Corporate Purpose and Acquisitions

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This study analyzes the relationship between acquisitions—a centerpiece of corporate strategy—and employees' sense of purpose. Using data from more than 1.5 million employees, we find that purpose is substantially weaker in companies following recent acquisitions. This association is driven by unique acquisitions and those with opaque disclosed rationales. We explore the performance implications of this relationship. We first isolate the component of purpose directly attributable to the deal, and then relate this component to subsequent performance. We find that deals associated with stronger purpose outperform, and those with weaker purpose do not. Together, our evidence suggests a possible tension between strategic and motivational determinants of acquisition success: while firms benefit strategically from uniqueness, it may also erode the sense of purpose within firms.

Keywords: Mergers and Acquisitions, Corporate Purpose, Corporate Strategy

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During the early to mid-20th century, foundational studies on organizations emphasized the central role of corporate purpose in distinguishing firms from markets (Barnard, 1938; Selznick, 1948). Whereas markets are guided by price signals and contractible exchange, firms were endowed with the capacity for "purposive adaptation" (Ghoshal and Moran, 1996), in which members act according to a shared aim. Purpose represented more than simply a shared organizational objective, but instead the transcendent reason for which the organization exists, "the incentive that makes other incentives effective" (Barnard, 1938: 283).

This focus on purpose and its role inside organizations subsequently waned (Podolny et al, 2004; Bartlett and Ghoshal, 1994), with attention shifting within strategic management research to logic based on bounded rationality, extrinsic incentives and information frictions (Williamson, 1975; Simon, 1991). While this lens has yielded rich insights on firm behavior, it is incomplete. In their later work advocating a renewed attention to purpose, Ghoshal, Bartlett, and Moran (1999) argued that this shift resulted in a limited understanding of firms and their relative benefits over markets, providing a "narrow, instrumental, and largely pessimistic view of human enterprise" (pg 12).

In this study, we heed this critique and explicitly consider the link between purpose and strategy, applying purpose as a lens to study corporate acquisitions. Acquisitions are core to firm strategy, comprising nearly $3.7 trillion of economic activity in 2019. They enable companies to develop or deploy capabilities (Karim and Mitchell, 2000; Kaul and Wu, 2016; Ahuja and Katila, 2004), expand and grow (Capron and Mitchell, 2012; Hitt, Hoskisson, and Ireland, 1990), and re-position themselves in the market (Anand and Singh, 1997; Lee and Lieberman, 2010). Yet, despite their prevalence, acquirers famously struggle to realize value from these transactions (King et al, 2004). Our view is that part of this challenge may arise from the complexity of crafting strategies in context of a clear and compelling purpose.

This study aims to demonstrate that acquisitions and purpose are related, and that this relationship is an important, and overlooked, factor in acquisition success. The rationale for this link is fairly straightforward. Acquisitions alter the set of activities and employees within firm boundaries. This altered set, in turn, can affect the collective sense of the purpose within the enterprise, with implications for downstream performance of the deal. Our evidence is consistent with this logic: we find that acquisitions are, on average, associated with weaker purpose. Those acquisitions, however, that are linked to stronger purpose are also those that outperform, and those associated with a weaker sense of purpose are not.

Empirical research on purpose has been limited by measurement challenges, even as practitioner interest has surged more than five-fold over the past twenty-five years (Ernst & Young and Oxford Said Business School, 2016). Corporate purpose is inherently intangible and firm-specific, while large sample studies require measures that are both informative and comparable across firms. Carefully crafted articulations of purpose and values at the corporate level are generally considered cheap talk (Guiso, Sapienza, and Zingales, 2015; Michaelson, Lepisto, and Pratt, 2020) and therefore unsuited for these types of studies.

To address this challenge, we construct a measure of corporate purpose using actual employee perceptions from a survey of nearly 2 million employees across 1,058 companies, adapting the approach of Gartenberg *et al.* (2019). The logic behind this measure is that credibly implemented corporate purpose – while not directly observable to the empirical researcher – will result in employees holding stronger beliefs, in aggregate, in the meaning and impact of their work. We therefore infer the effectiveness of the corporate purpose of the entity via the aggregate strength of these self-reported beliefs.

We adopt and abductive approach to explore the link between purpose and acquisitions (King, Goldfarb, and Simcoe, 2019; Heckman and Singer, 2017; and Gelman and Imbens, 2013). We

relate our measure of purpose to the nature of acquisitions in which the firm has recently engaged. Our analysis supports the presence of a link between purpose and recent acquisition activity. We find that acquisitions, on average, are associated with a weaker sense of purpose among employees in the three years following the acquisition. Companies that report a recent merger or acquisition report 10% lower purpose after the deal than those that do not, controlling for purpose prior to the deal, firm performance, and other attributes that might influence purpose.

Not all deals are associated with weaker purpose, however. We find that approximately 35% of our acquisitions actually associated with *stronger* purpose post-deal. Notably, common predictors of deal value such as acquirer age, experience, and industry relatedness (c.f. Haleblian et al, 2009), do not predict corporate purpose. Two attributes of the acquisition are related to purpose post-deal: deal clarity and deal uniqueness. We consider deals to have clear rationales when the acquirers' public statements employ specific, informative language in explaining management's objective for the deal. Deals with more opaque rationales predict weaker purpose post-deal. This negative relationship may reflect leaders either unwillingness or inability to articulate a clear rationale for the deal, thereby eroding employees' perceptions of the purpose of their collective enterprise. We consider deals to be more unique when the acquired company's industry is not commonly targeted by firms in the acquirer's home industry. Higher deal uniqueness is associated with weaker subsequent purpose. This result suggests that employees' sense of purpose may be particularly weakened when firms engage in strategies that are fundamentally different from their peers and from what the firm has done in the past.

This latter finding suggests a potential tension between strategic and motivational considerations in acquisitions. From the strategic perspective, companies aim for unique positions from which to compete in the market (Barney, 1986; Lippman and Rumelt, 2003). From a motivational perspective, however, uniqueness may undermine employees' view of the

organization's purpose. This tension represents an internal analog to the "uniqueness paradox" proposed by Litov, Moreton and Zenger (2012). In their formulation, uniqueness, by its nature, is both strategically valuable and difficult for external analysts to interpret. Our results suggest that uniqueness may also pose a challenge for employees to interpret, particularly those employees in lower organizational ranks who do not have access to the same information as those in senior ranks. This information asymmetry between the executives and their employees may be particularly pronounced in unique deals for which there is little precedent with which to interpret the deal. We provide additional evidence in support of this interpretation after presenting our main findings.

Finally, we examine whether and how purpose intermediates the link between acquisitions and performance. We do so by decomposing purpose into the component that is directly predicted by deal characteristics, via a first stage linear model, and the residual purpose, which is not. We find predicted purpose is positively related to downstream performance. This result provides evidence that deals that reinforce purpose within firms are also those that outperform. Moreover, the link between predicted purpose and performance is stronger for unique acquisitions, suggesting that maintaining a strong sense of purpose is especially critical for these types of acquisitions, even while they are most associated with weaker purpose following the deal.

It is important to note that our results are correlational. While this is often the case for studies of acquisitions, it presents a specific challenge for us in the sense that the same underlying factors that may drive acquisitions may also relate to the strength of purpose among employees. For example, a weak competitive position may result in both acquisitions and also weaker purpose. While we do not have an identifying instrument to separate these effects, we do control for pre-acquisition purpose and firm performance in our analysis. These controls are useful; however, they are not dispositive. We therefore interpret our results as evidence of the need for fit between acquisitions and purpose, rather than as a causal link between acquisitions and purpose.

This research makes the several contributions. First, this study addresses renewed calls to bring purpose back into strategy research (Henderson 2020; Hollensbe et al., 2014). The role of corporate purpose in organizations can be traced to the inception of organization research (Barnard, 1938; Selznick. 1957). Large sample empirical work on corporate purpose, however, is sparse, given the challenges of measuring corporate purpose in a credible and comparable way (Gartenberg *et al.,* 2019; Gartenberg and Serafeim, 2021). Our work provides support for the proposition, first set forth by Barnard (1938) and subsequently by Ghoshal, Bartlett and Moran (1999) that organizations distinguish themselves from markets through their capacity to instill a shared purpose among members, and this institutional difference is critical to account for in assessing strategic outcomes.

Second, we contribute to research on mergers and acquisitions, and specifically to the call from King et al. (2004) and Haleblian et al. (2009) to study new mechanisms underlying acquisition value. Our study joins a burgeoning effort that goes inside the firm as a black box to examine the role of individuals in acquisition determinants and outcomes (Meyer-Doyle, Lee and Helfat, 2019; Chen, Huang and Meyer-Doyle, 2020; Shi, Zhang and Hoskisson, 2017). In this study, we consider the role of purpose and specifically how it relates to the nature of acquisitions.

Lastly and most speculatively, our study contributes to work on the importance and challenges of uniqueness in strategy. It is a long-held result that uniqueness is valuable to firms (Lippmann and Rumelt, 2003; Barney, 1986; Wernerfelt, 1984). Our paper suggests that, just as uniqueness presents a challenge for external parties (Litov et al, 2012; Benner and Zenger, 2016), it may likewise present a challenge for employees, for whom uniqueness may obfuscate the purpose of their organization. Managers, therefore, must balance the strategic and motivational implications of these major decisions.

Theoretical development

What is corporate purpose?

Corporate purpose is generally understood to be the "why" behind an organization's existence, a company's "reason for being." (Purposeful Company Report, 2016).[2] This idea is inherently intangible, and can be interpreted in various ways. Corporate purpose is often considered as a pro-social motive for a company's existence, "the statement of a company's moral response to its broadly defined responsibilities, not an amoral plan for exploiting commercial opportunity." (Bartlett and Ghoshal, 1994). Purpose can also focus on aims that are not explicitly pro-social in nature, such as a company that aims to be a creative or technological leader in their field (Purposeful Company Report, 2016). Our view is that purpose encompasses both of these approaches, and so we adopt the broader definition of purpose as a "a set of beliefs about the meaning of a firm's work beyond quantitative measures of financial performance" (Gartenberg *et al.*, 2019).

