher when they are uncertain about the behaviors that lead to attained goals, or how those behaviors are evaluated (Ashford, 1986). In general, they use both monitoring (i.e. observing and learning from similar situations in their environment) and inquiry (i.e. seeking specific feedback about particular behaviors and outcomes) to gather information of value (Ashford, 1986). For individuals in organizations, the value they perceive in information and their feedback-seeking behaviors both decrease as they gain experience (Ashford, 1986), suggesting that first-hand experience is a substitute for seeking feedback.

Organizations may seek feedback in similar ways. Many organizational IM studies find that organizations' IM behaviors use the kind of information that would come from monitoring. Elsbach et al. (1998) describes hospital bills that use reasonable prices for items that patients are likely to recognize. Presumably, past patients' disputes over common items with inflated prices informed hospitals' ability to anticipate and manage such impressions for future disputes. Graffin et al. (2011) found that organization and CEO factors influence how organizations manage impressions, suggesting that they anticipate differential reactions to CEO succession announcements based on contextual factors. These announcements are not particularly common within any one organization, but the characteristics and audience reactions play out in public for everyone to see. It is reasonable to assume that organizations, or their advisors, monitor and notice such trends, and that they apply this information when anticipating reactions to their own announcements.

Like individual feedback-seeking, organizations may also seek and make use of information

about their specific focal behavior when it is available (cf. Ashford, 1986). For example, organizations seek specific information about analysts' earnings expectations and then act to manage impressions (Cain, 2014). In this study, investors' reactions to acquisition rumors provide an information source specific to the focal behavior. Unlike individual-level inquiry, organizations have information sources that require little effort to gather and do not present impression management concerns about the gathering process (cf. Ashford, 1986). Without countervailing information-gathering concerns, organizations' interest in inquiry may be more directly related to the value of the information.

Acquisition experience

An organization's acquisition experience may affect its uncertainty about its potential acquisitions and influence its sensitivity to perceptual threats and its feedback-seeking behaviors in the acquisition context (cf. Ashford, 1986). Acquisition experience helps acquirers understand how to choose target organizations, seek outside advice, and identify conditions for success (see Haleblian & Finkelstein, 1999). As an organization's acquisition experience grows, managers are better able to apply their prior acquisition experience to future acquisitions where that knowledge is correctly generalizable while recognizing acquisitions in which their experience should not be generalized (see Haleblian & Finkelstein, 1999).

In addition, organizations become more confident in the routines that they create and tend to make more acquisitions (Haleblian, Kim, & Rajagopalan, 2006). These routines may include processes for selecting potential target firms, evaluating the value of an acquisition, and appropriately integrating the target into the acquirer (see Haleblian et al., 2006). Though it helps when prior acquisitions are successful, it is not necessary, as organizations may also learn from failures (see Haleblian et al., 2006).

When acquisition experience is high, organizations may rely on their own experience instead of seeking feedback (cf. Ashford, 1986). Organizations with substantial acquisition experience may be able to appropriately generalize their knowledge of acquisitions and be aware of this ability (see Haleblian & Finkelstein, 1999; Zollo & Winter, 2002). Similar to individuals with substantial organizational experience, these experienced organizations may see less value in the feedback available from observing investors' reactions to rumored acquisitions. In contrast, relatively inexperienced acquirers may see more value in investors' reactions as information and, consequently, use this information to anticipate and manage impressions. In other words, the knowledge gained by an organization in the course of negotiating and completing acquisitions may substitute for the value of the information contained in investors' reactions to rumored acquisitions, making organizations with this experience less sensitive to these reactions.

> *Hypothesis 4. Acquisition experience will negatively moderate the relationship between rumor abnormal returns and (a) the occurrence of a subsequent acquisition announcement, (b) the change in price from rumor to announcement, and (c) impression offsetting announcements.*

Recent acquirer performance

An organization's recent performance may also impact its general sensitivity to perceptual threats and its feedback-seeking behavior. Individuals tend to engage in more feedback-seeking behavior when their recent performance is poor (Ashford, 1986; Morrison & Bies, 1991). This is particularly true in the absence of countervailing impression management concerns (Morrison & Bies, 1991). At the individual level, feedback–seeking behavior may be inhibited by impression management concerns, like the possibility of being seen as signifying "incompetence or insecurity" (Morrison & Bies, 1991, p. 524). In contrast, in the context of this study, investors' reactions to acquisition rumors can be seen in trading in public markets, so organizations can gather this form

of feedback without being seen doing so. Because the act of gathering is not visible, organizations may be more likely to gather and use feedback in order to adjust focal behaviors and anticipate the need for impression management (cf. Morrison & Bies, 1991).

When recent performance is relatively poor, organizations may be more sensitive to investors' perceptions and more likely to manage impressions, including changes to focal behaviors (e.g. Ward et al., 2009). By watching investors' reactions to an acquisition rumor, a poorly-performing organization may anticipate, and be particularly sensitive to, a perceptual threat. Consequently, the organization may use anticipatory IM tactics to counter the perceptual threat (e.g. Cain, 2014; Graffin et al., 2011; Graffin et al., 2014). On the other hand, an organization with recent high performance may be less sensitive to negative feedback for a variety of reasons (see Hayward & Hambrick, 1997; Mishina, Dykes, Block, & Pollock, 2010).

> *Hypothesis 5. Recent acquirer performance will negatively moderate the relationship between rumor abnormal returns and (a) the occurrence of a subsequent acquisition announcement, (b) the change in price from rumor to announcement, and (c) impression offsetting announcements.*

Organization high reputation

High-reputation organizations may be more sensitive to audience perceptions generally, because those perceptions function as an intangible asset for these organizations (see Pfarrer et al., 2010). The benefits of this intangible asset include attracting better job applicants (Turban & Cable, 2003), a "benefit of the doubt" following negative earnings surprises (Pfarrer et al., 2010), and other favorable behaviors by audiences (see Fombrun & Shanley, 1990). Maintaining this asset may pressure organizations to act in order to meet audience expectations and to manage impressions (see Graffin et al., 2014).

At the individual level, public image concerns may make individuals more conscious of audience impressions and more concerned about projecting an appropriate image (Morrison & Bies, 1991). This self-monitoring behavior is associated with adapting behavior to fit situations and an increased use and effectiveness of impression management (see Bolino et al., 2008; Turnley & Bolino, 2001). Also, high self-monitors tend to prefer positive IM tactics (Bolino & Turnley, 2003).

Similarly, high-reputation organizations may exhibit relatively higher levels of self-monitoring behavior in order to better anticipate perceptual threats and use IM to protect their intangible asset. In the context of this study, high-reputation organizations may be more sensitive to potential perceptual threats that are foreshadowed by investors' reaction to rumors. Accordingly, they may exhibit a stronger tendency to use IM when rumor reactions suggest a perceptual threat (see Graffin et al., 2014). In contrast, organizations without this high-reputation asset may be relatively less sensitive to the information contained in rumor reactions.

