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NATIONAL CORPORATE GOVERNANCE INSTITUTIONS AND POST-ACQUISITION TARGET REORGANIZATION

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We examine the characteristics of national systems of corporate governance to theorize about the nature of the shareholders' and employees' interests when it comes to reorganization, under the assumption that the firm is coalitional in nature. We argue that corporate governance institutions prevalent in both the host and the target country of the merging firms enable or constrain the ability of the acquirer to reorganize the target. Using a cross-national dataset of corporate acquisitions and post-acquisition reorganization, we found support for our predictions that stronger legal protection of shareholder rights in the acquirer country compared to the target country increases the acquirer's ability to restructure the target's assets and leverage the target's resources, while the protection of employee rights in the target country restricts the acquirer's ability to restructure the target's assets and redeploy resources to and from the target. Copyright © 2009 John Wiley & Sons, Ltd.

INTRODUCTION

Mergers and acquisitions (M&As) are one of the most important ways in which companies seek to create value by gaining access to new capabilities or markets. They have also been touted as a way for firms to adjust to changes in their competitive environment. Scholars in the fields of economics and strategic management see acquisitions as a prime mechanism for firm survival and growth (Ravenscraft and Scherer, 1987; Bowman and Singh, 1993; Jensen, 1993; Mitchell, 1994; Rosenkopf and Nerkar, 2001; Karim and Mitchell, 2000). Identifying a target and actually taking it over, however, are only the beginning of a process of reorganization that can take months, even years (Barney, 1988; Capron, 1999; Haspeslagh and Jemison, 1991; Zollo and Singh, 2004; Karim, 2006; Datta, 1991).

The post-acquisition process is all about reorganization. This process is rarely smooth because in acquiring a new bundle of assets and capabilities, the company also inherits the way in which the target is embedded in its institutional environment, including relationships with stakeholders like shareholders and employees (Buono and Bowditch, 1989; Haveman and Cohen, 1994; Larsson and Finkelstein, 1999). The management literature has long recognized that firms are coalitional in nature, that is, each is an arena in which various groups vie for influence over key decisions (Bendix, 2001; March, 1962; Pfeffer and Salancik, 1978). Therefore, the dynamics among the various corporate stakeholders, and the possible conflicts of interest among them, shape the acquirer's ability to engage in reorganization.

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In this study, we adopt an institutional perspective to argue that the ability of acquirers to reorganize their acquisition targets depends on the characteristics of the national corporate governance systems of the merging firms. Specifically, we explore the effect of the degree of protection of shareholder and employee rights on post-acquisition target reorganization, focusing our theoretical and empirical analysis on the regulative pillar of institutions (Scott, 2001: 50–54). Target reorganization encompasses asset restructuring and resource redeployment, both of which have the potential to pit the rights of shareholders against those of employees. Asset restructuring refers to actions such as the disposal of some of the acquired assets (which may entail layoffs), the recombination of those kept by the acquirer under a different organizational or managerial structure, and the elimination of redundant activities and inefficient management practices, most likely in the target firm (Karim, 2006; Brickley and Van Drunen, 1990). Resource redeployment refers to an actual shift of technological, marketing, or operational knowledge from the acquirer to the target or vice versa, which may affect employees in various ways (Capron, 1999; Zollo and Singh, 2004).

Post-acquisition reorganization provides institutional theory with an ideal setting in which to explore issues of power and influence. As Campbell notes, institutions 'reflect the resources and power of those who made them and, in turn, affect the distribution of resources and power' (Campbell, 2004: 1). While research on hostile takeovers adopts this perspective (Hirsch 1986; Schneper and Guillén 2004), our study is the first to pursue an institutional analysis of the potentially divergent interests of shareholders and employees during the post-acquisition process. In emphasizing the causal role of the power and influence that stakeholders enjoy, given a set of regulatory corporate governance institutions, we build on the research agenda formulated by the coalitional view of the firm (March, 1962). Thus, we frame our analysis of post-acquisition reorganization in terms of the theory of macroregulatory institutions and their effects on behavior, decision making, and change (Campbell, 2004; Scott, 2001).

By focusing attention on regulatory institutions at the national level, we address an important gap in the strategy literature. As Crossland and Hambrick recently stated, 'in the several works that have examined how environmental factors constrain executives… environment has always been equated with industry. There has been no consideration of the role of higher-order, macro-environmental forces on managerial constraint (or its obversed latitude of action)' Crossland and Hambrick, 2007: 770). While reorganization is a process that takes place at the micro level, it does not occur in an institutional vacuum. We argue that regulatory corporate governance institutions affect the reorganization process by giving the various stakeholders in the firm different degrees of power and influence over corporate decisions, as business historians have noted (e.g., O'Sullivan, 2000, 2003). Strategy scholars have not theorized exactly how corporate governance systems may affect post-acquisition dynamics, and evidence on the extent to which national institutions influence the firm's ability to change and adapt is scarce. In particular, we know little about how firms conduct their acquisition strategy across different national governance regimes, and we know even less about cross-border post-acquisition reorganization, where shareholders and workers are subject to very different national corporate governance institutions.

After controlling for the fact that acquirers may self-select into acquisitions from which they believe value can be extracted, in part due to the corporate governance system within which the target operates, we argue that acquirers embedded in a system that protects shareholder rights better than in the context in which the target resides, are likely to exert more pressure to reorganize the target during the post-acquisition period. We develop an institutional account of this process drawing on the conceptualization of shareholder interests in agency theory (Jensen, 1993). Going beyond agency insights, we also propose that target employees whose labor rights are well protected are likely to constrain the acquirer's ability to restructure the target's assets or to transfer resources across the merging firms. However, we note that acquirers have heterogeneous capabilities when it comes to dealing with different institutional regimes. We thus expect an acquirer's past acquisition experience to moderate the effect of target employee rights on the acquirer's ability to reorganize the target, as theories of experiential learning would predict (Levitt and March, 1988; Argote, Beckman, and Epple, 1990).