While this definition is sufficiently broad to encompass the multitude of purposes that drive companies, it is not so expansive as to compass all intangible features of organizations. In other words, purpose is not equivalent to culture, trust, values, and other intangible attributions of the organization.[3] Moreover, while the locus of corporate purpose is, by construction, the organization, it operates through its influence on the individual members of the organization (Henderson, 2020): effectively implemented, it establishes a shared sense of meaning among employees. In doing so, it plays several roles in relation to the firm. First, it serves as a motivator for the members of the organization since individuals are intrinsically driven by meaning and look for purpose in their daily work (Frankl, 1946; Blau and Scott, 2003; Pratt and Ashforth, 2003; Wrzesniewski 2003; Grant et al, 2007; Burbano, 2016). Leaders endow the organization's collective work with meaning (Podolny et al, 2004; Carton et al, 2014; Carton 2018), which in turn influences the perceptions of the members

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[2] The Purposeful Company Interim Report, May 2016. http://faculty.london.edu/aedmans/PCP.pdf, accessed March 10, 2021
[3] One construct that is difficult to separate from purpose is "mission" in that practitioners tend to use these two terms interchangeably. We use the word purpose to encompass both of these ideas.

of the organization. Second, corporate purpose establishes a shared understanding about the driving force behind the organization. This coordination around a common purpose can be particularly important as firms grow in size and complexity (Ghoshal, Moran, and Almeida-Costa, 1995). Purpose enables, in Hayek's words, an institutional context that motivates "individuals to do desirable things without anyone having to tell them what to do (Hayek, 1945: 527)." Finally, purpose also reinforces organizational identity and identification by members (Henderson and van den Steen, 2015; Akerlof and Kranton, 2005) by helping define "who we are." Identification, in turn, alters the relevant frame from the individual to the group, such that members consider the overall interests of the group, in addition to their own, when choosing their actions. In performing these three functions, purpose can exert a powerful influence on the members of an organization, beyond the extrinsic incentive effects considered in standard theories of firm when distinguishing between markets and hierarchies (Gibbons, 2005; Zenger *et al.,* 2011).

How does corporate purpose relate to strategy?

If corporate purpose is the "why" behind a company's existence, strategy is the "what." As Porter describes, strategy is "the creation of a unique and valuable position, involving a different set of activities." (Porter, 1996: 1). In this sense of strategy as a set of activities, Ghoshal, Bartlett and Moran (1999) conceive of it as subordinate to corporate purpose, wherein corporate purpose is set centrally by leadership, and strategy "emerge[s] from within the organization, from the energy and alignment created by that sense of purpose." (pg 14). In other words, strategy is the instantiation of a competitive position and a core set of activities that allows an organization to achieve its purpose.

As the "why" and the "what" underlying companies, purpose and strategy are interdependent constructs. Since purpose is inherently intangible, strategy endows it with credibility. Strategic decisions are generally costly and involve commitment (Ghemawat, 1991), such as the

choices of which customers to serve and what products to offer. As such, these decisions constitute the type of signals critical to render purpose credible (Henderson, 2020; Henderson and van den Steen, 2015). The example of CVS halting all sales of nicotine projects is an instance of a strategic action that cost CVS an estimated $2 billion in annual sales aimed at reinforcing the company's purpose of "helping people on their path to better health."[4]

While strategy bestows credibility to purpose, purpose in turn provides strategy with meaning. Purpose provides the "why" behind the strategic actions that serve both as the means to make sense of these actions and to motivate those who implement them. In the words of Bartlett and Ghoshal (1994):

> In most corporations today, people no longer know – or even care – what or *why* their companies are. In such an environment, leaders have an urgent role to play. Obviously, they must retain control over the processes that frame the company's strategic priorities. But strategies can engender strong enduring emotional attachments only when they are embedded in a broader organizational purpose. (p 81)

The idea that strategy is implemented most effectively when situated in the context of the company's purpose is not only an academic idea. When Microsoft CEO Satya Nadella took over the struggling company in 2014, he led one of the most effective strategic repositionings in corporate history. When asked about his priorities upon becoming CEO, he emphasized the primacy of purpose in his thinking:

> "In '92, we used to talk even about our mission — for example as having a PC in every home and every desk. Except by the end of the decade itself, we had more or less achieved it. Then what? What's next? And that's when I felt like we may have confused marketing slogans for our mission. So that's why I wanted get back to that sense of purpose.…When we walk about our mission of empowering every person and every organization on the planet to achieve more, [it] can't be just a set of words. It has to in some sense capture the very essence of who we are in all of the decisions we make, in the products we create and how we show up with our customers."[5]

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[4]https://cvshealth.com/about-cvs-health/our-purpose#:~:text=Every%20one%20of%20us%20at,%2C%20accessible%2C%20simple%20and%20seamless, Accessed October 22,2020. https://www.forbes.com/sites/brucejapsen/2017/02/20/after-cvs-stopped-cigarette-sales-smokers-stopped-buying-elsewhere-too/?sh=509e7e12c8f5, accessed November 9, 2020.

[5] "Microsoft's CEO on helping a faded legend find a 'sense of purpose'", CNET, August 20, 2018

As apparent in the final two sentences in the excerpt above, Nadella framed major strategic decisions at Microsoft in the context of the company's purpose. These decisions were often challenging, such as de-emphasizing Windows, the company's core product and cancelling the Windows phone. Positioning these hard choices within the company's purpose enabled Nadella to navigate the company through its strategic transformation and, in the process, reinvigorate its workforce.

In summary, corporate purpose and strategy are mutually reinforcing concepts. Corporate purpose endows strategy with meaning, and in turn, strategy provides corporate purpose with tangibility and credibility.

Why might corporate purpose be linked to acquisitions?

Given the preceding discussion, it is reasonable to speculate that acquisitions should likewise be related to corporate purpose. Acquisitions are often intrinsically strategic in nature, and sometimes profoundly so. Companies often use acquisitions to adjust their strategic positions by entering markets (Lee and Lieberman, 2010), respond to decline (Anand and Singh, 1998); gain or extend capabilities (Capron and Mitchell, 2012; Helfat et al, 2007; Kaul and Wu, 2016), acquire new technologies and resources (Karim and Mitchell, 2000; Ahuja and Katila, 2001; Puranam, Singh, and Zollo, 2006; Sears and Hoetker, 2014; Graebner, Eisenhardt, and Roundy, 2010), or strengthen their network position (Hernandez and Menon, 2018; Hernandez and Shaver, 2019).

Figure 1 provides a schematic representation of the potential relationship between acquisitions and purpose. The gray boxes, adapted from Henderson (2020), illustrate how purpose influences employee adoption of a shared sense of meaning at work (Carton, 2018; Pratt and Ashforth, 2003; Rosso, Dekas, and Wrzesniewski, 2010), which in turn has implications for

performance at the organization level. Acquisitions can influence purpose via affecting it either at the organizational level or at the individual level. At the organizational level, acquisitions influence purpose (arrow "A") as particularly credible commitments (Ghemawat, 1991) by firm leaders toward a specific direction for the enterprise. Following the logic of Henderson and Van den Steen (2015), therefore, they represent costly signals by leaders of either their existing or a new purpose. Acquisitions are also likely to be interpreted by employees through the lens of shared meaning (arrow "B"), with employees updating their beliefs about the collective meaning of their work based on its perceived consistency or inconsistency with the acquisition. Acquisitions may also influence shared meaning by affecting organizational identification (Giessner, Ullrich, and van Dick, 2011). These two links between acquisitions and purpose can impact downstream performance, as shown in arrows "C" and "D" in the diagram (with the represented relationships adapted from Henderson (2020). Alternately, acquisitions can have an independent impact on performance (arrow "E") via market entry, capabilities deployment and other channels mentioned at the beginning of this section.

<< Insert Figure 1 here >>

Acquisitions may plausibly be followed by either stronger or weaker corporate purpose. If the acquisitions are perceived as consistent with, and a costly declaration of, the espoused purpose, then purpose will arguably be strengthened. Alternatively, if the expanded set of activities is perceived to be inconsistent with that purpose, it may become weaker. These effects were experienced by one of the study authors prior to entering academia. The author was a senior employee of a technology company with a strong service-focused purpose that acquired a leading design agency with a strong creativity-focused purpose. The incompatibility between these two purposes frustrated and confused employees from both sides of the acquisition. Despite the clear strategic synergies of the deal, employees complained that they "no longer knew what the company

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stood for."[6] This incompatibility contributed to an exodus of top employees from both legacy organizations, and the firm struggled competitively in the following years.

The link between purpose and acquisitions is therefore theoretically complex. It is also not yet empirically established, which is the aim of this study.

Research questions

Because of the exploratory nature of our study, we adopt an abductive approach to the analysis, as advocated by King, Goldfarb, and Simcoe (2019), Heckman and Singer (2017), and Gelman and Imbens (2013). Our analysis is structured by three research questions, followed by our interpretations of our findings. To begin, we expoore the average association between acquisitions and purpose. From the discussion above, acquisitions may either enhance or dilute purpose within organizations. Further, given that acquisitions are conscious choices of firm managers, it is unclear what this relationship will be in equilibrium. The association between acquisitions and purpose, therefore, is an open empirical question guided by the following research question:

> *Research Question 1: All else equal, are acquisitions associated with weaker or stronger corporate purpose post-acquisition, relative to firms not engaging in acquisitions?*

This first research question focuses on the average effect across acquisitions. It is likely, per the discussion above, that acquisitions have differing associations with corporate purpose. The second research question focuses this heterogeneity:

> *Research Question 2: All else equal, what is the association between deal attributes and corporate purpose post-acquisition?*

Our third and final research question explores the link with firm performance. This approach is motivated by a sizeable literature that has consistently demonstrated the effects of deal

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[6] Author personal communication.

characteristics on firm performance (Singh & Montgomery, 1987; Haleblian & Finklestein, 1999; Zollo & Singh, 2004). Here we distinguish between the components of purpose that is and is not related to deal attributes. We are primarily interested in how deal-related purpose predicts performance; that is, how the component of purpose that is predicted directly by the deal attributes relates to the downstream performance of the acquiring firm.[7]

It is not ex ante clear what this exploration should find. On the one hand, we know that, on average, stronger corporate purpose increases performance (Gartenberg *et al.*, 2019). If that mechanism is universal, then both components of purpose should positively predict performance. On the other hand, an acquisition may instead reflect a painful repositioning of the firm that ultimately benefits the company but erodes the sense of purpose in the process. In that case, we might expect to find a negative relationship between purpose ascribable to deals and performance, providing evidence that the acquisitions that lead to lower purpose in the short to medium term are ultimately beneficial for firms. It is unclear which of these two effects predominates. As such, we pose the following question:

> *Research question 3: How does deal-related purpose predict firm performance?*

Methods

Empirical approach

We address the three research questions above with a three-part empirical analysis. The first part explores Research Question 1 using a firm-year panel consisting of firms both with and without recent acquisitions. The second part of the analysis explores Research Question 2 using a deal-level data set that enables us to relate industry, firm, and deal characteristics to post-acquisition corporate

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[7] Note that this is akin, conceptually, to a two-stage identification approach, but without exogenous variation in the first stage.

purpose. The third part of the analysis explores Research Question 3 using post-acquisition accounting and stock returns.