> *Hypothesis 6. Potential acquirer high reputation will positively moderate the relationship between rumor abnormal returns and (a) the occurrence of a subsequent acquisition announcement, (b) the change in price from rumor to announcement, and (c) impression offsetting announcements.*

MODERATORS AT THE RUMOR CONTENT LEVEL

When using external information as feedback, organizations may alter their focal or IM behaviors more (or less) strongly according to the value of the available feedback information (see Ashford, 1986). In general, uncertainty makes information more valuable, as the information allows an actor to understand the uncertain situation and make decisions to act (see Ashford, 1986; Gifford et al., 1979). Along those lines, Heslin, Blake, and Rotton (1972) found that experimental participants requested more information in uncertain situations, particularly when the task was

important. Also, Ashford (1986) suggests that information value is the primary driver of feedback-seeking, and, presumably, actors intend to use that information to alter behavior.

Uncertainty and information are inversely related in that one negates the other (Gifford et al., 1979). This explains why information is potentially more valuable when uncertainty is high, as a given level of uncertainty sets a ceiling on the value of information (see Gifford et al., 1979). In the context of this study, uncertainty associated with investors' reactions may take two forms. First, some reactions by investors may mitigate more uncertainty than others as an organization has a better understanding of what the reaction means. Since organizations can only observe the published rumor and investors' aggregated reactions, they have an imperfect sense of investors' thinking that leads to their reactions. Second, reactions by investors may mitigate uncertainty about the proposed acquisition when there is less available information about the target organization. As a consequence of the level of uncertainty mitigated by rumor reactions, organizations may more (or less) strongly engage in anticipatory IM.

Rumor specificity and causal attribution

Organizations can better understand investors' reactions when investors' sensemaking is clearer to organizations. Published rumors may trigger sensemaking by investors that drive their trading behaviors (DiFonzo & Bordia, 1997). As published rumors provide more information, individual investors have fewer gaps to fill in with plausible explanations (see Shibutani, 1966; Weick et al., 2005). Organizations observing these reactions may better understand the meaning of an aggregated reaction when individual investors are each filling in fewer gaps, thereby reducing the noise associated with the data in the reaction as viewed by the organization (see Gifford et al., 1979). Specifically, organizations may understand reaction meaning most clearly when investors are reacting to rumors that provide specific information about a proposed acquisition or a causal

explanation of why the proposed acquisition should happen.

Organizations can more clearly understand investors' reactions as the specificity of the published rumor increases with regard to the terms of the proposed acquisition. As an illustration, consider a rumor of A Corp buying B Corp without any additional information. Given the remaining ambiguity about such a proposed acquisition, an individual investor may consider whether A is likely to overpay (having no rumored price to consider), or whether A's acquisition will dilute current investors, and fill in plausible details individually (see Shibutani, 1966; Weick et al., 2005). A, having observed an overall market reaction to this low specificity rumor, may not have a clear understanding of what investors' perceptions are and how to manage them. In contrast, a negative reaction following a rumor specifying cash payment and a particular price may more clearly suggest that investors, on average, think the price is high. In that case, A could focus its IM tactics on that perception by, for example, negotiating a lower price. It is not necessary that the information in the published rumor is actually correct; given a specific rumor reaction, A may be better able to predict how the actual terms will be received by investors. Knowing that it has a relatively clear understanding of investors' perceptions, an organization may be more likely to use IM tactics and expect them to be successful.

> *Hypothesis 7. Rumor specificity will positively moderate the relationship between rumor abnormal returns and (a) the occurrence of a subsequent acquisition announcement, (b) the change in price from rumor to announcement, and (c) impression offsetting announcements.*

Another way that organizations can better understand investors' reactions is when they have a sense of the causal explanation that drives investors' thinking and reactions. This notion is similar to the preceding hypothesis, but the strong weight that individuals give to causal attributions suggests a separate examination (see Andreassen, 1987). As I described earlier, individuals exhibit more antiregressive predictions following news that includes a causal attribution to explain a set of

facts (Andreassen, 1987; DiFonzo & Bordia, 2002). From this line of research, it seems that causal attributions have a particular salience to individuals, including investors, such that actual information has relatively less impact on subsequent individual (and aggregated) behavior (see Andreassen, 1987; DiFonzo & Bordia, 2002).

Similar to rumors in the individual context—where individuals create causal attributions to explain an observed set of facts and then spread them—rumors about organizations may be a mechanism for disseminating or reinforcing causal attributions within an audience.[4] In the first case, publication of a rumor with a causal attribution may spread the causal attribution to audience members to a sufficient extent that its influence on behavior is observable at the audience level—in this case, investors (see Andreassen, 1987; DiFonzo & Bordia, 2002). In the second case, audience members may already be aware of either the causal attribution itself or a patterns of facts consistent with it. When exposed to a rumor with a causal attribution, the causal attribution may be reinforced by an audience member's prior knowledge and the additional stimulus.

In the context of this study, published rumors that include causal attributions may allow organizations the clearest insight into investors' thinking. A key aspect of rumors is that they help individuals make sense of uncertain situations by understanding a cause for them (Allport & Postman, 1947). Whereas more specific rumors allow for a reasonable inference as to investors' underlying causal attributions, rumors with causal attributions provide investors with a reason that is visible to organizations. With a clearer sense of investors' causal attributions, an organization may be more likely to use IM tactics and expect them to be successful.

> *Hypothesis 8. Rumor causal attribution will positively moderate the relationship between rumor abnormal returns and (a) the occurrence of a subsequent acquisition announcement, (b) the change in price from rumor to announcement, and (c) impression offsetting announcements.*

[4]Though the effects on individuals may be similar, it is important to note the structural difference in the spreading mechanism. Whereas individual rumors tend to spread "peer–to–peer", organizational rumors are distributed in a "one–to–many" pattern from the media to each audience member directly (see DiFonzo, 2008).

Target valuation uncertainty

Investors' reactions may also be more valuable in mitigating uncertainty when they provide information on the value of a target that is difficult to value. In particular, there may be meaningful differences in valuing organizations when the choices of valuation metrics are limited (e.g. organizations without profits), or when the information available is limited (e.g. privately-held organizations) (see Capron & Shen, 2007). Public companies should be more straightforward for investors to value than private companies, because investors can use disclosed financial statements and see current market valuations (Capron & Shen, 2007). Among public companies, those that are profitable should be the most straightforward to value, as their profitability suggests a successful underlying business and perhaps valuable resources (see Capron & Shen, 2007). Unprofitable public companies may be less certain to value, as their valuations depend on some future change in operations or environmental conditions. In contrast, valuation uncertainty should be higher when the potential target is a private company (Capron & Shen, 2007). For some private companies—particularly in technology—valuations are reported in the media following venture capital investments (e.g. Gaprindashvili, 2013). For these companies, valuation uncertainty should be higher than that of public companies, yet lower than that of private companies without a publicized valuation.

Following a published rumor, markets will react (Van Bommel, 2003), suggesting an aggregate perception of the rumored event. As a potential target's actual value is more uncertain, the rumor reaction may provide higher value information to the potential acquirer (see Gifford et al., 1979). By mitigating an organization's uncertainty as to the target's true value, the organization may see higher value in the feedback provided by the rumor and, consequently, make more use of the rumor reaction to help anticipate and manage impressions.

Hypothesis 9. Target valuation uncertainty will positively moderate the relationship

between rumor abnormal returns and (a) the occurrence of a subsequent acquisition announcement, (b) the change in price from rumor to announcement, and (c) impression offsetting announcements.