The article is structured as follows. In the first section, we review the literature on the role of

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national corporate governance institutions in firm restructuring. In the second section, we develop our hypotheses. We then present our data and methods in the third section. Lastly, we present and discuss our results.

NATIONAL INSTITUTIONS OF CORPORATE GOVERNANCE

Corporate governance has to do with the allocation of rights and obligations among the firm's stakeholders, including shareholders, managers, workers, and others with a stake in the corporation. The rights and obligations of the various stakeholders are defined and enforced to varying degrees depending on the institutions of corporate governance present in a given country. Those institutions include formal laws and regulations, codes of good governance, taken-for-granted assumptions about the appropriate role of the various stakeholders, and other informal norms of behavior sanctioned by tradition or practice (Aguilera and Jackson, 2003; Guillén, 2000, 2001; Roe, 2004).

We view 'regulative' institutions, including those associated with corporate governance, not just as constraints, but also as elements that support and empower actors (Scott, 2001: 50–54; Schneper and Guillén, 2004). In other words, institutions contribute to constituting actors as such and to preserving their roles, rights, and obligations over time. For instance, under German corporate and labor laws, half of the seats on boards of directors of companies above a certain size are reserved for workers and their representatives. This kind of institutional support for workers' rights is likely to have an impact on post-acquisition target reorganization.

We take existing national corporate governance institutions as given, and examine their impact on post-acquisition target reorganization. As a result of history, power struggles, compromises and happenstance, corporate governance institutions differ vastly across countries, with important implications for the degree of influence enjoyed by shareholders and workers (La Porta, Lopez-de-Silanes, and Shleifer, 1999; Aguilera and Jackson, 2003; Schneper and Guillén, 2004). National corporate governance traditions are distinctive, deeply rooted, and relatively resistant to change. An important element that explains persistent cross-country corporate governance differences has to do with the underlying ideology as to how the corporation should be governed: as an economic entity whose purpose is to maximize shareholder value, or as a social institution whose purpose is to further the interests of the corporation itself, typically considering the interests of multiple stakeholders (Aguilera and Jackson, 2003; O'Sullivan, 2003; Schneper and Guillén, 2004). At some point, countries fall along a continuum defined by two major types: liberal-market economies and coordinated-market economies (Hall and Soskice, 2001). Liberal-market economies—such as the United Kingdom, the United States, Australia, Canada, New Zealand, and Ireland—are distinguished by competitive market arrangements, with supply and demand forces having a significant impact on organizational outcomes and processes. In liberal-market economies, shareholder rights are highly protected and labor relations are characterized by open-market relationships, with firms having the freedom to hire and fire employees almost at will (Aguilera and Dencker, 2004). Coordinated-market economies—such as Germany, Switzerland, and the Scandinavian countries—are characterized by a high degree of organization and coordination of interest groups. In these stakeholder-centered countries, employees, suppliers, customers, and financial institutions can exert legitimate claims on firms that go beyond pure arm's-length transactions.

An important issue in corporate stakeholder research is the definition of which specific actors should be included in the analysis. Although Freeman (1984: 46) suggests that any 'group or individual who can affect or [be] affected by, the achievement of an organization's objectives' can be called a stakeholder, recent theorists have tended to narrow their attention to the most important sets of actors for a given context (Windsor, 1992; Mitchell, Agle, and Wood, 1997). Carroll (1989) defined stakeholders as those actors who have either a legal or a moral claim over the actions of the firm. Blair (1995) and Aguilera and Jackson (2003) argued that only stakeholders with a significant firm-specific investment should enjoy influence in discussions about corporate control. Other scholars stressed the role of 'secondary' stakeholder groups as groups that affect or are affected by firm behavior (Freeman, 1984), yet do not have a formal contractual or legal bond with the firm, as is the case with government regulators (Eesley and Lenox, 2006).

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Although some scholars have studied the relevance of stakeholders like managers, suppliers, customers, political parties, and the surrounding community (Delmas and Toffel, 2008; for a review, see Donaldson and Preston, 1995), we focus our analysis on shareholders and employees because of their relatively direct claim on the allocation of the company's cash flows and rewards, and because they are the most frequently mentioned actors for their potential impact on cross-national differences in corporate governance (e.g., Franks and Mayer, 1997; Aoi, 1997; Phan and Yoshikawa, 2000; Driver and Thompson, 2002; Aguilera and Jackson, 2003; Jackson, Höpner, and Kurdelbusch, 2004).

INSTITUTIONS, AGENCY, AND POST-ACQUISITION TARGET REORGANIZATION

A useful way to begin a theoretical analysis of the impact of national corporate governance institutions on post-acquisition reorganization is to examine the basic premises of the shareholder-oriented model. The market-for-corporate-control hypothesis contends that the interests of shareholder-principals are best protected by unrestricted competition for the stewardship of corporate assets using a takeover market (Manne, 1965). Beyond the disciplinary merit of disposing of *managerial deadwood* (Samuelson, 1970), economists and strategy scholars credit acquisitions with stimulating industry restructuring (Dutz, 1989; Anand and Singh, 1997), achieving efficiency gains (Ravenscraft and Scherer, 1987), recombining resources (Capron, Mitchell, and Swaminathan, 2001), and exploring new capability domains (Rosenkopf and Nerkar, 2001). These potential gains, however, are contingent on the institutional incentives and constraints facing the acquirer's managers, which may provide them with more or fewer opportunities to restructure assets or redeploy resources following the acquisition. Following the extant literature, we argue that the acquirer's shareholders are bent on maximizing the positive impact the acquisition will have on their wealth, in terms of the cash flows that accrue to them, while minimizing the negative consequences. Indeed, acquirer shareholders generally prefer to see management move swiftly to reorganize the target (Jensen, 1993).