Measuring purpose is inherently challenging. Purpose is by nature intangible, and corporate announcements of purpose have been criticized as cheap talk (Guiso *et al.,* 2015). We address this challenge by adapting the approach from Gartenberg *et al.,* (2019): rather than using corporate verbiage, we infer the strength of purpose at the organizational level by aggregating actual employee beliefs at the individual level. The logic behind this measure is that, credibly implemented, corporate purpose at the organizational level will lead to employees, on average, possessing stronger beliefs about the meaning and impact of their work. By measuring individual beliefs and averaging those beliefs across the organizational, therefore, we can infer the effectiveness of corporate purpose without relying on heavily edited statements from corporate headquarters. This approach is also consistent with work with an organizational behavior that conceptualize leaders as meaning makers for their employees (Podolny, Khurana, Hill-Popper, 2004; Carton et al., 2014; Carton 2018). Effective leaders communicate a compelling vision that then results in a shared sense of meaning among employees that both motivates these employees and allows them to work in a coordinated manner (Nohria and Khurana, 2010; Carton *et al.,* 2014). This measurement approach is also consistent with the mechanism outlined in Figure 1 and discussed above.

It is important to note two necessary trade-offs with this measurement approach. First, we are measuring the corresponding employee beliefs rather than underlying purpose itself. Second, we are measuring the strength of purpose, and not its content. Both of these tradeoffs are built in to our approach, and enable us to construct a measure that both is informative and enables large sample analysis, it is not on its own a comprehensive measure. We discuss details about the actual construction of the measure after introducing our sample and survey instruments.

Sample

Our study uses two main data sources: 1) an annual survey from the Great Places to Work Institute © which we use to construct our measures of corporate purpose; and 2) Thomson SDC Platinum database which we use to obtain data on acquisitions. In addition, we rely on several supplementary data source, Compustat and CRSP for account and stock performance data. Using these sources, we construct two datasets to answer our proposed research questions: a firm-year level data set to answer RQ1 and a deal-level dataset to answer RQ2 and RQ3.

The primary data source that underlies our empirical investigation is the GPTW survey administered by The Great Place to Work Institute and used to compile the Fortune Magazine's annual "100 Best Companies to Work For" list. Respondents to this survey are firms with more than 1,000 workers that have been in existence for at least 7 years, and have self-selected into the survey because they believe they have a chance to be featured in the Fortune list. Our analysis should be interpreted therefore as most directly applicable to large and well-managed firms. While this is not representative of the universe of firms, they tend resemble the firms that are more likely to acquire (Villalonga & McGahan, 2005). This data has been used in various studies (e.g. Guiso et al., 2015; Garrett et al., 2014). Through our data agreement with the Institute, we acquired access to the complete application packages from 2006 to 2017 across all companies that applied to the Fortune list, regardless of whether they were ultimately selected or not.[8]

The GPTW application package has two components: the Trust Index© (TI) survey and the Culture Audit© (CAS). The TI survey, the data source that we use to calculate our purpose measure, is an employee survey of beliefs and attitudes regarding their workplace. The survey consists of 57 questions on a Likert-like 5 point scale covering important features of the workplace, including management, colleagues, and the employee's job itself. To qualify for submission, the

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[8] Data on acquisitions was missing for 2008, and therefore excluded from our analysis.

survey must be randomized and stratified across job level, which include hourly employees, salaried middle managers, salaried professional and technical workers, and executives.

The second component of the GPTW survey, The Culture Audit© (CA), is filled out by a corporate representative and contains descriptive and employment policy information, including industry affiliation, headquarters location, employee demographics and job composition, and compensation and benefits policy. We use CAS data, in addition to Compustat, to construct company control variables. The sample contains 2,732 separate applications over our time period that include 1,715,764 survey responses from employees.

We manually merge the GPTW data with SDC Platinum to construct a deal-level data set. The CA contains a section related to the acquisition activity of the firm. We utilize responses on the item "*Has your company acquired any companies or merged with any other companies since [date]?*" to filter the firm-year cases where we conducted manual deal search in SDC. A follow-up question asked, "*If yes, which companies were involved?*" Note that the responses to these questions are completed by headquarters personnel; therefore, the acquisitions highlighted in the CA tend to be major strategic transactions, rather than routine transactions that are operational in nature. In the CA, 858 firm-year observations responded yes to the first question and 1,451 deals were mentioned in total. We managed to find 831 of these deals on SDC.[9] We use this data for Part 2 and Part 3 of our analysis.

Dependent Variable

Our purpose measure is constructed from an exploratory factor analysis conducted on the individual responses to the TI survey. The facto analysis reveals that purpose does not vary on its own, but instead covaries with a set of beliefs about the clarity of one's work. We label this factor "Purpose-

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[9] A deal is included in our sample if 1) the name of the acquiring ultimate parent or acquiring subsidiary matches with the company name reported on the CA; and 2) the name of the targeted ultimate parent or targeted subsidiary matched with the names of the involved companies reported in the CA.

Clarity" following the convention of Gartenberg *et al.,* (2019), and use it as our measure of purpose.

The factor is derived from a varimax rotated loading matrix that strips out the common halo effect.

Within *Purpose-Clarity,* the factor includes items that constitute the "purpose" component relate to

the meaning of an individual's work, and the items that constitutes the "clarity" component capture

the extent to which management provides clear direction to the organization. Items within the

"purpose" component are "*My work has special meaning: this is 'not just a job'*", "*When I look at what we*

accomplish, I feel a sense of pride", "*I feel good about the ways we contribute to the community*", and "*I'm proud to*

tell others I work here". Items within the "clarity" component are "*Management has a clear view of where the*

organization is going and how to get there", "*Management makes its expectations clear.*" This combination of

purpose and clarity correspond to existing research on meaningful work (Pratt and Ashforth, 2003;

Rosso, Dekas, and Wrzesniewski, 2010). Moreover, high purpose-clarity is valuable to firms:

Gartenberg *et al.,* (2019) find that high purpose-clarity firms outperform the market along various

financial measures. To construct a firm-year level measure, we average *Purpose-Clarity* across all

survey respondents within a firm in a given year.[10]

Explanatory Variables

In Part 1 of our empirical investigation, we are interested in the average effect of

acquisitions on corporate purpose. The main explanatory variable is whether a firm has engaged in

an acquisition. We utilized data on the merger and acquisition section of the CA (see the Sample

section) and constructed a binary variable to represent whether a firm had reported being involved

in a recent acquisition. In Part 2, we are interested in the heterogenous effect of acquisitions based

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[10] In a supplementary analysis, we also constructed three alternative measures of purpose: 1) an index of only the four purpose-related questions, 2) an index of only the clarity related questions, 3) a second factor from the factor analysis, *Purpose-Camaraderie,* in which the purpose questions covary with questions regarding the degree of collegiality within an organization. None of these measures are related to acquisitions or the acquisition characteristics that we identify in this study. Results obtained using these alternative measures of corporate purpose are thus omitted but are available upon request.

on industry, firm, and deal characteristics. Our explanatory variables are guided by prior research on acquisition outcomes (see Haleblian *et al.*, 2009 for a review) and by data availability.

Deal Relatedness. Deal relatedness has often been considered as a source of synergy in acquisitions (Singh & Montgomery, 1987). Following prior studies (Hayward & Hambrick, 1997; Hitt, Hoskisson, & Kim, 1997; Haleblian & Finklestein, 1999), we constructed two variables to measure deal relatedness: a binary variable, *Related,* indicates deals where the acquirer and target share the same 4-digit SIC code. A binary variable, *Unrelated,* indicates deals where the acquiring firm and the target do not share the same 1-digit SIC code.

Deal Objective. Acquisitions are motivated by different reasons, which in turn has implications for the post-acquisition performance of the firm (Rabier, 2017; Feldman and Hernandez, 2020; Zaheer et al., 2013; Trautwein, 1990). We measure *Deal objective* with the "deal purpose" variable in SDC, coded by SDC researchers based on public filings, which we consolidate into five categories: 1) Market Expansion, 2) Financial, 3) Intellectual Property, 4) Operational Excellence, and 5) General/Null. A deal can be simultaneously classified into multiple categories. We use operational excellence as the omitted category.

Deal Uniqueness. In the formulation of strategy, managers face the tension between conforming and standing out. While unique strategic actions are theoretically valuable (Barney, 1992; Peteraf, 1993), unique actions might suffer an information discount (Litov, Moreton, & Zenger, 2012; Zuckerman, 1999). We examine whether this tension also translates to employees within the firm. We measure deal uniqueness using the Jaccard coefficient with industry classification as the basis of co-occurrence calculation (Kovács & Hannan, 2015). The details of the calculation are in Appendix B.