Chapter 4

Data and Methods

SAMPLE

I test my hypotheses using a sample of rumored acquirers drawn from the group of organizations included in the Fortune 100 for any year during the period from 1999 to 2012. Fortune's methodology ranks U.S. incorporated and operated organizations by revenues, and the survey includes private companies that file financial statements. Because investors' stock market reactions to published rumors are necessary for all analyses, I exclude any organizations without publicly-traded stock. I use 839 published acquisition rumors from ThomsonOne for the organizations in the sample. In addition, I use acquisition data from SDC Platinum, press releases from the PR Newswire and Businesswire databases in LexisNexis, stock return data from Eventus, organizational high reputation data from Fortune and the Wall Street Journal, organization financial data from Compustat, and private target valuation data from CrunchBase and by using Google web search. Hypothesis 1 and its associated moderation hypotheses 5a-9a are tested on a full rumors sample (i.e. whether or not rumors lead to acquisition announcements). I test the remaining hypotheses on the subsample of rumors that lead to acquisition announcements (i.e. 419 of 839), as

those hypotheses assume an official announcement of an acquisition. I report summary statistics in Table 4.1 and correlations in Table 4.2.

Table 4.1: Summary Statistics

Statistic	N	Mean	St. Dev.	Min	Max
Subsequent announcement	834	0.502	0.500	0	1
Rumor price	295	6726.608	11469.850	6.100	82000.000
Actual price	231	8323.049	13703.700	6.100	72000.000
Rumor specificity	833	2.490	0.749	1	6
Rumor causal attribution	839	0.106	0.308	0	1
Price change	142	0.087	0.173	−0.250	0.913
Prior acquisition activity	681	7.332	8.058	0	48
High reputation	839	0.317	0.466	0	1
Rumor market reaction	608	−0.002	0.041	−0.244	0.245
Target valuation uncertainty	783	1.833	1.299	0	3
Impression offsetting	464	0.358	0.779	0	5
Neutral announcement	464	0.088	0.292	0	2
Negative announcement	464	0.062	0.268	0	2
Impression offsetting (binary)	464	0.233	0.423	0	1

DEPENDENT VARIABLES

Acquisition announcement

Acquisition announcements are an acquisition behavior of a focal organization, and differences in the likelihood of these announcements represent a change in acquisition behaviors following a published acquisition rumor. I code *acquisition announcement* as `1` if a rumor is followed by a reasonably related acquisition within one year and as `0` otherwise. By "reasonably related," I mean that the focal rumor provides enough information to connect it to the subsequent acquisition, while allowing for some deviations from the rumor (e.g. price; timing).

Table 4.2: Correlations

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. Subsequent announcement	1													
2. Rumor price	–0.167	1												
3. Actual price	–0.005	0.993	1											
4. Rumor specificity	0.360	0.037	–0.048	1										
5. Rumor causal attribution	0.026	–0.072	–0.061	–0.107	1									
6. Price change		0.085	0.146	–0.072	–0.138	1								
7. Prior acquisition activity	–0.156	0.235	–0.188	–0.036	–0.008	–0.194	1							
8. High reputation	–0.055	0.039	–0.196	–0.022	0.031	–0.078	0.293	1						
9. Rumor market reaction	–0.002	–0.073	–0.070	–0.120	0.055	–0.034	0.004	0.036	1					
10. Target valuation uncertainty	0.094	–0.402	–0.278	–0.108	0.014	0.058	–0.188	–0.000	0.067	1				
11. Impression offsetting	0.218	–0.027	0.021	0.116	–0.008	0.077	0.271	0.074	–0.059	–0.004	1			
12. Neutral announcement	0.144	0.073	0.075	–0.007	–0.086	0.112	–0.033	–0.079	0.164	0.021	0.051	1		
13. Negative announcement	0.111	0.003	–0.024	0.067	–0.008	–0.034	0.071	0.192	0.020	–0.029	0.038	0.095	1	
14. Impression offsetting (binary)	0.261	0.037	0.130	0.161	–0.021	0.089	0.178	0.079	–0.076	–0.032	0.835	0.026	0.081	1

Note: Correlations are calculated pairwise. There is no correlation listed for price change and subsequent announcement, as price change requires, among other things, a subsequent announcement.

$$\text{Acquisition announcement}_i = \begin{cases} 1, \text{ if a rumor, } i, \text{ is followed by an announcement,} \\ 0, \text{ otherwise.} \end{cases}$$

For each rumor in my sample (collected from ThomsonOne), I collected the rumored acquirer's subsequent announced acquisitions from SDC Platinum and corroborated those announcements with news stories found with targeted Google searches. Then, I reviewed the acquisition data for a match with the rumor and coded the result as I describe above.

Price change

Price change represents a change in acquisition behavior by a focal organization between the publication of a rumor and a subsequent announcement of an acquisition. I measure *price change* as the percentage difference between the actual deal price and the rumored deal price for a particular rumor, i.

$$\text{Price change}_i = \frac{\text{actual price}_i - \text{rumored price}_i}{\text{rumored price}_i}$$

I use the rumor data (collected from ThomsonOne) for the rumor price, and I use the actual price from SDC Platinum. Like *acquisition announcement* above, I match rumors and acquisitions that are reasonably related.

Impression offsetting

Impression offsetting represents a change in an organization's behavior that is not related to the focal behavior. Impression offsetting occurs when an organization releases material, positive information contemporaneously with an unrelated focal event, in an attempt to "offset" an anticipated negative reaction (Graffin et al., 2014). Following Graffin et al. (2014), I measure *impression offsetting* as the count of positive, material, unrelated announcements made by the focal organization contemporaneously with an acquisition announcement.

$$\text{Impression offsetting}_{f,d} = \sum_{d-1}^{d+1} \text{other positive announcements}_{f}$$

Where:

d: is the day of the acquisition announcement

f: is the acquiring organization

I used PR Newswire and Businesswire (within LexisNexis) to gather organization press releases that I will then code for materiality, tone, and independence from the focal acquisition announcement. An announcement is material if investors may reasonably alter their perceptions of the organization after learning of the announced event. Positive tone includes those announcements that investors may reasonably view as positively influencing their overall perception of the organization. Independence requires that the announcement is not related to or further explaining the acquisition announcement. For example, an additional press release providing the time of a conference call about the acquisition is not independent, but a press release that reports quarterly earnings—even if making a passing mention to the acquisition—is independent.

INDEPENDENT VARIABLE

Rumor reaction

Rumor reactions represent investors' change in perceptions of an organization after an acquisition rumor is published that names the focal organization as the acquirer. I measure *rumor reaction* as the cumulative abnormal return of the rumored acquirer's stock in a three-trading-day event window centered on the rumor publication date (i.e. day -1 to +1). Following McWilliams and Siegel (1997), my main model and robustness window specifications are relatively short to help exclude confounding news.

$$\text{Rumor reaction}_{f,d} = \sum_{d-1}^{d+1} R_f - (\alpha_f + \beta_f R_m)$$

Where:

f: is the focal organization

d: is the day of the rumor publication

R_f: is the daily market return on f stock

α_f: constant estimated in the prior estimation period

β_f: the beta of f stock estimated in the prior estimation period

R_m: is the daily market return on the market portfolio

I use rumor reaction data from Eventus using a value-weighted market index and an estimation period of up to 255 days ending 46 days before the event date (i.e. the Eventus default estimation period). I identify organizations and rumor dates using the rumor data that I gathered from ThomsonOne.