Much of the corporate governance literature on the acquisition process highlights shareholder rights and neglects the role of other stakeholders, treating employment relations, in particular, as exogenously determined by labor markets (e.g., Blair and Roe, 1999; Buono and Bowditch, 1989). This omission reflects the theoretical focus of agency scholars on interests of the owners, that is, the shareholders (Emirbayer and Goodwin, 1994), as well as the weak employee participation in corporate governance in the United States compared to countries such as Germany or Sweden (Aguilera and Jackson, 2003; Schneper and Guillén, 2004). During the post-acquisition process, the target company's employees are crucial to achieving the benefits of the acquisition, but often have interests opposed to those of the acquirer's shareholders (Aguilera and Dencker, 2004). The disruptive effects of acquisitions on the target's employees are well documented (Walsh, 1988; Haveman and Cohen, 1994; Conyon *et al*., 2002); acquisitions often lead to a breach of trust with target firm employees (Shleifer and Summers, 1988).

Applying the same logic of economic self-interest to employees would lead one to assume that they are also predominantly interested in maximizing cash flows in the form of the wages they receive. A raise in target employee wages can be obtained through higher post-acquisition target efficiency. Yet, higher wages may have less appeal if they are accompanied by the fear of job losses, which may happen as a result of target reorganization like downsizing and change in work practices. Furthermore, much cross-national research indicates that workers are also interested in working conditions, intrinsic rewards such as job satisfaction, and employment stability (Bendix, 2001), which may also affect cash flows to shareholders. Most importantly, workers are not as mobile as shareholders, finding it much more difficult to switch from one firm to another. Let us analyze each stakeholder in turn.

Acquirer's shareholders and target reorganization

Under the assumption that shareholders are interested in maximizing their wealth, they will expect management to take action after the acquisition to ensure that the target delivers appropriate cash flows. The literature points out that in countries where shareholders are in a better position to

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assert their rights, managers (i.e., their agents) feel more pressure to make decisions consistent with shareholders' interests (Fligstein, 1990; La Porta *et al.*, 1998). Drawing on an international sample, Atanassov and Kim (2009) found that shareholders' ability to force value-enhancing measures on poorly performing firms varies with the degree of shareholder protection. Large-scale layoffs and top management turnover are more likely when investor protection is strong. In a study of eight emerging economies, Gibson (2003) showed that firms in countries with a legal system of Anglo-Saxon origin are more likely to experience management turnover after poor performance because the common law system in these countries tends to provide stronger shareholder protection.

In order to serve the interests of shareholders, it is customary for managers to take actions to reorganize the target firm in order to increase the cash flows generated by the acquired assets. The M&A literature has outlined two main types of actions acquiring firms take to deliver returns to their shareholders: restructuring the target's assets to save costs and redeploying resources across the merging firms to enhance capabilities (Barney, 1988; Capron, 1999; Karim, 2006; Brickley and Van Drunen, 1990). Asset restructuring is the focus of much economics and strategy research, which sees acquisitions as an opportunity to take corrective action or to achieve cost savings, thanks to the size of the newly formed company. Where acquisitions are made in order to turn around underperforming targets, acquirers are likely to impose substantial corporate governance changes on the target firm by restructuring its board, management, labor force, and internal organizational processes in order to serve the shareholders' interests (Jensen, 1993). Several empirical M&A studies also stress the role of cost synergies (Anand and Singh, 1997; Capron, 1999; Zollo and Singh, 2004). Research has documented post-acquisition downsizing of the target's managerial team (Walsh, 1988; Franks and Mayer, 1996) and workforce (Capron, 1999; Conyon *et al.*, 2002).

Studies of mergers and acquisitions also highlight the resource-based view of the firm and examine resource sharing (or redeployment) among merging firms (Barney, 1988). An acquirer can transfer its expertise to help the target become more cost-efficient and also to help it grow (Penrose, 1959; Capron, 1999). The acquirer can also access complementary resources by acquiring targets with unique resources, for example, in human-intensive acquisitions (Coff, 1999; Ranft and Lord, 2002). Sharing technological resources (engineering skills, research, proprietary technology, patents, know-how) may enhance the merging firms' innovation capability, which can be converted into a price premium and/or increased volume, leading to higher revenues (Karim and Mitchell, 2000). Acquirers can also benefit from sharing commercial resources through greater geographical coverage and product line extension.

However, existing national governance institutions influence the extent to which the acquirer's shareholders can harvest the benefits of acquisitions. Managers under pressure from powerful shareholders will move quickly to replace the target's management, restructure its assets, and redeploy resources with a view to attaining better performance as speedily as possible. In contrast, managers who operate under less shareholder pressure might be more inclined to postpone unpopular post-acquisition measures in order to keep the peace inside the organization. They might maintain the target in a preservation mode in order to maintain consensus at the expense of achieving economic benefits (Haspeslagh and Jemison, 1991).

Comparative legal scholarship (Reynolds and Flores, 1989; Glendon, Gordon, and Osakwe, 1994) and more recent economic analyses (La Porta *et al.*, 1998, 1999) show that shareholders' interests receive different degrees of legal protection across countries. If national legislation protects shareholder rights, one would expect managers to move swiftly in the wake of an acquisition to extract as much value from the target as possible through asset restructuring and resource redeployment. Acquirer shareholders might also take action to remove managers at the target (Jensen, 1993). If the rights of the target's shareholders, prior to the acquisition, were well protected, they would have probably put pressure on the target's management to maximize their wealth well before the acquisition happened. In contrast, if the rights of the target's shareholders, prior to the acquisition, were not particularly well protected, there are more likely to be opportunities for restructuring the target and reaping economic benefits within it after

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the acquisition happens. Therefore, asset restructuring and resource redeployment are more likely when the new owners enjoy significantly better protection of their ownership rights than the previous owners did.[1] In the context of cross-border acquisitions, one such situation occurs when the new owners are from a country that gives better protection of shareholder rights than the target's country. Accordingly, we predict:

Hypothesis 1: The stronger the legal protection of shareholder rights in the acquirer country when compared to the target country, the more the target firm will experience asset restructuring (Hypothesis 1a) and resource redeployment (Hypothesis 1b).