Deal Clarity. We also include two measures to capture the clarity of the deal rationale. Since acquisitions naturally involve information asymmetry between the decision makers and other

stakeholders, the degree of disclosure can either exacerbate or mitigate this asymmetry. We construct two variables: *Deal specificity*, which captures the extent to which a deal has a focused and clear strategic objective, and *Deal transparency,* the degree of detail regarding the deal rationale in the public disclosures. The details about the construction of both of these variables is provided in Appendix B.

Control variables. First, we controlled for industry-level characteristics. *Acquirer industry concentration* is calculated as the Herfindahl index of firm-level sales in the acquirer's 4-digit SIC (Bettinazzi and Zollo, 2017). We used the SDC industry classifications to construct logged measures of *Acquirer industry acquisition intensity* and *Target industry acquisition intensity*. These variables might influence acquisition behavior and outcomes as they relate to the number of potential targets and bidders available and whether acquisition constitutes a dominant strategic action (Shi, Zhang, & Hoskisson, 2017; Yin & Shanley, 2008; Haleblian, Kim, Rajagopalan, 2006). The acquisition intensity variables are calculated by counting the number of deals occurred in the acquirer and target industry over 3 years prior to the deal (Lin, Peng, Yang, & Sun, 2009).

We also firm and deal characteristics as controls. Firm size (both *Employees* and *Assets*) and performance (lagged *Return on Assets)* have both been linked to better acquisition outcomes (Hayward & Hambrick, 1997; Kim et al., 2011). In addition, research has found that acquisition experience influences acquisition outcomes (Haleblian, Kim, & Rajagopalan, 2006; Ellis et al., 2011). We measure an acquirer's *Acquisition experience* by as number of acquisitions that a firm has conducted over the last 3 years. Since purpose falls down the hierarchy, we control for the proportion of workforce at each job level, denoted by *Job level structure*. We also include *Firm age* and *Debt-to-equity ratio*. We include industry, headquarters state, and year fixed effects in all analyses. Acquisition of public versus private entities (*Public target)* and subsidiaries (*Subsidiary target)* differ in terms of the level of information asymmetry (Capron & Shen, 2007; Faccio, McConnell, & Stolin, 2006; Barden, 2012).

Performance Outcomes. We consider two types of performance measures: short-term accounting performance (*Return on assets)* and long-term stock returns.

Table 1 provides summary statistics, with Panel A providing the firm-year level data used in Part 1, and Panel B providing the deal level data used in Parts 2 and 3.

<< Insert Table 1 about here >>

Estimating Equations

In all of our analyses, we specify our regressions with ordinary least squares (OLS) models, with standard errors clustered by firm:

$$PurposeClarity_{it} = \beta_1 Acquisition_{it} + \beta_2 \mathbf{X}_{it} + \beta_3 \mathbf{Z}_{jt} + \alpha_t + \gamma_j + \delta_i + \varepsilon_{it}$$

(1)

PurposeClarity denotes the purpose-clarity measure for firm *i* in year *t*. *Acquisition* is an indicator variable for whether the firm reported being involved in an acquisition during the past three years. $\mathbf{X}_{it'}$ is our vector of firm-year controls, and $\mathbf{Z}_{jt}$ is a vector of industry-year controls. The term α represents year fixed effects, γ represents industry fixed effects, δ represents headquarter state fixed effects, and ε represents the error term.

In Part 2, we are interested in association between the characteristics of deal *k* and post-acquisition corporate purpose:

$$PurposeClarity_{it} = \beta_1 Industry_{jt} + \beta_2 Firm_{it} + \beta_3 Deal_{ik} + \beta_8 \mathbf{X'}_{it} + \beta_9 \mathbf{D'}_k + \alpha_t + \gamma_j + \delta_i + \varepsilon_{ijkt}$$

(2)

Industry denotes the industry concentration and both acquirer's and target's industry acquisition intensity; *Firm* denotes the firm size, firm performance, and acquisition experience variables; *Deal* denotes any deal-level characteristics. In addition to the firm- and industry-controls, we also control for a vector of deal-specific attributes, denoted by $\mathbf{D}_k$ as described in the prior section.

In Part 3, we examine the performance implications of the effect of acquisitions through corporate purpose. The implementation of this analysis is described in the Results section below.

Research question 1: Average Association between Acquisitions on Corporate Purpose

We begin by examining the raw data. Figure 2 plots the proportion of firms reporting a recent acquisition by decile of *Purpose-Clarity*. The figure shows a clear negative slope: firms within the higher deciles of *Purpose-Clarity* are less likely to have engaged in recent acquisitions.

Our multivariate results confirm this pattern. Table 2 shows the coefficients estimated with equation (1). The coefficient on *Acquisition* is of primary interest. Model (1) controls for the revenue and number of employees of a firm, Model (2) includes additional firm and industry controls, and Model (3) includes lagged corporate purpose. Since we do not have complete data on a firm's prior *Purpose-Clarity*, we impute missing purpose at the mean and use a dummy variable to indicate this imputation. Across all models, *Acquisition* negatively predicts *Purpose-Clarity*. Using the coefficient in Model (3), an acquisition is on average associated with a 0.1 standard deviation lower in *Purpose-Clarity*, controlling for lagged *Purpose-Clarity*. This difference is roughly equivalent to 25% of the within-firm variance observed in *Purpose-Clarity*.

<< Insert Figure 2 and Table 2 about here >>

We are aware that the decision to acquire is not random. Table 3 provides the results from propensity score matching models to evaluate the extent to which selection on observables might confound our analyses. We used nearest neighbor matching with a logistic model to model the selection on *Acquisition*. Rows 1 to 3 in Table 3 reflect matching procedures based on the set of variables included in Table 2 Columns 1-3. In the matching models, we correct the standard errors for clustering at the firm level. Across all models there is a robust negative effect for *Acquisition*.

<< Insert Table 3 about here >>

In sum, we find that, on average, recent acquisitions are negatively associated with a firm's post-acquisition purpose. Note that this result occurs in equilibrium, meaning either that the perceived strategic benefits outweighed the motivational costs, or that managers may have not anticipated or valued the costs at the time of acquisition.

Research Question 2: Corporate Purpose and Deal Characteristics

While the average relationship between acquisitions and corporate purpose is negative, there is reason to believe that considerable heterogeneity exists across deals. Figure 3 plots the distribution of *Purpose-Clarity* in ascending order among the 1,179 firm-year observations where an acquisition was reported. Consistent with the preceding analysis, both the mean (-.013) and median observation (-.006) are associated lower *Purpose-Clarity* than the non-acquiring baseline (mean = -.005, median = .008). Roughly 35% of the observations, however, have higher *Purpose-Clarity* relative to this baseline. The following section seeks to explain this variability.

<< Insert Figure 3 about here >>

Table 4 shows the results for the effect of deal characteristics on post-acquisition *Purpose-Clarity*. In Model (1), we include deal relatedness and objectives. Model (2) adds *Deal uniqueness, Deal specificity,* and *Deal transparency. Deal uniqueness* has a negative effect on *Purpose-Clarity* (b = -.090, p= 0.04), and takes the load off *Deal Relatedness* as reported in Model (1). This suggests that the apparent positive effect of related deals on *Purpose-Clarity* is capturing the uniqueness of the deal within the industry. A one standard-deviation increase in *Deal uniqueness* is associated with a .11 standard deviation decrease in *Purpose-Clarity. Deal specificity* has a significant positive effect on *Purpose-Clarity* (b = .126, p < .05). This suggests that acquisitions with a focused and specific objective are associated with higher levels of post-acquisition corporate purpose. A one standard deviation increase in *Deal specificity* is associated with a .06 standard deviation increase in *Purpose-Clarity*. Model (3) serves as a robustness check of the previously obtained results by controlling for lagged *Purpose-Clarity*. While

the magnitude of some of the coefficients are attenuated, the results remain qualitatively the same. This provides evidence that reverse causality is not driving our results.

<< Insert Table 4 about here >>

In summary, the negative association between acquisitions and *Purpose-Clarity* appears to be driven primarily by deals with high uniqueness and low specificity.

Research Question 3: Performance Implications

Thus far, our analyses have found that 1) acquisitions have an average negative effect on *Purpose-Clarity* and 2) there is heterogeneity in this average effect by deal characteristics. In this section, we examine the performance implications of these associations. Our approach here is as follows: we first separate the component of *Purpose-Clarity* that is attributable to deal characteristics from the component that is not. We then examine the relationship of these components with downstream performance.

We calculate these two components via a first-stage model where we regress *Purpose-Clarity* on deal-level measures as illustrated by equation (3). The linear prediction of this regression, *Purpose-Clarity (deal)*, reported in Appendix Table A5, represents the component of purpose that is attributable to deal characteristics, while the residual of this regression, *Purpose-Clarity (residual)*, is the component of purpose that is not. Our second stage regression then associates these two components with subsequent performance. In these second stage models, we include all covariates that has been used in the previous analyses. We also include a halo control for the overall level employee satisfaction in the organization, following Guiso *et al.* (2015). This halo control is the average firm response to the question "*This is a physically safe place to work*."

Table 5 shows the results for the second stage regression with *Return on assets* as the outcome variable. In Model (1), we formed a baseline regression with *Return on assets* on *Purpose-Clarity*. We see an insignificant average effect of *Purpose-Clarity* on *Return on assets* (b = .019, *p* = .21) for firms that

engaged in an acquisition. Model (2) breaks down the average effect of *Purpose-Clarity* into deal-related and residual components. Controlling for past performance, we see a strong positive effect of *Purpose-Clarity (deal)* on post-acquisition firm performance (b = .12, p < .01) and a null effect for the residual component (b = -.011, p = .45). In economic terms, holding past performance and other covariates constant, a one standard deviation increase in *Purpose-Clarity (deal)* is associated with a 0.5% increase in *Return on assets* post-acquisition, relative to a sample mean of 1.35 percent, or an increase of more than 40 percent in relative terms. Model (3) and (4) augment these results by segmenting to recent and distant acquisitions using a 2-year cutoff on the time elapsed between deal completion and GPTW survey year. If it is true that deal characteristics affect for firm performance through purpose, then we would expect to see a stronger effect on *Purpose-Clarity (deal)* for recent deals compared to distant deals. Indeed, this is what we see in Model (3) and (4).