MODERATING VARIABLES

Prior acquisition experience

Prior acquisition experience may reduce an organization's uncertainty about the outcomes of a proposed acquisition, providing a substitute for the feedback information contained in investors' reactions to published rumors. I measure *prior acquisition experience* as the count of acquisitions made by the focal organization in the three calendar years prior to the year of the focal rumor (see Haleblian et al., 2006).

$$\text{Prior acquisition experience}_{f,t} = \sum_{t-3}^{t-1} \text{annual acqusition count}_{f}$$

I use acquisition announcement data for each organization from SDC Platinum. Then, I summarize announcements to an annual count per organization to use in constructing my three-year lagged measure.

Recent acquirer performance

Recent acquirer performance may make a potential acquirer more or less sensitive to feedback (see Hayward & Hambrick, 1997; Morrison & Bies, 1991), thereby moderating the relationship between feedback information and subsequent organization acquisition behaviors. I measure *recent acquirer performance* as the sum of earnings per share for the focal organization in the three calendar years prior to the year of the focal rumor (see Haleblian et al., 2006).

$$\text{Recent acquirer performance}_{f,t} = \sum_{t-3}^{t-1} \frac{\text{Net income}_f}{\text{Common shares}_f}$$

I use net income and common shares outstanding data for each organization from Compustat.

Organization high reputation

Organization high reputation may increase the value of audience perceptions for a high-reputation organization (Haleblian, Pfarrer, & Kiley, 2014; Pfarrer et al., 2010). Accordingly, such organizations may be more sensitive to feedback that provides information about changes in audience perceptions—in this case, rumor reactions. Following prior reputation research, I measure *organization high reputation* as `1` if the focal organization was listed in Fortune's Most Admired (overall survey) and as `0` otherwise (Pfarrer et al., 2010).[1]

I will use the top 25 ranked organizations in each year, as the entire Fortune list (overall) tends to be approximately that length across the majority of years in our sample, maximizing inter-year comparability.

$$\text{Organization high reputation}_{f,t} = \begin{cases} 1, \text{if } f \text{ is in a high reputation list in year } t-1, \\ 0, \text{otherwise.} \end{cases}$$

where f is the focal organization. I gathered this data from the Fortune and Wall Street Journal websites, and I used web archives and print publications for years that are no longer available on the web.

[1]For years where Fortune's Most Admired lists only 20 organizations (i.e. 1999-2005), I will supplement it with the Wall Street Journal and Harris Interactive's Corporate Reputation Rankings.

Rumor specificity

From an organization's perspective, the specificity of an acquisition rumor may affect the information contained in a rumor reaction. When individual investors' reactions are based on more specific rumor information, they may each "improvise" less news in order to understand an event, thereby reducing the noise of the information that can be gleaned from an aggregated reaction (see Gifford et al., 1979; Shibutani, 1966). I measure *rumor specificity* as the count of items present in a focal rumor from the following list: (i) a potential acquirer, (ii) target, (iii) price, (iv) consideration types, (v) deal timing, and (vi) other material information. Because a rumor must name a potential acquirer for use in my sample, the minimum possible value is `1`. I do not itemize the other material information category—as counting additional related items may increase the subjectivity of the measure—so the maximum possible value is `6`.

$$\text{Rumor specificity}_i = \begin{cases} 1, \text{if rumor } i \text{ only specifically names a potential acquirer,} \\ \dots \\ 6, \text{if rumor } i \text{ contains all six information types.} \end{cases}$$

I collected rumor data from ThomsonOne. Then, using the definition above, I code for the presence of each type of information and then sum those coded elements to create the actual measure. For an example, see Appendix 2.

Rumor causal attribution

Some published acquisition rumors include a causal attribution that suggests why an organization would make an acquisition. These causal attributions may induce investors to understand a rumored acquisition by attributing it to a stable cause (DiFonzo & Bordia, 2002). Organizations may gain more information from rumor reactions when investors are generally reacting to the same causal interpretation of the event, thereby lowering the noise and allowing the organization to counter a specific interpretation with subsequent impression management. I code *rumor causal attribution* as `1` if a rumor's content includes a suggested causal motive by the potential acquirer for considering or making the proposed acquisition and as `0` otherwise.

$$\text{Rumor causal attribution}_i = \begin{cases} 1, \text{if rumor } i \text{ suggests a potential acquirer's motive,} \\ 0, \text{otherwise.} \end{cases}$$

I use rumor data from ThomsonOne. Then, I code this measure by reviewing the content of each rumor. For an example, see Appendix 2.

Target valuation uncertainty

Rumor reactions may provide more information for potential acquirers as a potential target's valuation is more uncertain. Accordingly, target valuation uncertainty may strengthen the relationship between rumor reaction feedback and subsequent behavior by the potential acquirer. I measure *target valuation uncertainty* as an ordinal variable capturing a scale of uncertainty in a potential target organization's valuation. I code `0` for public, profitable organizations, `1` for public, unprof-

itable organizations, 2 for private organizations with reported information allowing for a market capitalization estimate, and 3 for private organizations without such reported information.

$$\text{Target valuation uncertainty}_t = \begin{cases} 0, \text{if target } t \text{ is public and has profits,} \\ 1, \text{if target } t \text{ is public and has no profits,} \\ 2, \text{if target } t \text{ is private with valuation information,} \\ 3, \text{if target } t \text{ is private without valuation information.} \end{cases}$$

For public organizations, I use data from Compustat and review it to code this measure. For private organizations, I use CrunchBase—self-described as "the world's most comprehensive dataset of startup activity"—for recent investment information. For cases without any or enough information, I used Google web search to search for news articles—or other reputable information—about the investment. If my search process does not yield enough data for an implied valuation, I then code the observation in the highest uncertainty category.

CONTROL VARIABLES

Year dummy variables

I include dummy variables for every year—except the first—in my sample frame to control for time–variant, organization–invariant macroeconomic effects that may influence acquisition announcement behavior. Though they are included in my models, I exclude them from the tables for aesthetic and clarity reasons.

Additional control variables

I also control for three acquirer characteristics common in acquisition studies: *return on assets*, *debt to equity*, and *firm size* measured as assets. Each of these controls is measured using Compustat data, and each is lagged one year prior to the rumor event.

ANALYSES

My *acquisition occurrence* dependent variable is binary, so I use logistic regression for testing Hypothesis 1 and Hypotheses 4a through 9a. I use Stata's `logit` command with robust standard errors clustered by organization.

My *price change* dependent variable is a continuous measure of the price difference between the rumor content and the subsequent announcement, so I use least squares regression for testing Hypothesis 2 and Hypotheses 4b through 9b. I use Stata's `regress` command with robust standard errors clustered by organization.

My *impression offsetting* dependent variable is a count, so I use negative binomial regression for testing Hypothesis 3 and Hypotheses 4c through 9c. I use Stata's `nbreg` command with robust standard errors clustered by organization.