Target's employees and target reorganization

While much prior research examines the extent to which shareholder rights are protected by corporate governance institutions, we also consider the status of employees. In the wake of an acquisition, the target's employees can become important stakeholders whose preferences and actions affect the ability of the new management team to engage in asset restructuring and resource redeployment. The relative power of employees also differs across countries because of cultural, political, and legal factors (Blair and Roe, 1999): the greater the influence of labor, the lower the priority of value-enhancement objectives. Faleye, Mehrotra, and Morck (2006) find that U.S. publicly traded firms whose employees have a greater voice in corporate governance (i.e., own at least 5% of firm equity) deviate more from value maximization, spend less on new capital, take fewer risks, grow more slowly, create fewer new jobs, and exhibit lower labor and total factor productivity. Labor is primarily concerned with maintaining current and future cash flows at a level sufficient to prevent wage or benefit cuts (Jensen and Meckling, 1979), thus explaining a low-risk, low-investment, and low-growth strategy.

[1] Note that we do not assume that managers of acquiring firms from shareholder-friendly countries make post-acquisition decisions that are always consistent with the interests of their shareholders. The organizational literature has indeed stressed that even in countries that are shareholder friendly, acquisition strategies can be beset by agency problems (Palmer and Barber, 2001). Yet, comparatively speaking, agency problems with acquisition strategies will tend to be less pronounced when the acquirer firm is located in an ostensibly shareholder-friendly country.

Although post-acquisition reorganization measures should be beneficial to shareholders, some or all of the gains may be made at the expense of other stakeholders. Shleifer and Summers (1988) view the change of control of a company as an opportunity to renege on implicit aspects of the employment contract and to renegotiate employment, effort, and pay levels on terms less favorable to the target's employees. Benefits from target asset reorganization may indeed be obtained at the expense of target employees' interests. Empirical studies have found that the target firm is likely to bear the brunt of restructuring measures and layoffs (Capron, 1999), which often trigger resistance from target employees. Asset restructuring at the target also entails internal reorganization of the workforce, including the elimination of jobs that typically creates gaps in the division of labor that must be filled by reorganizing the remaining jobs, producing a cascade of lateral and vertical internal movement in response to the elimination of organizational positions (DiPrete, 1993). Similarly, benefits from resource redeployment still hinge on the acquirer's ability to redesign work practices, transfer people across sites or functions, or recombine teams (Stovel, Savage, and Bearman, 1996; Capron, Mitchell, and Swaminathan, 2001). Both vulnerable employees and employees with vested interests are likely to oppose resource redeployment if they have to learn new skills or if they lose power to the benefit of new individuals and groups within the organization (Levitt and March, 1988; Leonard-Barton, 1992; Oliver, 1997).

In countries like Germany, where national corporate governance institutions strictly protect the labor force, adjustments in labor force are harder to implement, thus raising the costs of post-merger reorganization (Debroux, 1996; Cappelli, 2000). In other countries and regions—Japan, South Korea, South Asia, Southern Europe, Latin America—workers have a level of protection that is stronger than the typical liberal-market economies of the United States and the United Kingdom, but less strong than the coordinated economies of Central and Northern Europe.

Stricter employment protection laws are associated with lower turnover in the labor market and with extended periods of work and unemployment (Gugler and Yurtoglu, 2004). As a result, the more a country's corporate governance institutions protect workers' rights, the lower the employer

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autonomy and the lower the geographical and professional mobility of its labor force (Sparrow, Schuler, and Jackson, 1994). For instance, evidence suggests that Japanese companies are more willing than American firms to incur costs (in the form of lost profits) to protect their workforce from the effects of economic downturns. Thus, workers who claim 'property rights' to their jobs (Althauser and Kalleberg, 1981) may have enough power to mitigate the firm's response to external pressures and force it to shield them from the effects of industrial restructuring (DiPrete, 1993).

Employees in a highly protective national labor regime are likely to prefer voice rather than exit in response to grievances because there may be penalties attached to leaving the firm (Aguilera and Jackson, 2003). Rigid labor markets make hiring a worker somewhat of an irreversible decision and reduce the mobility of the labor force (Gugler and Yurtoglu, 2004). In addition, when employee skills are firm-specific, the employee's greater dependence on the firm makes the option of leaving less appealing (Williamson, Watcher, and Harris, 1975). Employment protection makes labor turnover more difficult and adds to insiders' bargaining power. Strict hiring and firing regulations tend to increase the power of unions at the firm level.

When post-acquisition reorganization affects the interests of the target's employees, we expect them to resist the post-merger changes to the extent that national corporate governance institutions enable them to do so. Therefore, we propose:

Hypothesis 2: The stronger the legal protection of the target firm's employee rights in the target country, the less the target firm will experience asset restructuring (Hypothesis 2a) and resource redeployment (Hypothesis 2b).