<< Insert Table 5 about here >>

As a robustness check, we use a conceptually similar but alternative specification that treats deal characteristics as endogenous variables in a two-stage least squared (2SLS) model. Results of this analysis are reported in Appendix Table A7. The 2SLS models yield results that are qualitatively the same for the coefficient on *Purpose-Clarity (deal)* with slightly larger error estimates.

We also examine the association between *Purpose-Clarity (deal)* and long run stock returns. We separate the deals into two portfolios categorized by high and low *Purpose-Clarity (deal),* respectively. We then calculate the abnormal stock performance of each of these portfolios using a four-factor model. Details of the setup of this analysis is included in Appendix C. Table 6 shows these results. The coefficient on *Alpha*, our variable of interest, denotes monthly abnormal stock returns. While returns to the low *Purpose-Clarity (deal)* stock portfolio is indistinguishable from zero (*Alpha* = .0018, p = .28), the high *Purpose-Clarity (deal)* stock portfolio is associated with a statistically significant

positive abnormal market returns (*Alpha* = .0051, *p* < .01). In economic terms, the alpha of the high *Purpose-Clarity (deal)* portfolio represents an average 6.3% annual abnormal returns.

<< Insert Table 7 about here >>

All together, these results provide evidence that the component of purpose that is linked to an acquisition has substantial effects on subsequent performance.

Discussion

Our analysis thus far can be summarized as follows. Acquisitions on average are negatively related to purpose: among the firms in our sample, those that have engaged in recent acquisitions have weaker purpose than those that have not. This average relationship masks considerable heterogeneity across firms. The negative association appears to be driven by more unique and more opaque acquisitions. Moreover, this association appears to have performance consequences. The component of purpose directly attributable to the deal positively predicts future performance. This result is consistent with the important role of human capital in driving acquisition success: acquisitions that reinforce corporate purpose are likelier to outperform, while those that degrade purpose are not. Importantly, this pattern is inconsistent with a plausible alternative that the negative relationship between acquisitions and purpose reflect painful but necessary strategic repositioning. If that alternative were true, we would expect that deal-attributable purpose would negatively predict performance, which it does not. These results raise three important questions to which we now turn.

Correlation versus causality: First, to what extent are the patterns reported reflective of a causal link, wherein acquisitions that are more unique and opaque weaken the sense of purpose? The alternative interpretation is that same factors that lead to the acquisitions can also affect the sense of purpose within the firm. This is particularly plausible in studies of acquisitions, as transactions are never random. For example, if market pressures lead the firm to reposition itself via acquisition,

these conditions may simultaneously depress the sense of corporate purpose among employees. Similarly, if an entrenched CEO makes inadvisable acquisitions for private reasons, this CEO may also negatively impact the sense of purpose within the firm.

Our setting does not provide sufficiently powered exogenous variation for standard identification techniques. Nor does our purpose data provide us with an adequately balanced panel to permit a differences or firm fixed effects analysis. Given these empirical limitations, we consider evidence for a treatment effect of acquisitions on purpose. Several patterns that we have already presented in our main analysis are supportive of a treatment argument. In our main specification, we control for several periods of past performance, both profitability and growth, as well as lagged purpose when available. These controls, taken together, mitigate the concern that poor performance or weak pre-acquisition purpose is driving our results. The robustness of the relationship to our matched analysis provides further support for this interpretation. Beyond the results already presented, we find the strongest links between acquisitions and corporate purpose within the lower levels of the firm: managers, salaried professionals and hourly workers, rather than at the executive and senior manager level (Appendix Table A1). If our results were driven by market conditions or poor firm performance, it is likely that the senior levels would be affected most: senior managers and executives have the most comprehensive information concerning conditions driving an acquisition, and they are most closely incentivized by firm performance. This is not, however, what we observe. All together, we do not claim that our results are driven exclusively by this treatment effect: we can neither make this stronger claim using the evidence on hand, nor do we think it plausible. Instead, our view is that the reported relationships likely reflect both treatment and correlational components.

Strategic uniqueness: Perhaps our most interesting result concerns the relationship between the uniqueness of the acquisition and corporate purpose. We find a substantial negative association

between deal uniqueness and purpose. In other words, the more unique an acquisition relative to acquisitions by peer companies in the firm's home industry, the weaker the purpose. Appendix Table A2 shows that this association is driven by middle ranked and hourly employees, rather than those in senior ranks.

This result is notable given the role that uniqueness plays in strategy. Uniqueness is generally thought to be core to competitive advantage, in the form either as firms engaging in a unique system of activities (Porter, 1996; Siggelkow, 2002) or as firms controlling resources that are scarce, inimitable, and valuable (Barney, 1992; Peteraf, 1993). Engaging in an acquisition that is unique relative to one's peers is consistent with both of these approaches. Prior work, however, has shown that uniqueness poses a problem for firms given information asymmetries. Litov et al., (2012) proposes the "uniqueness paradox", whereby firms with unique strategies are harder for external analysts to value, and are therefore discounted by the market. This idea is further developed by Zenger (2013) who states the paradox as (pg 58): "The strategies most valuable over the long term are also the most unusual and difficult to evaluate." This paradox creates a lemons problem for strategies, involving "well-informed, well-intentioned managers selecting strategies that they believe will maximize firm value… confronting investors unable (or unwilling to incur the costs) to decipher that value." (Benner and Zenger, 2016: 71). Managers are better informed about the benefits of the unique strategies, but cannot impart that tacit information to these outside parties.

Our results are consistent with a different manifestation of this uniqueness paradox. While uniqueness may valuable from a strategic standpoint, it may also challenge the perceptions of the organization's purpose held by employees. As middle and lower ranked employees do not have the same access to the information as those at the top of the organization, their beliefs are reinforced or weakened by visible and costly actions by management, including acquisitions. Unique acquisitions may be more challenging for employees below the top ranks to understand and reconcile with their

preexisting beliefs for the same reasons as unique strategies are harder to understand for stakeholders outside the organization. This interpretation is consistent with micro organizational research on meaning and leadership. This research finds that meaning is fostered by leaders who perform two simultaneous actions: i) articulate the organizations ultimate aspirations and ii) connect these aspirations to the daily work of the employees (Bass and Riggio, 2006; Carton, 2017). This research finds that performing these two actions successfully is a challenge: "the very properties that make ultimate aspirations meaningful are those that leave employees unable to sense how their daily responsibilities are associated with them." (Carton, 2017: 325). In other words, aspiration goals are by nature intangible, rendering them difficult to connect to the daily work of employees. Moreover, research has found that organizational aspirations may actually negatively impact employees by rendering their own work prosaic by contrast (Simons, 1999; Schwarz and Bless, 1992). These effects are likely exacerbated by uniqueness. When firms expand their business in ways for which there is no precedent, leaders will likely face a greater challenge in providing clarity regarding how the unique action reinforces the espoused purpose, how it relates to the employees of the firm, and how the work of employees remains relevant to the newly combined firm.

While we cannot definitively establish that this mechanism, we do provide several pieces of evidence consistent with it. If uniqueness does in fact present a challenge for employee's beliefs in corporate purpose, we would expect this effect to be stronger under several conditions. First, related to the deal, we would expect uniqueness to pose a particular problem for employees if the executives are less clear in how they communicate the nature of the deal. We use our two proxies of deal clarity to test this idea. If this mechanism were in fact driving our result, we would expect it to be particularly pronounced within the low clarity subsamples, as these are the subsamples for which the deal motivations were most opaque. We provide results for this test in Appendix Table A3, and this is indeed what we find.

We conduct a second additional test of our mechanism by considering how the acquiring firm's own experience might mitigate the effects of uniqueness on corporate purpose. The reasoning behind this test is as follows: if the firm has experience with acquisitions, particularly in areas that may be unique to the industry but not to the firm itself, this experience should mitigate the impact of uniqueness on purpose. We therefore split our sample by three separate experience variables: the uniqueness of the acquisition relative to the firm's own prior deals, the degree of acquisition experience, and the acquisition intensity. The results are shown in Appendix Table A4. We find that the relationship between uniqueness and corporate purpose is particularly pronounced within firms that have little acquisition experience, especially in the industry of the focal deal. These results confirm this prediction.

Lastly, we test the performance implications of this mechanism by looking at the link between *Purpose-Clarity (deal)* and performance by splitting our sample into high and low uniqueness. We show the results in Appendix Table A6. We find that the relationship between deal with *Purpose-Clarity (deal)* and performance is substantially stronger for high uniqueness deals. Taking together, this analysis is consistent with deals that are unique posing a particular challenge for firms: specifically, these are the deals for which maintaining a strong sense of purpose among employees is relatively more important for performance, but for which maintaining this purpose is also especially challenging. This extension of the uniqueness paradox raises a dilemma for managers who may wish to use acquisitions as a means of obtaining strategic advantage: these acquisitions may enable the firms to buy their way into a unique position, and yet managers must be cognizant of the negative consequences for corporate purpose that may result from the actions.

Robustness: When drawing broader inferences for corporate strategy outside, it is important to make several points about both our data and our sample. First, our measure of purpose is drawn from firms that apply to be listed in Fortune's 100 Best Companies to Work For, a self-selected

sample of firms that are willing to incur the cost of conducting the survey and submitting an application since they believe they have a realistic chance of making the list. As such, our sample is comprised of large, human capital-intensive firms that are generally well-managed and our results, therefore, most directly apply to these types of companies. That said, it is plausible that our setting provides a stricter test than the population as a whole, given that companies in our sample are likelier more focused on building a credible purpose than companies in the general population.

Another consideration is our measure of corporate purpose, which is adapted from Gartenberg *et al.* (2019). Our measure captures both purpose and clarity together to form a single measure. While this combination may appear arbitrary, there are both theoretical and empirical reasons underlying the measure. First, theoretically, the measure is consistent with findings from micro-organizational research that successful leaders must both espouse a compelling aspiration ("purpose"), and also provide a means by which employees understand how their work contributes to achieving this purpose ("clarity"). Carton, 2017:352 thus conceptualized the role of leaders:

> As architects who optimally motivate employees when they create a cognitive blueprint composed of …connections that link everyday work and the organization's ultimate aspirations…this positions employees to perceive that they themselves are enacting the organizations objective ('I'm putting a man on the moon') and ultimate aspiration ('I'm advancing science') in their everyday work.