Though my sample includes multiple organizations and years, the event–level sample is not sufficiently panel–like for panel data methods to be appropriate. Accordingly, my analyses are cross–sectional.

Chapter 5

Results

In Hypothesis 1, I predict that rumor abnormal returns will be positively associated with the probability of a subsequent acquisition announcement. Table 5.1 reports the regression results for models with acquisition announcement as the dependent variable. In Model 2, rumor abnormal returns has a statistically significant positive association with subsequent acquisition announcements ($p < 0.01$). Practically, an increase of 0.01 in rumor abnormal returns—corresponding with a one percent abnormal change in the acquirer's stock price—is associated with an eight percent increase in the probability of a subsequent announcement (i.e. from 50.2 percent to 58.2 percent). Thus, Hypothesis 1 is supported.

In Hypothesis 2, I predict that rumor abnormal returns will be positively associated with the change in price from rumor to announcement. Table 5.2 reports the regression results for models with price change as the dependent variable. In Model 5, rumor abnormal returns is not statistically significantly associated with price change. Hypothesis 2 is not supported, though the very low achieved sample size (i.e. 86) for these models suggests that I likely lack the statistical power to

detect the modest effect that I would expect.[1]

In Hypothesis 3, I predict that rumor abnormal returns will be negatively associated with the count of positive, material, unrelated announcements made contemporaneously with the acquisition announcement. Table 5.3 reports the regression results for models with impression offsetting as the dependent variable. In Model 8, rumor abnormal returns is not statistically significantly associated with impression offsetting. Thus, Hypothesis 3 is not supported, though this set of models also has low statistical power.

Overall, of the three main effect hypotheses, Hypothesis 1 is strongly supported, and Hypothesis 2 shows encouraging signs for potential results with an expanded sample. Taken together, these main effect results suggest that the central idea of this paper—that is, that organizations use market reactions to rumors as a feedback mechanism—can be seen in acquisition announcements and, perhaps, in negotiated price changes.

In Hypotheses 4a through 9a, I predict that a series of acquirer and rumor variables will moderate the relationship between rumor abnormal returns and subsequent acquisition announcements.[2]In Hypothesis 4a, I predict that acquisition experience will negatively moderate the relationship between rumor abnormal returns and the occurrence of a subsequent acquisition announcement. In Model 3, the coefficient for the interaction term of acquisition experience and rumor reaction is negative and marginally statistically significant ($p < 0.1$). Accordingly, Hypothesis 4a is marginally supported. This interaction is presented graphically in Figure 5.1. Hypotheses 5a through 9a are not supported.

[1]This particular test is very sensitive to sample size. In an preliminary analysis without the target valuation uncertainty and acquisition experience variables, rumor abnormal returns had a statistically significant positive association with price change ($p < 0.05$). In this preliminary model, an increase of 0.01 in rumor abnormal returns is associated with a 3.76 percent increase the acquisition price from rumor to announcement.

[2]For the sake of brevity, I only describe results for the moderation hypotheses that find at least a minimal level of statistical support (i.e. $p < 0.10$).

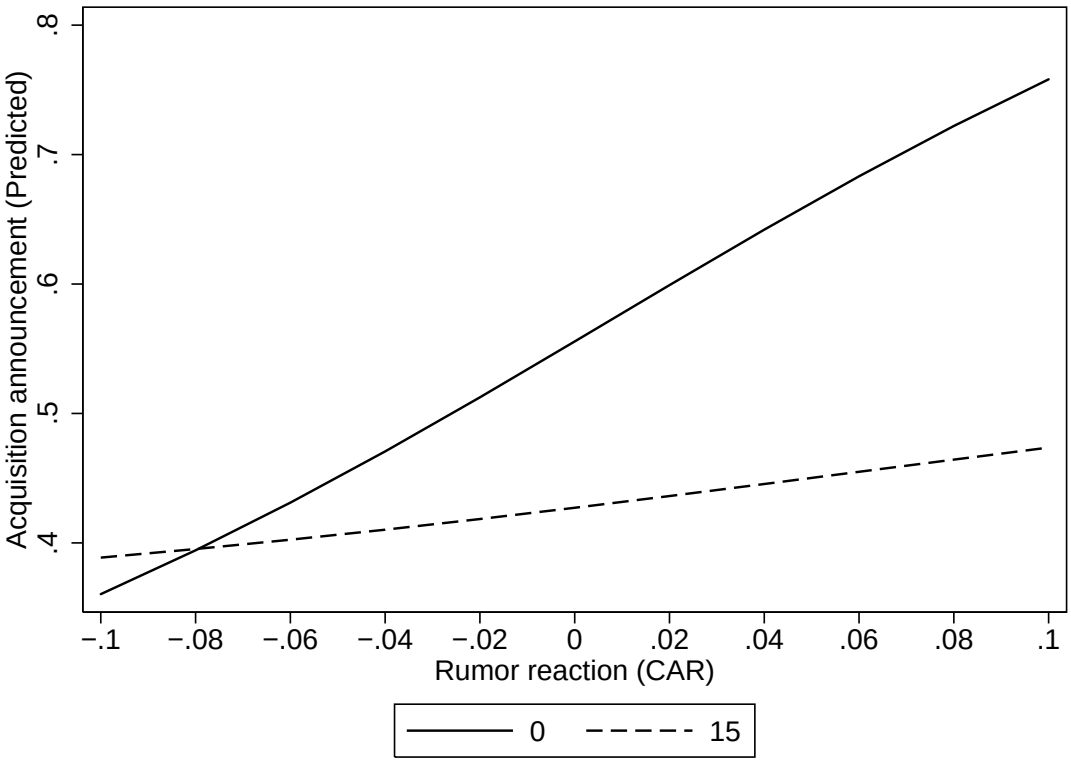

Figure 5.1: Predictive Margins of Acquisition Experience (H4a)

In Hypotheses 4b through 9b, I predict that a series of acquirer and rumor variables will moderate the relationship between rumor abnormal returns and the change in price from rumor to announcement. In Hypothesis 5b, I predict that recent acquirer performance will negatively moderate the relationship between rumor abnormal returns and the change in price from rumor to announcement. In Model 6, the coefficient for the interaction term of recent acquirer performance and rumor reaction is positive, opposite of my prediction, and, thus, Hypothesis 5b is not supported. This interaction is presented graphically in Figure 5.2. This result suggests that highly–performing organizations may be more sensitive to rumor reactions rather than less sensitive, and it is also broadly consistent with the notion that organizations with high performance tend to engage in more risk–taking behaviors (see, e.g., Mishina et al., 2010)—in this case, the dual risk of negative perceptions

and delivering on the value proposition of a higher price.