Acquirer's M&A experience as a moderator

Firms and their managers differ in their ability to operate effectively in a given national corporate governance system and to handle negotiations that address stakeholders' concerns. The organizational literature recognizes that capabilities are learned over time as the firm accumulates experience (Argote *et al*., 1990; Haleblian and Finkelstein, 1999). Prior research stresses that experiential learning accumulates as a result of the reinforcement of prior choices (Levitt and March, 1988; Mayer and Argyres, 2004; Zollo and Singh, 2004). Each firm has a stock of collective knowledge that informs the pattern of decisions its managers make. Organizational learning, accumulated by making an acquisition and reorganizing the target, influences this collective knowledge. Experience with acquisitions provides opportunities for managers to learn from their successes and failures, while shaping the development of routines that help them deal with similar situations and contingencies in the future (Cyert and March 1963; Nelson and Winter, 1982; Haleblian and Finkelstein, 1999). In turn, the success or failure of prior experiences reinforces the firm's routines (Levitt and March, 1988). With increased acquisition experience, firms are likely to develop an embedded knowledge of how to conduct post-acquisition changes, and specifically how to deal with target employees (Zollo and Singh, 2004; Zollo and Winter, 2002).

Controlling for the likely effect of experience on the acquirer's choice of target firm and country, we argue that acquisition experience offers the acquirer insights into the best approaches to negotiate with stakeholders in order to address their concerns. Hillman and Keim (2001) argue that managing relationships with primary stakeholders such as employees can constitute intangible, socially complex resources that may enhance firms' ability to outperform competitors. Because of the relational aspects that underlie these activities, time and experience are likely to be important. With acquisition experience, acquirers may become more capable of anticipating the reaction of internal stakeholders and negotiating with them very early in the acquisition process. Frequent acquirers may also be better at designing incentive schemes and communicating the benefits of job rotation, new work practices, and work flexibility. Acquisition experience may help acquirers reduce the trauma of target reorganization and help survivors overcome their resistance and recommit to being motivated and productive (Brockner, 1988; Cartwright and Cooper, 2000). Overall, frequent acquirers also may become better at aligning the pace of integration with the type of post-integration measures they need to take. They may also be more adept at weighing the costs of downsizing the workforce or reshuffling resources against the benefits expected from

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those post-acquisition actions. Hence, we propose:

Hypothesis 3: An acquirer's acquisition experience mitigates the negative effects of legal protection of the target firm's employee rights in the target country on target asset restructuring (Hypothesis 3a) and resource redeployment (Hypothesis 3b).

DATA AND METHODS

Sample and data collection

Our dataset includes information on post-acquisition asset restructuring and resource redeployment processes at the firm level (Capron, 1999) and on corporate governance institutions at the national level (Schneper and Guillén, 2004). The data span 253 acquisitions undertaken by 190 acquirers located in 14 countries and targets in 27 countries. The unit of analysis is the corporate acquisition.

To study the micro-processes of post-acquisition asset restructuring and resource redeployment, we gathered the data through a survey of North American and European companies. The initial sample frame consisted of 2,020 horizontal acquisitions undertaken between 1988 and 1992 by manufacturing companies. Only acquisitions within the same four-digit United States Standard Industrial Classification (SIC) code industry were considered. The acquisitions included cases where the acquirers purchased entire corporations and cases in which acquirers purchased distinct business units from continuing corporations. We chose the period 1988–1992 in order to exclude both recent acquisitions in which post-acquisition decisions had not yet led to asset restructuring or resource redeployment at the time of the survey, and older acquisitions for which managerial turnover made it difficult to gather detailed information about post-acquisition activities retrospectively. Information sources include the *International Merger Yearbook* (SDC, 1990, 1991, 1992), *Mergers and Acquisitions Sourcebook* (Juker, 1990, 1991, 1992), *Mergers and Acquisitions International* (Investment Dealers' Digest, 1990, 1991, 1992), and *Fusions et Acquisitions* (Magazine Fusions et Acquisitions, 1989, 1990, 1991, 1992).

We mailed the survey questionnaire[2] during 1994 and 1995 to the acquiring companies included in the sample frame described above, addressed to the chief executives of the business units that undertook the acquisition. In the cover letter, we asked for the survey to be completed either by the Chief Executive Officer (CEO) or by a senior executive with overall responsibility for the acquisition. After the initial mailing, and following Dillman (1978), we mailed two follow-up letters and one replacement questionnaire.

From the initial sample, we mailed questionnaires to 1,778 acquirers for whom we obtained addresses. We received a total of 273 completed questionnaires, representing a response rate of 16 percent. This response rate is reasonable, given the location of the potential respondents in more than a dozen countries on two continents, firm diversity, information sensitivity, and organizational positions (CEO, president, executive chair, vice president of finance, vice president of corporate development, and managing director). The dataset has a broad distribution of acquirer and target firms. Almost half of the acquisitions took place in the chemical, food, and pharmaceutical industries. Acquirers tended to be larger than targets, including 60 percent listed as public companies. Most acquirer firms focused on one main business or were diversified in related businesses before the acquisition. Cross-border acquisitions represented 70 percent of the cases. More than 90 percent of the acquirers reside in France, the United Kingdom, the United States, Germany, Sweden, Switzerland, and Belgium. More than 90 percent of the targets reside in France, the United Kingdom, the United States, Germany, Italy, Spain, the Netherlands, Belgium, Sweden, Denmark, Switzerland, and Canada.

We recognize that self-reported measures can carry some methodological limitations (for a discussion, see Dillman, 1978; Rossi, Wright, and

[2] Measurement scales were developed after reviewing the relevant literature and then pretested with a small group of academics and consultants. Preliminary versions of the questionnaire were pretested with senior executives in charge of acquisition programs at large U.S. and European firms. Results from this phase led to the revision of several items to improve their clarity and the addition of a number of new items. On-site, face-to-face interviews with CEOs or executives in charge of acquisition programs at 10 large firms from our sample produced further suggestions that were incorporated into the final version of the questionnaire.

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Anderson, 1983). To limit potential biases associated with the survey method, we generated a rich corpus of measurement scales based on a review of the literature and on the on-site interviews with executives in charge of acquisitions in our sample. The survey contained multiple items measuring each construct, which were distributed throughout each section to avoid consistency bias. We also introduced several control questions at various points. To address possible response-style biases (e.g., 'yea-saying'), we introduced items that were heterogeneous in content and worded some items positively and others negatively or scale-reversed (Baumgartner and Steenkamp, 2001). We deleted the few cases that exhibited a lack of convergence across similar questions.