This cognitive blueprint that links the organization's aspirations to everyday work parallels the combination of purpose-clarity, whereby purpose can be understood as the aspirations and clarity can be understood as the link between aspirations and the employees' work. Empirically, this measure also emerges from an exploratory factor analysis of the survey that reveals that these two constructs covary together as a single factor. In other words, employees that score high in along the purpose dimensions also tend to score high along the clarity dimensions, indicating that these to constructs are jointly present or absent among respondents. For these reasons, both theoretical and empirical, we view effective corporate purpose as requiring both elements of purpose and clarity.

Conclusion

Acquisitions play a central role in corporate strategy. And yet their uneven results confound executives and academics alike. In this paper we propose an additional lens through which to view acquisitions: that of corporate purpose. We find that acquisitions are negatively associated with the strength of corporate purpose. This negative association is not determined by the degree of relatedness of the acquisitions, experience or other common determinants of acquisition performance, but instead by how unique it is relative to other acquisitions in the industry, as well as those that are less transparent.

We also find implications for acquisition performance. The component of corporate purpose that is directly attributable to the deal is strongly linked to downstream corporate performance, both profitability and long-run stock terms. This finding implies that the negative relationship between acquisitions and purpose is not consistent with a painful but necessary corporate repositioning, but instead with acquisitions negatively impacting corporate purpose among employees, and this weakening in turn affecting downstream performance.

There are clear managerial implications of this study: when choosing to implement acquisitions, firm leaders must account for their fit with corporate purpose, particularly on the perceptions of purpose within the lower ranks of the organization. This consideration is particularly relevant for deals that are unique to the industry: these are deals that have particularly negative impact on purpose was simultaneously the link between purpose and performance for those deals is the strongest. To the end, we propose that the uniqueness paradox within strategy be extended to constituencies inside the firm: managers may seek unique strategies and yet may be hampered by the impact on perceptions of corporate purpose held by employees of the firm.

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Figure 1: Purpose, acquisitions and performance (adapted from Henderson, 2020)
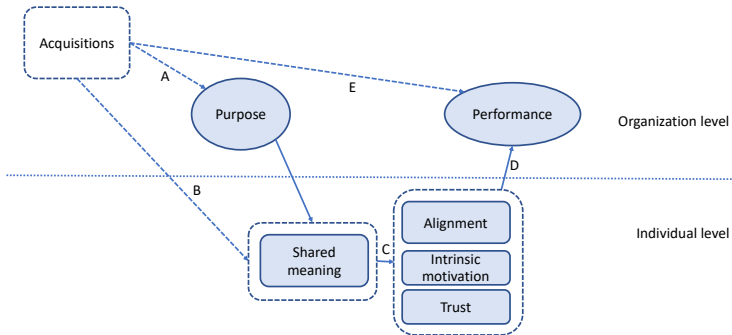
Notes. Schematic illustration of the relationships between acquisitions, purpose, and firm performance.

Figure 2: Corporate Purpose and prevalence of past mergers
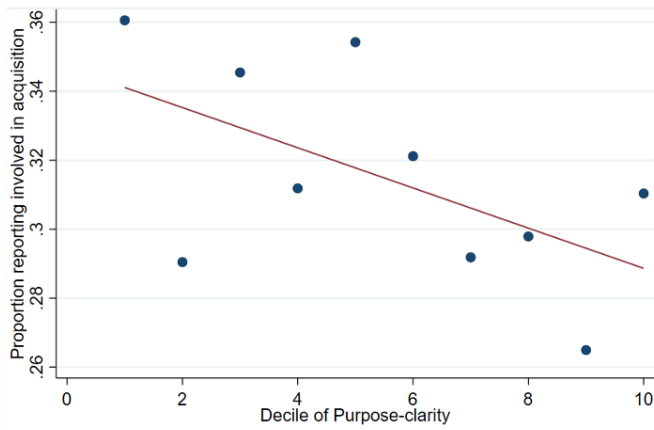
Notes. The figure plots the proportion of firms reporting a recent acquisition by decile of *Purpose-Clarity*.

Figure 3: Corporate purpose by rank order
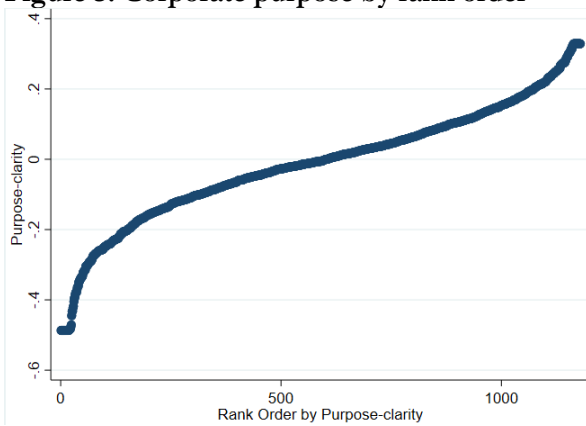
Notes. The figure plots the distribution of *Purpose-Clarity* in ascending order among the 1,179 firm-year observations where an acquisition was reported.

Table 1a: Descriptive statistics (Panel-level)

Variable	N	Mean	Standard Deviation	Minimum	Maximum
Purpose-Clarity	2732	-.0083	.16	-.49	.33
Acquisition	2732	.31	.46	0	1
Revenue	2732	7.74	1.93	0	13.66
Employees	2476	8.60	1.30	0	13.46
Leverage	1210	.50	.56	-16.07	5.00
Industry Concentration	1534	.23	.19	.013	1
Public	2732	.56	.50	0	1

Notes. Revenue and *Employees* are logged.

Table 1b: Descriptive statistics (deal-level)

Variable	N	Mean	Standard Deviation	Minimum	Maximum
Purpose-Clarity	831	.013	.16	-.49	.33
Industry concentration	831	.25	.19	.017	1
Acquirer industry acquisition intensity	831	6.06	.82	2.40	9.05
Target industry acquisition intensity	831	6.43	.79	.79	7.70
Employees	831	3.21	1.37	0	6.63
Assets	829	9.40	1.96	-1.25	14.52
Return on assets	772	.11	.075	-.0036	.25
Acquisition experience	831	13.66	12.69	1	78
Public target	831	.11	.32	0	1
Subsidiary target	831	.23	.42	0	1
Related	831	.20	.40	0	1
Unrelated	831	.38	.49	0	1
Deal objective (expansion)	831	.26	.44	0	1
Deal objective (financial)	831	.023	.15	0	1
Deal objective (general/null)	831	.33	.47	0	1
Deal objective (intellectual property)	831	.19	.40	0	1
Deal objective (operational excellence)	831	.19	.39	0	1
Deal uniqueness	831	.84	.20	.17	1
Deal specificity	831	0	.075	-.36	.20
Deal transparency	831	3.53	2.30	0	6.68
Deal elapsed	831	1.43	.57	0	3
"This is a physically safe place to work"	831	4.73	.18	3.87	4.96

Table 2: Corporate Purpose and Acquisitions

Dependent variable:	Purpose-Clarity		
	(1)	(2)	(3)
Acquisition	-0.0151	-0.0178	-0.0132
	(0.0374)	(0.0124)	(0.0262)
Public Firm	-0.0276	0.00867	-0.00157
	(0.0105)	(0.922)	(0.985)
Revenue	0.0179	0.0163	0.0112
	(3.94e-07)	(2.07e-06)	(5.96e-06)
Employees	0.0120	0.0149	0.00906
	(0.0225)	(0.00365)	(0.0123)
Leverage		-0.0106	-0.0101
		(0.114)	(0.0725)
Industry concentration		0.0126	0.00922
		(0.667)	(0.677)
Return on assets (Pre-acquisition)		0.116	0.0751
		(0.220)	(0.254)
Revenue growth (Pre-acquisition)		0.0138	0.00656
		(0.416)	(0.696)
Lagged Purpose-Clarity			0.597
			(0)
Constant	-0.367	-0.391	-0.308
	(1.16e-07)	(3.31e-06)	(3.59e-06)
Industry FE	Y	Y	Y
State FE	Y	Y	Y
Firm controls	Y	Y	Y
Year FE	Y	Y	Y
Observations	2,732	2,732	2,732
R-squared	0.316	0.327	0.457

Notes. OLS regressions. Table shows estimates of the effect of acquisition on corporate purpose. Return on assets, revenue growth, industry concentration, and leverage are measured at three years prior to the year where Purpose-Clarity was measured. P-values in parentheses.

Table 3: Purpose-Clarity and Acquisitions, Matched Analyses with Sensitivities

Specification	Nearest Neighbor with Clustering Correction
Model 1 (N = 2449)	b = -.021 t = -2.36 p = .018
Model 2 (N = 2448)	b = -.029 t = -3.47 p = .001
Model 3 (N = 2431)	b = -.016 t = -1.86 p = .063

Notes. Propensity score matching models. Table shows the coefficient estimates, t statistic, and p-value of the effect of acquisition on corporate purpose. Models on each row corresponds to the three model specifications in Table 2. Sample were matched on all covariates in each model specification. Observations are dropped from the analysis if a nearest neighbor was not identified based on the given set of covariates.