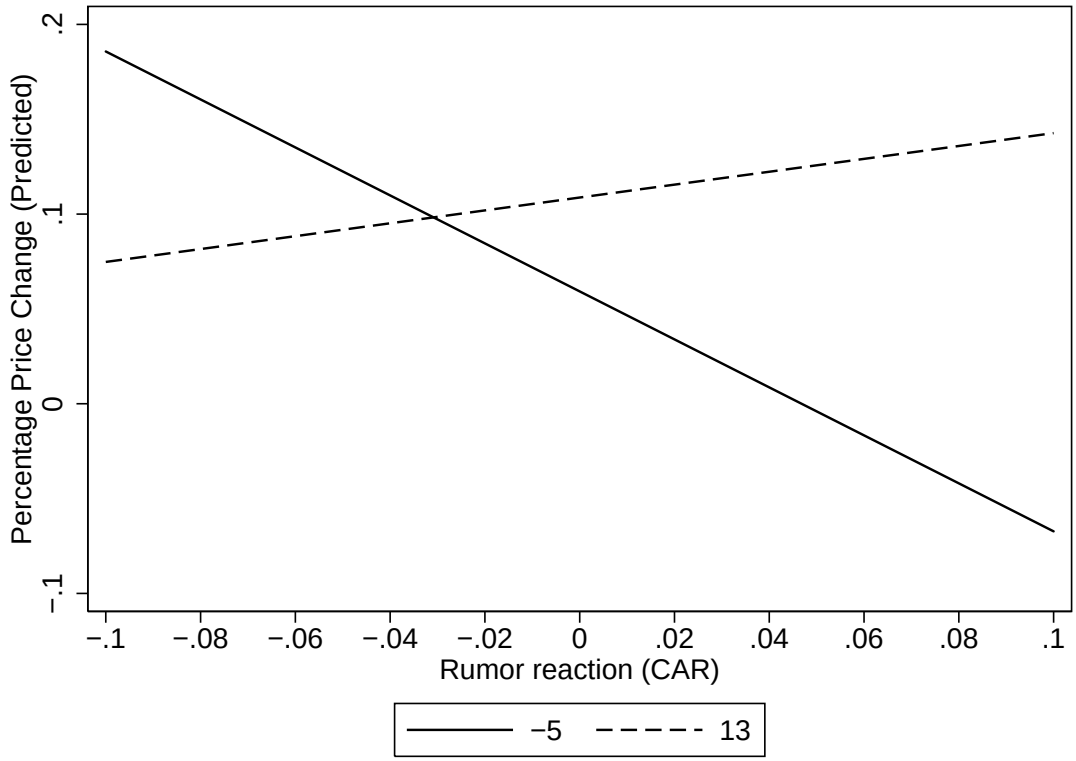

Figure 5.2: Predictive Margins of Prior Performance (H5b)

In Hypotheses 4c through 9c, I predict that a series of acquirer and rumor variables will moderate the relationship between rumor abnormal returns and impression offsetting. In Hypothesis 7c, I predict that rumor specificity will positively moderate the relationship between rumor abnormal returns and impression offsetting announcements. In Model 9, the coefficient for the interaction term of rumor specificity and rumor reaction is positive and marginally statistically significant ($p < 0.1$). Accordingly, Hypothesis 7c is marginally supported. This interaction is presented graphically in Figure 5.3. This marginal result—combined with the lack of statistical significance for the constituent main effects—may suggest that organizations use impression offsetting to counter specific perceptions that move markets. Hypotheses 4c through 6c, 8c, and 9c are not supported.

Table 5.1: Announcement Models

	Model 1	Model 2	Model 3
Constant	–2.6492*	–1.6869	–1.9186
	(1.2679)	(1.6187)	(1.6352)
Acquirer Controls			
Return on assets	0.1479	–0.8578	–0.8236
	(2.6143)	(3.1341)	(3.2315)
Debt to equity	0.0145**	0.0165**	0.0170*
	(0.0046)	(0.0063)	(0.0069)
Firm size (assets)	0.0000	–0.0000	–0.0000
	(0.0000)	(0.0000)	(0.0000)
Acquirer Moderators			
Prior acquisition experience	–0.0450*	–0.0467*	–0.0458*
	(0.0191)	(0.0202)	(0.0223)
Prior performance	–0.0105	0.0001	0.0028
	(0.0196)	(0.0202)	(0.0201)
High reputation	0.3345	0.3436	
	(0.3761)	(0.3621)	
Rumor Moderators			
Rumor specificity	1.2116**	1.3292**	1.3118**
	(0.1523)	(0.1542)	(0.1676)
Rumor causal attribution	1.0142	0.9293	
	(0.6415)	(0.6740)	
Target valuation uncertainty	0.2796*	0.3023*	0.3052*
	(0.1252)	(0.1392)	(0.1413)
Independent Variable			
Rumor reaction (CAR)		7.6649**	22.5170
		(2.6851)	(16.0809)
Rumor reaction (CAR) × Prior acquisition experience			–0.5778+
			(0.3419)
Rumor reaction (CAR) × Prior performance			0.6670
			(0.4553)
High reputation=1			0.3501
			(0.3587)
High reputation=1 × Rumor reaction (CAR)			–3.4696
			(6.6704)
Rumor reaction (CAR) × Rumor specificity			–4.2472
			(5.9215)
Rumor causal attribution=1			0.9379
			(0.7109)
Rumor causal attribution=1 × Rumor reaction (CAR)			1.5754
			(19.3444)
Rumor reaction (CAR) × Target valuation uncertainty			–1.1065
			(3.0480)
N	574	510	510
r^2			
χ^2	225.7706**	267.0301**	408.1962**

Note: Year dummy variables are present in the analyses but omitted from the tables.
+ p < 0.1, * p < 0.05, ** p < 0.01. Standard errors in parentheses.

Table 5.2: Price Change Models

	Model 4	Model 5	Model 6
Constant	0.1349*	0.1290+	0.0860
	(0.0609)	(0.0734)	(0.1232)
Acquirer Controls			
Return on assets	–1.2065**	–1.6245**	–1.6636**
	(0.2527)	(0.4365)	(0.4684)
Debt to equity	–0.0115	–0.0004	–0.0051
	(0.0132)	(0.0178)	(0.0206)
Firm size (assets)	–0.0000**	–0.0000**	–0.0000**
	(0.0000)	(0.0000)	(0.0000)
Acquirer Moderators			
Prior acquisition experience	–0.0033	–0.0038	–0.0045+
	(0.0023)	(0.0023)	(0.0022)
Prior performance	0.0021	0.0025	0.0027
	(0.0022)	(0.0030)	(0.0037)
High reputation	0.0568	0.0754	
	(0.0367)	(0.0461)	
Rumor Moderators			
Rumor specificity	–0.0353+	–0.0335	–0.0359
	(0.0199)	(0.0258)	(0.0362)
Rumor causal attribution	–0.0921*	–0.0910*	
	(0.0429)	(0.0441)	
Target valuation uncertainty	0.0228+	0.0329*	0.0320+
	(0.0120)	(0.0143)	(0.0175)
Independent Variable			
Rumor reaction (CAR)		–0.2049	–2.9417
		(0.5837)	(6.4997)
Rumor reaction (CAR) × Prior acquisition experience			0.2061
			(0.2622)
Rumor reaction (CAR) × Prior performance			0.0891*
			(0.0401)
High reputation=1			0.0721
			(0.0530)
High reputation=1 × Rumor reaction (CAR)			–0.8417
			(1.1093)
Rumor reaction (CAR) × Rumor specificity			0.1524
			(1.8144)
Rumor causal attribution=1			–0.0931+
			(0.0482)
Rumor causal attribution=1 × Rumor reaction (CAR)			2.5672
			(1.7308)
Rumor reaction (CAR) × Target valuation uncertainty			0.3184
			(0.9089)
N	98	86	86
r^2	0.3493	0.3930	0.4264
χ^2			

Note: Year dummy variables are present in the analyses but omitted from the tables.
+ p < 0.1, * p < 0.05, ** p < 0.01. Standard errors in parentheses.