Finally, we did not use survey data to measure our two key independent variables: difference in shareholder rights between the acquirer and the target countries, and target country labor rights. Instead, we used indexes that have been extensively used in the institutional and economics literatures. By using different sources of information to build our dependent and independent variables, we reduced the potential impact of common-method bias, which always poses a threat to survey-based research (Podsakoff *et al.*, 2003).

Dependent variables and methods

We assessed the effects of national corporate governance institutions on three types of dependent variable: (1) the extent of post-acquisition target asset restructuring, (2) the extent of post-acquisition redeployment of acquirer resources to target, and (3) the extent of post-acquisition redeployment of target resources to acquirer. We measured the degree of post-acquisition target asset restructuring using an adapted version of the instrument developed by Datta (1991). We measured the extent to which the operations of the target firms were restructured along three main functions: research and development (R&D), manufacturing, and sales networks. We assessed the degree of restructuring for each function by taking the mean value from a set of three questions pertaining to (1) the degree of capacity disposed of (closed or resold), (2) the degree of capacity restructured, and (3) the degree of personnel layoffs, measured on a seven-point continuous scale ($1 = 0\%$ restructured, $7 = 91-100\%$ restructured). We assessed the reliability of each of the three target restructuring variables using Cronbach's α on the three-item scale (disposal, restructuring, layoffs). Cronbach's α ranged between 0.80 and 0.90, providing strong evidence for the reliability of our 'target asset restructuring' measures.

We used three types of resource-redeployment variables to measure the extent to which the acquirer redeployed its own resources to the target firm. We drew on resource typologies to focus on three dimensions of resources: technology, marketing, and management (Morck and Yeung, 1992; Amit and Schoemaker, 1993). First, we measured the redeployment of acquirer technical resources to the target by taking the average of two five-point scale items that measured the extent to which the acquirer redeployed its own researchers and engineers to the target. Second, we measured the redeployment of acquirer commercial resources to the target by using two five-point scale items that assessed the redeployment of commercial and administrative staff from acquirer to target. Finally, we measured the redeployment of acquirer managerial resources to the target by a five-point scale item that assessed the redeployment of acquirer senior executives to the target firm. The obtained Cronbach's α value varied between 0.74 and 0.77. We used the same type of variables to measure the extent to which the target redeployed its resources to the acquirer.[3] The obtained Cronbach's α value varied between 0.82 and 0.90.

Our dependent variables were continuous in nature and the data were cross-sectional. Therefore, we used ordinary least squares (OLS) as the estimation method.

Independent variables

We measured changes in shareholder rights after the merger by calculating the difference between acquirer country shareholder rights and target country shareholder rights. A positive value means that the target was acquired by a firm from a country that was more protective of shareholder rights. We used the time-varying country shareholder

[3] Transfer of personnel or resources from target to acquirer (or from acquirer to target) does not necessarily imply that those employees/resources will move to the relevant home countries of the acquirer (or target). For instance, an acquirer buying a foreign target may have overlapping sites, branches, and offices with the target in its home market or in other geographical areas (such as in retail banking, cement, or the automobile industries).

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rights index developed by Schneper and Guillén (2004).[4] For Hungary, a country not included in their database, we used the indexes developed by Pistor (2004), who calculated shareholder rights indexes for the former socialist countries during our period of study.

We measured target country labor rights by using the Organisation for Economic Co-operation and Development (OECD) time-varying Employment Protection Legislation (EPL) strictness index. For each country, employment protection legislation is described along 18 basic items, which can be classified under three main areas: *i)* employment protection of regular workers against individual dismissal; *ii)* specific requirements for collective dismissals; and *iii)* regulation of temporary forms of employment. Starting from these 18 basic pieces of information, a four-step procedure was developed for constructing cardinal summary indicators of EPL strictness that allow meaningful comparisons to be made, both across countries and between different years. We present a summary of the procedure to calculate the OECD EPL index in Table A of Appendix 1 (a full description of the items can be found in OECD *Employment Outlook*, 2004: 102–106).

The EPL strictness index varies from zero to six, with zero for countries with very low employment protection and six for countries with very strict employment protection legislation. There are large cross-country variations of the EPL index: it tends to be relatively low in the United States (0.21), the United Kingdom (0.60), Canada (0.78), and Switzerland (1.10), while it is relatively high in the Netherlands (3.08), Germany (3.17), Spain, and Portugal (both 4.10). It is interesting to note that Scandinavian countries, specifically Norway and Sweden in our study, tend to score high both on investor protection (4 and 4) and labor protection (2.25 and 3.49 respectively). Denmark, Finland, and France represent intermediary countries with an investor protection score of three and an EPL strictness index that varies between 2.30 and 2.93. A sharp contrast exists between Anglo-Saxon countries like the United Kingdom, Canada, and the United States with high investor protection (5 or 6) and low labor protection (below a value of 1) and Continental or Southern European countries like Germany, Belgium, and Greece with very low investor protection (between 0 and 2) and very restrictive labor legislation (above 3). Table 1 provides the acquirer country shareholder rights index and target country labor rights scores we used in our study.

We measured the extent to which the acquirer's experience could moderate the effects of target country labor rights on post-acquisition target asset restructuring and resource redeployment by including in our model an interaction term calculated by multiplying acquirer M&A experience by target country labor rights. Acquisition experience is a self-reported measure of the number of acquisitions made by the acquirer within the five years preceding the acquisition of the specific target. To reduce the level of correlation between the interaction term and target country labor rights, we mean-centered the variables measuring target country labor rights and acquirer M&A experience.