Table 4: Corporate Purpose and Deal Characteristics

Dependent variable:	Purpose-Clarity		
	(1)	(2)	(3)
Deal Relatedness			
Related	0.0420	0.0266	0.0232
	(0.0138)	(0.142)	(0.137)
Unrelated	-0.0201	-0.0192	-0.0126
	(0.145)	(0.167)	(0.286)
Deal Objective			
Expansion	-0.0264	-0.0320	-0.0285
	(0.0462)	(0.0173)	(0.0305)
Financial	0.00392	-0.00457	-0.000915
	(0.894)	(0.872)	(0.973)
General/Null	0.00546	0.0145	0.00627
	(0.689)	(0.455)	(0.733)
Intellectual Property	-0.0163	-0.0183	-0.0201
	(0.265)	(0.213)	(0.149)
Deal Uniqueness and Clarity			
Deal uniqueness		-0.0895	-0.0700
		(0.0378)	(0.0524)
Deal specificity		0.126	0.159
		(0.0331)	(0.00591)
Deal transparency		0.00402	0.00188
		(0.204)	(0.560)
Lagged Purpose-Clarity			
Lagged Purpose-Clarity			0.494
			(2.99e-10)
Industry Characteristics			
Acquirer industry concentration	-0.0756	-0.0649	-0.0212
	(0.116)	(0.174)	(0.581)
Acquirer industry acquisition intensity	0.00297	0.00312	0.00216
	(0.788)	(0.777)	(0.816)
Target industry acquisition intensity	-0.00427	-0.00462	-0.00331
	(0.543)	(0.503)	(0.564)
Acquiring Firm Characteristics			
Employees	-0.0210	-0.0230	-0.0245
	(0.0976)	(0.0689)	(0.0221)
Assets	0.0407	0.0417	0.0354
	(1.13e-05)	(2.38e-06)	(1.27e-06)
Return on asset	0.358	0.359	0.369
	(0.0407)	(0.0387)	(0.0105)
Acquisition experience	0.000351	0.000204	-0.000368
	(0.681)	(0.812)	(0.631)
Constant	-0.200	-0.140	-0.154
	(0.159)	(0.381)	(0.253)
Year, State, Industry FE	Y	Y	Y
Time-varying Industry, Firm, and Deal controls	Y	Y	Y
Observations	831	831	831
R-squared	0.534	0.545	0.613

Notes. OLS regressions. Other controls included across models are job level structure, firm age, debt-to-equity ratio, and deal elapsed. P-values in parentheses.

Table 5: Performance implications (return on assets)

Dependent variable:	Return on assets			
	All acquisitions		Recent acq (<2 years)	Distant acq (2 or more years)
	(1)	(2)	(3)	(4)
Purpose-Clarity	0.0193			
	(0.211)			
Purpose-Clarity (deal)		0.124	0.171	0.0877
		(0.000600)	(0.00156)	(0.0653)
Purpose-Clarity (residual)		0.0113	0.0279	-0.0107
		(0.457)	(0.150)	(0.621)
"This is a physically safe place to work"	-0.0177	-0.0217	-0.0126	-0.0275
	(0.434)	(0.330)	(0.662)	(0.462)
Lagged return on assets	0.911	0.917	0.861	0.988
	(0)	(0)	(0)	(0)
Constant	0.0956	0.105	0.0492	0.0980
	(0.368)	(0.319)	(0.679)	(0.540)
Year, State, Industry FE	Y	Y	Y	Y
Time-varying Industry, Firm, and Deal controls	Y	Y	Y	Y
Observations	831	831	478	353
R-squared	0.846	0.849	0.843	0.893

Notes. OLS regressions. P-values are in parentheses.

Table 6: Performance implications (long run stock returns)

Portfolio definition:	High deal-related purpose-clarity	Low deal-related purpose-clarity
	(1)	(2)
Alpha	0.00511	0.00177
	(0.00888)	(0.282)
Observations	144	144
R-squared	0.839	0.874

Notes. Table shows estimates from calendar time portfolios of an investment strategy that buys the stocks of firms scored each year that are the fourth and first quartile on *Purpose-Clarity* and holds the portfolio for one year at which point it is updated with the new ranking of firms. The portfolios are formed on the first of January. Each month, the returns of each firm in the portfolio are equally weighted and aggregated, thereby constructing a portfolio return. The time series of 72 monthly stock returns is then regressed on risk premiums for the market, size (SMB), value (HML), and momentum (UMD) factors (Fama and French 1993), suppressed for space. P-values are in parentheses.

Appendix Tables and Figure

Appendix Table A1: Corporate Purpose and Acquisitions

Dependent variable:	Purpose-Clarity			
	Execs	Middle Manager	Profession/ Technical	Hourly
	(1)	(2)	(3)	(4)
Acquisition	-0.00724	-0.0204	-0.0128	-0.0205
	(0.593)	(0.0156)	(0.281)	(0.0185)
Public Firm	0.0653	-0.0307	0.0771	0.0138
	(0.285)	(0.796)	(0.346)	(0.898)
Revenue	0.0106	0.0199	0.0140	0.0154
	(0.00330)	(2.97e-07)	(0.000213)	(2.08e-06)
Employees	0.0489	0.0230	0.0170	0.0123
	(0)	(0.000169)	(0.00614)	(0.0213)
Leverage	-0.0130	0.00629	-0.00372	-0.0269
	(0.381)	(0.392)	(0.656)	(0.00359)
Industry concentration	-0.0552	-0.0218	0.0627	0.0235
	(0.148)	(0.529)	(0.125)	(0.468)
Return on assets (Pre-acquisition)	0.0604	0.215	0.0957	0.146
	(0.638)	(0.0447)	(0.414)	(0.130)
Revenue growth (Pre-acquisition)	0.0421	-0.00228	0.00942	0.0110
	(0.213)	(0.890)	(0.678)	(0.648)
Constant	-0.641	-0.480	-0.480	-0.416
	(3.05e-06)	(3.93e-07)	(0.000135)	(1.18e-05)
Year, State, Industry FE	N	Y	Y	Y
Time-varying Industry, Firm, and Deal controls	N	Y	Y	Y
Observations	2,482	2,695	2,666	2,694
R-squared	0.171	0.256	0.167	0.287

Appendix Table A2: Corporate Purpose and deal characteristics, by job levels

Dependent variable:		Purpose-Clarity		
	Execs	Middle Manager	Professional/ Technical	Hourly
	(1)	(2)	(3)	(4)
Deal Relatedness				
Related	-0.00290	0.0227	0.0274	0.0394
	(0.930)	(0.260)	(0.183)	(0.0572)
Unrelated	-0.0480	-0.0250	-0.0203	0.00421
	(0.126)	(0.134)	(0.222)	(0.784)
Deal Objective				
Expansion	-0.0396	-0.0272	-0.0421	-0.0308
	(0.104)	(0.110)	(0.0122)	(0.154)
Financial	-0.0964	-0.00493	0.0165	-0.00990
	(0.110)	(0.878)	(0.663)	(0.753)
General/Null	0.0172	0.0235	0.0373	0.0225
	(0.634)	(0.296)	(0.143)	(0.343)
Intellectual Property	-0.00106	-0.0337	-0.00853	-0.0122
	(0.969)	(0.0571)	(0.616)	(0.640)
Deal Uniqueness and Clarity				
Deal uniqueness	-0.0434	-0.0761	-0.0925	-0.0797
	(0.543)	(0.0985)	(0.0699)	(0.0416)
Deal specificity	0.208	0.0621	0.138	0.0133
	(0.0634)	(0.386)	(0.0587)	(0.864)
Deal transparency	0.00180	0.00690	0.00632	0.00717
	(0.758)	(0.0616)	(0.147)	(0.0660)
Industry Characteristics				
Industry concentration	-0.186	-0.128	-0.0598	-0.0767
	(0.0623)	(0.0166)	(0.330)	(0.188)
Acquirer industry acquisition intensity	0.0143	0.00609	0.0139	0.00442
	(0.422)	(0.599)	(0.314)	(0.726)
Target industry acquisition intensity	-0.0225	0.00413	-0.00433	-0.0165
	(0.111)	(0.633)	(0.600)	(0.0761)
Acquiring Firm Characteristics				
Employees	0.0386	-0.00346	-0.0278	-0.0325
	(0.0613)	(0.806)	(0.112)	(0.0240)
Assets	0.0138	0.0397	0.0501	0.0441
	(0.331)	(7.38e-05)	(1.29e-05)	(3.58e-06)
Return on asset	0.486	0.274	0.377	0.320
	(0.0537)	(0.183)	(0.0432)	(0.0599)
Acquisition experience	0.00340	0.00147	0.000616	-0.00125
	(0.0665)	(0.121)	(0.577)	(0.219)
Constant	-0.191	-0.329	0.0202	0.130

	(0.564)	(0.0513)	(0.937)	(0.601)
Year, State, Industry FE	Y	Y	Y	Y
Time-varying Industry, Firm, and Deal controls	Y	Y	Y	Y
Observations	738	826	825	826
R-squared	0.421	0.468	0.522	0.450

Appendix Table A3 Corporate Purpose and deal characteristics, by deal characteristics (1)

Dependent variable:	Purpose-Clarity			
	Low Specificity	High Specificity	Low Transparency	High Transparency
	(1)	(2)	(3)	(4)
Deal Relatedness				
Related	0.0221	0.0412	0.0184	0.0487
	(0.251)	(0.115)	(0.410)	(0.0266)
Unrelated	-0.0205	-0.0282	-0.0227	-0.0294
	(0.241)	(0.152)	(0.252)	(0.0792)
Deal Objective				
Expansion	-0.0418	-0.0119	-0.0354	-0.0250
	(0.0511)	(0.561)	(0.158)	(0.119)
Financial	-0.0186	0.00310	-0.0182	0.00890
	(0.841)	(0.932)	(0.852)	(0.782)
General/Null	0.0163	0.0369	0.0130	0.00525
	(0.569)	(0.169)	(0.664)	(0.825)
Intellectual Property	-0.0421	0.0101	-0.0353	-0.0124
	(0.0208)	(0.657)	(0.149)	(0.490)
Deal Uniqueness and Clarity				
Deal uniqueness	-0.105	-0.0507	-0.0968	-0.0776
	(0.0137)	(0.451)	(0.0478)	(0.214)
Deal specificity	0.164	0.0305	0.193	0.0972
	(0.211)	(0.905)	(0.237)	(0.600)
Deal transparency	0.00826	0.0427	0.00840	0.0187
	(0.116)	(0.217)	(0.173)	(0.611)
Acquiring Firm Characteristics				
Employees	-0.0223	-0.0221	-0.0314	-0.0145
	(0.0943)	(0.264)	(0.0347)	(0.342)
Assets	0.0402	0.0457	0.0439	0.0399
	(2.25e-05)	(0.000738)	(6.23e-05)	(3.85e-05)
Return on asset	0.277	0.506	0.244	0.500
	(0.116)	(0.0363)	(0.169)	(0.0132)
Acquisition experience	0.000214	0.000964	0.000372	-0.000147
	(0.820)	(0.465)	(0.687)	(0.903)
Constant	-0.0249	-0.471	0.0204	-0.216
	(0.890)	(0.0857)	(0.917)	(0.383)
Year, State, Industry FE	Y	Y	Y	Y
Time-varying Industry, Firm, and Deal controls	Y	Y	Y	Y
Observations	530	301	424	407
R-squared	0.544	0.646	0.583	0.597