Table 5.3: Impression Offsetting Models

	Model 7	Model 8	Model 9
Constant	–20.8967	–19.4729**	–19.4493**
	(.)	(2.0512)	(6.0705)
Acquirer Controls			
Return on assets	2.3762	1.6608	1.9837
	(3.4487)	(3.5507)	(3.5922)
Debt to equity	0.0147	0.0117	0.0106
	(0.0408)	(0.0148)	(0.0084)
Firm size (assets)	0.0000	0.0000	0.0000
	(0.0000)	(0.0000)	(0.0000)
Press Release Controls			
Neutral announcements	0.2573	0.4375	0.5231+
	(0.3207)	(0.3099)	(0.3117)
Negative announcements	–0.0019	–0.2579	–0.2435
	(0.4048)	(0.4454)	(0.4552)
Acquirer Moderators			
Prior acquisition experience	0.0590**	0.0576**	0.0582**
	(0.0168)	(0.0174)	(0.0153)
Prior performance	–0.0414	–0.0315	–0.0382
	(0.0313)	(0.0254)	(0.0251)
High reputation	–0.1223	–0.1784	
	(0.3784)	(0.4025)	
Rumor Moderators			
Rumor specificity	0.1064	0.1574	0.1996
	(0.1364)	(0.1407)	(0.1412)
Rumor causal attribution	–0.0751	–0.0670	
	(0.3864)	(0.4524)	
Target valuation uncertainty	–0.0028	0.0048	0.0043
	(0.1288)	(0.1294)	(0.1268)
Independent Variable			
Rumor reaction (CAR)		–4.2913	–15.6922
		(3.9919)	(11.2264)
Rumor reaction (CAR) × Prior acquisition experience			0.5324
			(0.7151)
Rumor reaction (CAR) × Prior performance			0.2033
			(0.3121)
High reputation=1			–0.1133
			(0.3992)
High reputation=1 × Rumor reaction (CAR)			–0.9505
			(5.1448)
Rumor reaction (CAR) × Rumor specificity			5.6539+
			(3.3344)
Rumor causal attribution=1			–0.0237
			(0.4343)
Rumor causal attribution=1 × Rumor reaction (CAR)			–25.9996
			(17.7835)
Rumor reaction (CAR) × Target valuation uncertainty			–2.7495
			(2.1208)
lnalpha			
Constant	–0.3485	–0.3411	–0.4666
	(0.8035)	(0.8037)	(0.8585)
N	313	279	279
r^2			
χ^2			

Note: Year dummy variables are present in the analyses but omitted from the tables.
+ p < 0.1, * p < 0.05, ** p < 0.01. Standard errors in parentheses.

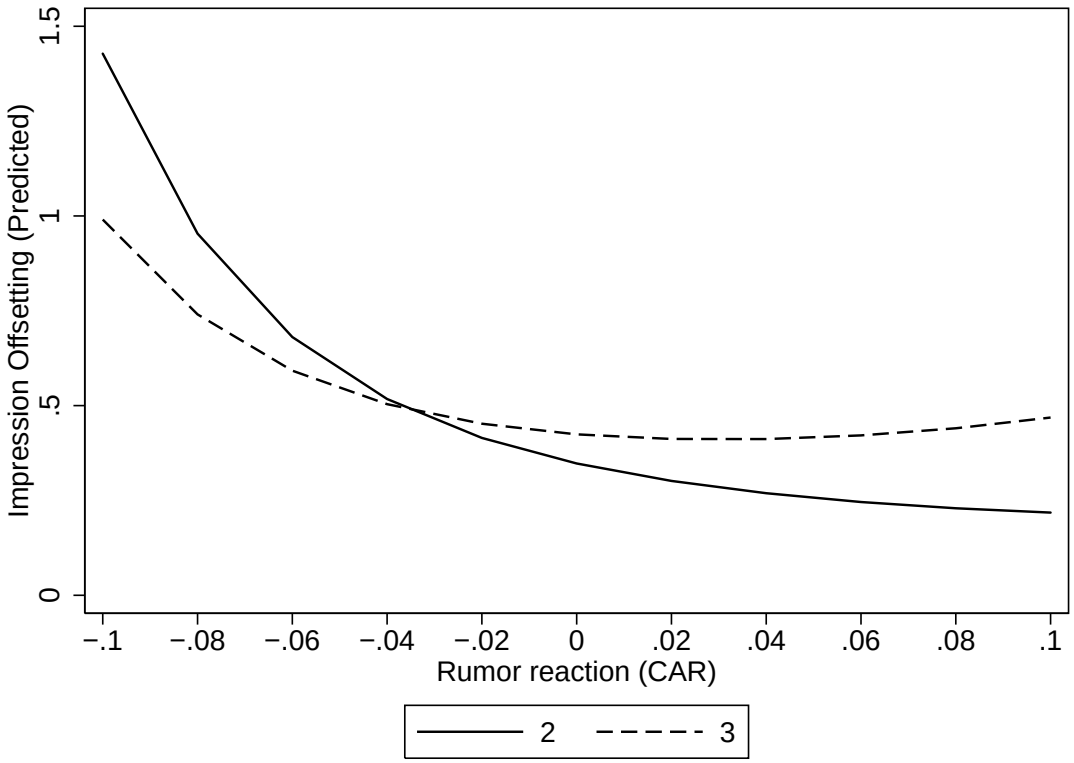

Figure 5.3: Predictive Margins of Rumor Specificity (H7c)

Chapter 6

Discussion

At the outset, I asked two questions. First, when an organization anticipates a controversy, does it change the focal behavior—or its characteristics—at the center of the potential controversy? My results suggest that the answer is yes. Market reactions to acquisition rumors are positively associated with the likelihood of a subsequent announcement of a reasonably related acquisition. Further, my preliminary results cautiously support the notion that organizations may also conduct further negotiations on price in a way that is associated with market reactions.

Second, how do organizations anticipate controversies that give rise to impression management? I argued that organizations exhibit behavior similar to feedback-seeking at the individual level, in that they both monitor the environment for general trends and inquire after bahavior-specific information. I suggested that monitoring is the mechanism implied by existing work in this area. I also extended prior research by examining a particular indirect form of inquiry—observation of market reactions to rumors. My empirical results offer support—alternatively strong and cautious—for my theoretical mechanisms.

IMPLICATIONS FOR RESEARCH

I make two primary contributions to the impression management literature. First, I develop a feedback–seeking theory of controversy anticipation as a mechanism explaining how organizations anticipate that an event will be controversial. In some contexts, like the potential acquisitions in this study, organizations may anticipate controversies while the triggering behaviors are being contemplated. Though prior studies have selected contexts where management's anticipation of a controversy could be reasonably assumed, there may be additional contexts where feedback–seeking—in the form of monitoring or inquiry—could explain relationships between information accessible to managers and behaviors by organizations that are non–obvious on the surface. Future research may examine these non–obvious relationships after explaining a plausible feedback mechanism allowing organizations to anticipate controversy.