Control variables

We controlled for several other factors that could influence the level of post-acquisition target reorganization. Given our focus on country-level independent variables, we controlled for the labor rights of the acquirer country. For instance, acquirers from countries with very restrictive labor legislation may use cross-border acquisitions to implement restructuring that would be very costly or not worth undertaking in their home country, or to acquire resources that they could not develop from their home base because of the difficulty of reshuffling resources to new uses in a flexible manner.

We controlled for interaction effects between the labor rights in the target country and the differences in the shareholder rights of the previous owner's country and those in the country of the new owner (i.e., the acquirer). In their study of

[4] They built on La Porta *et al.*'s (1998) cross-sectional index for 1996 and constructed a time-varying measure for each country during the period 1988–1998 by referring to a number of legal sources. Thus, their indicator covers the period to which our data refer, namely, 1988 through 1992. La Porta *et al.*'s (1998) cross-sectional index ranged from zero to six and was calculated by adding one point for the presence of a provision protecting six representative rights in the country's commercial code or company law, namely: (1) allowing shareholders to mail their proxy vote at a shareholders' general meeting; (2) not requiring shareholders to deposit their shares before attending the shareholders' general meeting; (3) the presence of a legal mechanism enabling minority shareholders to challenge the decisions of management or assembly; (4) the ability to vote cumulatively on appointments to the board of directors (or to be guaranteed proportional representation); (5) preemptive rights for new share issues for all current shareholders; and (6) a minimum percentage of shareholder capital of 10 percent or less in order to call a special shareholders' meeting.

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Table 1. Coding of shareholder and labor rights

Acquirer country	Shareholder rights Schneper and Guillén index (2004) Based on La Porta *et al.* (1998) 0–6 Index (0 = lowest; 6 = highest)	Target country	Shareholder rights Schneper and Guillén index (2004) Based on La Porta *et al.* (1998) 0–6 Index (0 = lowest; 6 = highest)	Labor rights EPL strictness index OECD (2004) 0–6 Index (0 = lowest; 6 = highest)
Austria	2	Australia	4	0.94
Belgium	0	Austria	2	2.21
Canada	5	Belgium	0	3.15
Denmark	3	Brazil	5	na
Finland	3	Canada	5	0.78
France	3	Colombia	3	na
Germany	1	Czechoslovakia	4	1.90
Italy	1	Denmark	3	2.30
Netherlands	2	Finland	3	2.33
Norway	4	France	3	2.98
Sweden	4	Germany	1	3.17
Switzerland	1	Greece	2	3.60
United Kingdom	5	Hungary	2.5	1.27
United States	6	Ireland	3	0.93
		Italy	1	3.57
		Mexico	3	3.13
		Netherlands	2	3.08
		Norway	4	2.25
		Poland	3	1.49
		Portugal	3	4.10
		Spain	4	3.88
		Sweden	4	3.49
		Switzerland	1	1.10
		Turkey	2	3.76
		United Kingdom	5	0.60
		United States	6	0.21
		Venezuela	1	na

restructuring decisions of poorly performing firms, Atanassov and Kim (2009) find suggestive evidence of an interaction effect between labor rights and shareholder rights; in particular, they find that management turnover is lower when collective relations laws are stronger, with the relation being significant only for firms located in countries with poor investor protection. We therefore added the interaction of the target country labor rights and the acquirer's relative shareholder rights among the control variables. If an acquirer is from a country giving stronger shareholder rights protection than the previous owner of the target, the acquirer will be under more pressure to engage in asset restructuring and resource redeployment, regardless of the target's labor rights situation.

We controlled for whether the acquisition was domestic or cross-border (using a dummy variable that took the value of 1 for cross-border acquisitions). Cross-border mergers may increase the difficulty of exerting stakeholder rights due to a more complex post-acquisition process. At the same time, cross-border mergers may entail greater target reorganization due to institutional arbitrage opportunities. We also controlled for the extent to which the acquisition took place in a growing or a declining industry. We used a five-point scale measure for 'domestic industry growth,' ranging from 'rapidly growing' to 'rapidly declining,' and then reversed the scale. We used a five-point scale measure for 'international industry growth,' ranging from 'rapidly growing' to 'rapidly declining,' and then reversed the scale.

We controlled for acquirer motive by a comprehensive set of measures (1–5 scale): 1) accessing new markets, 2) accessing new geographical markets, 3) achieving manufacturing economies of scale, 4) acquiring complementary resources from the target, 5) transferring resources to the target, 6) reducing overcapacity, 7) reducing financial risk, 8) turning around the target, and 9) preventing a rival from buying the target firm. We controlled for the target and acquirer firms' pre-acquisition profitability. We measured pre-acquisition profitability relative to the industry average by using a five-point scale that ranged from 'much more profitable' to 'much less profitable.' We then reversed the scale of the two variables. We also controlled for the relative annual sales of target to acquirer, using a five-point scale (with 1 indicating a relative size of the target to the acquirer of less than 25% and 5 greater than 100%) and whether the target was public (i.e., stock-listed).[5]

We also controlled for the possibility that shareholder and labor rights not only influence post-acquisition target reorganization, but also the occurrence of a merger or acquisition in the first place. In order to correct for this selection issue, we calculated the predicted number of M&As for a sample of 46 target countries with complete data on both sides of the equation. The dependent variable was the number of M&As reported in the SDC-Platinum database. We ran a negative binomial regression using shareholder rights, labor rights, gross domestic product (GDP) *per capita*, GDP growth, stock market capitalization, and the labor force (to account for size) as the independent variables. We report the estimates of this country selection model in Table 2. We found that M&A activity in a country is positively associated with the strength of shareholder rights and negatively correlated with the strength of labor rights. GDP *per capita* and GDP growth positively influence the level of M&A activity in a country. We included the predicted number of M&As in each target country as an additional control in all of the regressions on post-acquisition reorganization.[6]

RESULTS

The descriptive statistics of the independent and control variables are presented in Table 3. Most of the bivariate correlations are small. The correlation between target labor rights and the difference in shareholder rights between the acquirer and target countries, however, is positive and large. The potential multicolinearity problem, however, did not manifest itself in the form of unstable parameter estimates or large standard errors. The correlations between the predicted number of M&As

[5] Although the target shareholders' incentives can also depend on the transaction financing (cash versus stock), we do not include this variable as a control in our study because of the specificities of our sample. In the subsample of 80 acquisitions for which we obtained the information, 76 percent of the acquisitions were fully paid in cash and in 90 percent of the acquisitions, cash was used as the dominant mode of payment. Also note that most of the acquisitions were made in cash during the study period.