Appendix Table A4 Corporate Purpose and deal characteristics, by deal characteristics (2)

Dependent variable:	Purpose-Clarity					
	Low Deal Uniqueness	High Deal Uniqueness	High Acquisition Exp	Low Acquisition Exp	Low Acquirer Industry Acquisition Intensity	High Acquirer Industry Acquisition Intensity
	(1)	(3)	(5)	(2)	(4)	(6)
Deal relatedness						
Related	0.0481	0.0244	0.0121	0.0186	-0.000152	0.0308
	(0.0589)	(0.337)	(0.554)	(0.363)	(0.995)	(0.0805)
Unrelated	0.0151	-0.0232	-0.0133	-0.0300	-0.0247	-0.0170
	(0.582)	(0.150)	(0.469)	(0.0640)	(0.158)	(0.292)
Deal objective						
Expansion	-0.0365	-0.0201	-0.0510	-0.00167	-0.0259	-0.0236
	(0.0589)	(0.282)	(0.0127)	(0.881)	(0.123)	(0.163)
Financial	0.0335	-0.0213	0.0201	-0.0546	-0.0333	-0.0451
	(0.346)	(0.564)	(0.604)	(0.129)	(0.261)	(0.268)
General/Null	0.00901	0.00571	0.0169	0.00906	0.0442	0.00731
	(0.654)	(0.858)	(0.544)	(0.664)	(0.0251)	(0.776)
Intellectual Property	-0.0411	-0.00483	-0.0316	-0.00616	0.0103	-0.0532
	(0.0258)	(0.832)	(0.114)	(0.759)	(0.536)	(0.00295)
Deal Uniqueness and Clarity						
Deal uniqueness	-0.135	-0.0125	-0.0779	-0.0402	-0.185	-0.000640
	(0.0184)	(0.792)	(0.104)	(0.336)	(0.00135)	(0.989)
Deal specificity	0.161	-0.0500	0.151	0.0517	0.197	0.0739
	(0.0638)	(0.550)	(0.0783)	(0.450)	(0.0521)	(0.218)
Deal transparency	0.00593	0.00357	0.00677	0.00133	0.00385	0.00831
	(0.0562)	(0.528)	(0.181)	(0.706)	(0.263)	(0.0719)
Industry Characteristics						
Industry Concentration	-0.0993	-0.0251	-0.0670	-0.0711	-0.0359	-0.0538
	(0.0834)	(0.704)	(0.302)	(0.312)	(0.673)	(0.392)
Acquirer industry acquisition intensity	0.0279	-0.00777	-0.0231	0.0281	-0.0464	-0.0250
	(0.184)	(0.489)	(0.0748)	(0.150)	(0.0254)	(0.214)
Target industry acquisition intensity	-0.0160	-0.00326	0.0111	-0.0117	-0.00824	-0.0122
	(0.386)	(0.692)	(0.315)	(0.185)	(0.387)	(0.196)
Acquiring Firm Characteristics						
Employees	-0.0241	-0.0165	-0.0147	-0.0646	-0.0124	-0.0273
	(0.176)	(0.256)	(0.272)	(0.00753)	(0.425)	(0.149)
Assets	0.0394	0.0401	0.0426	0.0523	0.0280	0.0589
	(0.000917)	(3.57e-05)	(0.00135)	(0.000753)	(0.0114)	(2.34e-06)
Return on asset	0.330	0.388	0.0962	0.655	0.120	0.699
	(0.107)	(0.0685)	(0.638)	(0.00751)	(0.611)	(0.000404)

Acquisition experience	0.000144	0.000295	0.000422	-0.00115	0.000456	-0.00113
	(0.894)	(0.748)	(0.918)	(0.378)	(0.718)	(0.419)
Constant	-0.316	-0.225	-0.0728	-0.0267	0.570	-0.245
	(0.0782)	(0.196)	(0.756)	(0.918)	(0.00257)	(0.202)
Year, State, Industry FE	Y	Y	Y	Y	Y	Y
Time-varying Industry, Firm, and Deal controls	Y	Y	Y	Y	Y	Y
Observations	416	415	428	403	415	416
R-squared	0.647	0.563	0.566	0.705	0.667	0.644

Appendix Table 5 Performance implications for deal characteristics, first stage model

Dependent variable:	Purpose-Clarity
	(1)
Deal Relatedness	
Related	0.0591
	(0.000188)
Unrelated	0.0240
	(0.0487)
Deal Objective	
Expansion	-0.0384
	(0.0199)
Financial	-0.0258
	(0.501)
General/Null	0.0199
	(0.350)
Intellectual Property	-0.00592
	(0.732)
Deal Uniqueness and Clarity	
Deal uniqueness	-0.0800
	(0.00954)
Deal specificity	0.165
	(0.0318)
Deal transparency	0.00796
	(0.0389)
Constant	0.0545
	(0.153)
Year, State, Industry FE	Y
Time-varying Industry, Firm, and Deal controls	Y
Observations	831
R-squared	0.077

Appendix Table 6 Purpose-Clarity (deal) and Return on Assets, by Deal Uniqueness

Dependent variable:	Return on Assets	
	Low Deal Uniqueness	High Deal Uniqueness
	(1)	(2)
Purpose-Clarity (deal)	0.154	0.187
	(0.00243)	(0.00710)
Purpose-Clarity (residual)	-0.000892	0.0200
	(0.968)	(0.275)
"This is a physically safe place to work"	-0.0715	-0.0217
	(0.0619)	(0.315)
Lagged return on assets	0.853	0.870
	(0)	(0)
Constant	0.371	0.135
	(0.0489)	(0.183)
Year, State, Industry FE	Y	Y
Time-varying Industry, Firm, and Deal controls	Y	Y
Observations	416	415
R-squared	0.860	0.801

Appendix Table 7 Purpose-Clarity and Return on Assets, 2SLS Models

Dependent variable:		Return on assets	
	All acquisitions	Recent acq (<2 years)	Distant acq (2 or more years)
	(1)	(2)	(3)
Purpose-Clarity (deal)	0.0990	0.117	0.0158
	(0.0383)	(0.0302)	(0.749)
"This is a physically safe place to work"	-0.0310	-0.0163	-0.0340
	(0.174)	(0.508)	(0.294)
Lagged return on assets	0.885	0.829	0.966
	(0)	(0)	(0)
Constant	0.169	0.108	0.110
	(0.126)	(0.387)	(0.514)
Year, State, Industry FE	Y	Y	Y
Time-varying Industry, Firm, and Deal controls	Y	Y	Y
Observations	831	478	353
R-squared	0.834	0.825	0.891

Notes. 2SLS models where deal characteristics are treated as endogenous instrumental variables. P-values are in parentheses.

Appendix B

Deal Uniqueness: To construct this measure, we first constructed a co-occurrence matrix using the acquirer's Thomson Reuters proprietary mid-level industry classification (85 classifications) and the target's 4-digit SIC code for all completed deals 3 years prior to the focal deal. We used the coarser mid-level industry classification for the acquirer because we wanted to capture acquisition activity at the corporate level. For each deal d_{ij}, where subscript i denotes the acquirer industry and subscript j denotes the target industry, the uniqueness of the deal is given by $\sum_{t-5}^{t-1} d_{ijt}/d_{it}$. This expression captures the proportion of all deals where the acquirer belongs to industry i and has a target in industry j for the 3 years prior to the focal deal. In calculating this expression (and all the following measures that involve counting deals), we count deals that are classified as "Acquisition", "Merger", "Acquisition of majority interest", and "Acquisition of assets" in SDC[11]. This expression ranges from 0 to 1 and we subtracted the raw Jaccard coefficient from 1 so that a higher value represents a more unique deal. A value of 1 of our uniqueness measures thus represents a deal involving a target industry where no other firm in the acquirer industry has every made in the last 3 years.

Deal clarity: We utilized the text description of an acquisition to draw inferences about the characteristics of the deal. Using the purpose descriptions of acquisitions available in SDC, we conducted a bag-of-words textual analysis to understand the extent to which a deal has a focused and clear strategic objective. We constructed a *deal specificity* measure by comparing the within-sample similarity of words used in the purpose description. We also constructed a measure of *deal transparency* by counting the (logged) number of words used in the purpose description. The assumption is that the SDC database would be able to gather more information regarding the strategic purpose of an acquisition if the acquirer and target were transparent about the motivations behind an acquisition.

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[11] This inclusion criteria corresponds to the kinds of deals that firms have reported in the CAS.

Appendix C

For the long run buy and hold analysis, we first regress *Purpose-Clarity* on all non-deal characteristics (i.e. $X'_{it}, Z'_{jt}, \alpha_t, \gamma_j$). We then take the residual of this regression, which contains the component of *Purpose-Clarity* that is not driven by firm- and industry-level determinants and other immaterial deal characteristics. We then regress this residual component of *Purpose-Clarity* on all deal characteristics of interest (i.e. relatedness, objective, uniqueness, etc.).

We then formed a "low" and "high" stock portfolio. These portfolios are formed by buying stocks of firms that scored at the bottom and top quintile of the predicted Purpose-Clarity each year. The portfolios are held for one year. In the next year, the portfolio is then updated with the new ranking of firms based on predicted Purpose-Clarity. Portfolios are formed on the first of January. Each firm in the portfolio are equal-weighted when calculating portfolio return. We then obtained the leading 72 monthly stock returns of the two stock portfolio from CRSP and regressed the stock returns on the Fama-French four factors – market, size, value, and momentum factors (Fama and French, 1993).