Second, I examine—and find support for—the notion that organizations may change focal behaviors when they anticipate that the announcement of those behaviors will incite controversy. This finding implies that the behaviors that we observe are those that organizations chose to engage in, perhaps with the benefit of feedback on the potential behavior. Along those lines, researchers may consider the possibility that observed behaviors have been altered in some way in anticipation of potentially negative reactions by audiences of interest. In other words, the negative events that we observe might have been worse but for the anticipation of controversy and a resulting behavioral adjustment. Future research may choose to explore how behaviors are changed and when potential negative perceptions are either strong enough to induce forbearance or overridden by some other concern (e.g. growth or resource acquisition).

I also contribute to the acquisitions literature by providing evidence that perceptual concerns may influence strategic actions and their characteristics, not just their surrounding informational environment. Specifically, my findings suggest that organizations place enough weight in perceptual

costs associated with acquisitions that they may choose not to go forward with a potential acquisition. Given this demonstrated importance of perceptions, it follows that some acquisitions may be considered by managers with a perceptual—rather than operational—goal in mind, and future research may explore those acquisitions and whether perceptual feedback is more influential when these kinds of acquisitions are contemplated.

IMPLICATIONS FOR PRACTICE

My findings also have implications for managers and investors. For managers, reactions to rumors may be a useful source of feedback for a variety of organizational behaviors, including acquisitions and product announcements. While market reactions are one source of rumor reactions, press and social media commentary may also be useful in certain contexts. The usefulness of rumor reactions stems from the tendency of rumor recipients to act upon rumors as if they are verified news items (see DiFonzo & Bordia, 1997). Though managers should always be mindful of various regulatory disclosure obligations, there may be some feedback value in speaking to the press while requesting that their comments not be attributed to them and observing subsequent reactions by contextually relevant audiences. For market reactions in particular, managers may want to consider the impact of behaviors intended to reduce stock volatility (e.g. dividends, retaining a market maker) on the diagnosticity of market reactions as feedback.

For investors, expressions of collective disapproval in the form of declining share price may affect management behavior. If negative reactions make acquisitions less likely and investors tend to react as if rumors were news, there may be viable trading strategies that exploit the lack of investor weighting of the uncertainty associated with rumors.

FUTURE RESEARCH

Moving this research toward journal publication, I plan to look at three specific areas: antecedents of rumors, antecedents of rumor reactions, and the consequences of rumor reactions. One of the interesting descriptive patterns in my data is that organizations with high rumor activity are not necessarily those with high acquisition activity. This pattern suggests that some mechanism other than organic leaks are responsible for rumors—a fact corroborated by the language used to denote sources as "insiders" in published rumors. Along those lines, one future direction is examining the antecedents of rumor occurences. I expect that organizations with particular sensitivity to audience percentions (e.g. high reputation, large, and high visibility) will experience higher rumor activity as a result of both audience interest and potential gain from feedback on changes in perceptions. Given the firm–year level of such a study, sample sizes should be relatively large and predictable.

I also plan to examine the antecedents of rumor reactions. I expect that the characteristics of rumors and rumored acquirers will influence how markets react to those rumors. In my current data, *rumor specificity* is negatively correlated with rumor reactions ($r = -0.12, p < 0.01$), suggesting that investors take a relatively dim view of more specific rumors, perhaps mirroring the baseline negative reaction to acquisition announcements. In expanded data, I may find similar relationships with my other rumor characteristic variables. Certain acquirer characteristics may also bear on investors' reactions to rumors of acquisitions. For example, investors may react differently when the rumored acquirer has relatively high or low levels of prior rumor activity or prior rumors are collectively high or low in accuracy.

Finally, I plan to further develop the topic of this dissertation—the consequences of rumor reactions. As I describe below, I plan to expand the sample size and retest the hypotheses with better statistical power. In addition, I may further explore some of the direct effects of my rumor infor-

mation content variables. For example, *target valuation uncertainty* is positively associated with both subsequent announcements and price change, suggesting that uncertainty may increase the potential overlap in acceptable terms for the parties in a way that tilts toward targets. Also, *rumor causal attribution* is negatively associated with price changes, suggesting that organizations may be wary of raising prices when rumors contain a purpose against which an acquisition's characteristics may be judged by audiences. Beyond the relationships I examine in this dissertation, I may also examine the relationship between rumor reactions and abnormal returns around subsequent announcements.

Overall, as a foundation for each of these areas, I expect to expand the sample size to include all firms in the Fortune 500 for at least one year between 1999 and 2012 (i.e. the same timeframe as this dissertation). By expanding the sample, I will have greater statistical power to detect changes in the continuous behavior changes like, for example, price changes from rumor to announcement. In addition, I plan to explore the feasibility of recording the coding of the content analysis variables by component. For example, in my *rumor specificity* variable, I may find that some items of information are more influential than others. While this granular level of coding can take as much as ten times more time to code, I may be able to design and implement tools that make it competitive with the currently much faster option of having the coder consult a coding chart and enter the final variable in a spreadsheet column.

Another, more specific study in this area could examine "overnight" rumors—those that are published hours before an actual announcement. Despite that nearness in time, the prices are systematically lower than the actual price announced hours later. This pattern suggests that overnight rumors may be used by organizations as a form of anticipatory impression management. Audiences may see these rumors in the morning (i.e. outside of normal or early trading hours) and then make sense of the information contained in them. When the actual announcement with a somewhat higher price is announced, they may not see the difference as salient enough to reconsider

their previously–formed opinion. If so, I would expect to see more positive abnormal returns and lower volatility for the acquirer's stock when acquisition announcements are preceded by overnight rumors.

Beyond rumors, the common practice of "teasers" may allow organizations to trigger and observe feedback using the same general mechanism that I explore in this dissertation. For example, Elon Musk, the CEO of Tesla Motors, recently tweeted that a "[m]ajor new Tesla product line" that is "not a car" would be revealed at a specific event, moving the stock up more than two percent (Allen, 2015). Similarly, Apple regularly teases new announcements in the invites that they send to the press, which are nearly immediately posted to the web (see Kastrenakes, 2014). In each of these cases, the teasers provide very little specific information and sometimes follow preexisting rumors. I expect that teasers used in this way have the effect of focusing audience interest and attention on a future strategic action without materially increasing information, leading to visible sensemaking and reactions in the forms of press stories, social media posts, and market reactions.

LIMITATIONS

The key limitation in this study is the statistical power in some sets of models. Despite low power, some preliminary results from affected models are encouraging, and those results may hold up when tested on a larger sample.

CONCLUSION

In sum, I offered theory explaining how organizations use information from relevant audiences to anticipate controversies, and I tested a number of hypotheses about a specific feedback source—market reactions to published acquisition rumors. My theory provides a mechanism for

explaining the inplicit assumptions in prior work (i.e. monitoring) and tests an additional mechanism (i.e. indirect inquiry). Overall, I find support for this central idea—in the form of subsequent announcements of rumored acquisitions—and I also find cautious support or encouraging patterns for other changes in acquisition behaviors and moderators of those relationships.

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