[6] It should be noted that we cannot control for the additional selection issue of acquirers' preference for target companies that offer restructuring opportunities above those that do not. Unfortunately, the SDC-Platinum database does not include information on those aspects.

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Table 2. Negative binomial regressions predicting the number of M&As by country

Variable	Number of M&As in target country
Target country shareholder rights	0.18*
	(0.13)
Target country labor rights	−0.24***
	(0.09)
Target country GDP *per capita*	0.01***
	(0.01)
Target country GDP growth	0.09***
	(0.04)
Target country stock market capitalization	−0.01
	(0.01)
Target country labor force size	0.01
	(0.01)
Constant	0.47
	0.63
Log likelihood (chi^2, 5 df; p value)	−212.39 (74.96, $p < 0.001$)
n	45

[a] Standard errors of regression coefficients are in parentheses.
* $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$; one-tailed tests.

and the two aforementioned variables were large and negative. Excluding the predicted number of M&As from the regression, however, would have prevented us from controlling for the possibility that acquirers select target countries based on the degree of protection of shareholder or labor rights.

Table 4 presents the regression results. Models 1 through 3 show the effects of investor and labor rights protection on post-acquisition target firm restructuring concerning R&D, manufacturing, and sales networks, respectively. Models 4 through 6 show the results for the post-acquisition redeployment of the acquirer's technology, marketing, and managerial resources to the target. Finally, Models 7 through 9 present the results for post-acquisition redeployment of the target's technology, marketing, and managerial resources to the acquirer.

We found support for Hypothesis 1a on the effect of shareholder rights differences on target asset restructuring. Controlling for industry growth, acquisition motive, and pre-acquisition profitability, among other variables, we found that when the new owner comes from a country with better-protected shareholder rights, the target experiences more restructuring in its R&D, manufacturing, and sales network. In contrast, we found partial support for Hypothesis 1b on the effect of shareholder rights on resource redeployment. We obtained robust support for the role of shareholder rights on the redeployment of target resources to acquirer. We did not find a significant relationship between shareholder rights differences and resource redeployment to the target (although this relationship becomes marginally significant in the AMOS model—see below). Altogether, these results suggest that stronger pressure from investors not only generates more restructuring at the target, but also generates higher leverage of the target's resources. These results also provide a more nuanced assessment of the role of shareholders, who are commonly viewed as focusing on cost cutting rather than on innovation and capability enhancement. Our results suggest that shareholder pressure can have an effect on both types of post-acquisition action.

Our results lend systematic support for Hypotheses 2a and 2b on the impact of labor rights protection. When the rights of the target's employees in the target country are better protected, the target will witness less restructuring of either R&D or manufacturing (Hypothesis 2a), and less resource redeployment of technology, marketing, or management to and from the target (Hypothesis 2b). It is important to note that the strength of labor rights in the target country has an effect not only on the extent of post-acquisition asset restructuring, but also on resource redeployment. These findings are in line with previous studies of labor rights, which found that the strength of labor rights not only affects restructuring, but also affects new investments and growth.

We found support for Hypothesis 3a on the moderating effect of M&A experience. The results suggest that the M&A experience of the acquirer may mitigate the negative effects of target country labor rights on post-acquisition target restructuring. We also found partial support for Hypothesis 2b: the acquirer's M&A experience helps mitigate the negative effects of target country labor rights on post-acquisition resource redeployment to the target, although our analysis indicates a nonsignificant effect on resource redeployment to the acquirer. These results suggest that experience helps the acquirer to find ways of minimizing workforce

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Table 3. Sample descriptive statistics and correlations (N = 253)

Variables	Mean	St. Dev.	Min	Max	1	2	3	4	5	6	7	8	9
1. Difference in acquirer-target shareholder rights	0.03	2.09	−6.00	5.00									
2. Target country labor rights[1]	0.00	2.35	−7.40	2.60	0.54								
3. Target country labor rights × acquirer M&A experience[1]	0.64	14.64	−106.77	76.46	0.11	−0.01							
4. Acquirer M&A experience[1]	0.00	6.62	−4.92	45.08	0.09	0.04	0.08						
5. Acquirer country labor rights	2.01	1.15	0.20	3.60	−0.44	0.18	−0.11	−0.08					
6. Target country labor rights × difference in acquirer target shareholder rights	0.12	0.22	−0.25	0.25	−0.22	−0.26	−0.20	−0.05	0.91				
7. Cross-border acquisition	0.71	0.46	0.00	1.00	−0.01	0.03	0.00	0.23	0.16	−0.23			
8. Domestic industry growth	2.42	0.96	1.00	5.00	−0.01	−0.05	−0.04	−0.04	−0.09	−0.10	−0.13		
9. International domestic growth	2.18	0.92	1.00	5.00	−0.05	0.04	0.02	−0.03	−0.15	−0.05	−0.16	0.62	
10. Acquisition motive: access to new products	3.40	1.45	1.00	5.00	−0.02	−0.05	0.09	−0.09	−0.12	0.12	−0.25	−0.05	0.03
11. Acquisition motive: new market entry	3.65	1.54	1.00	5.00	−0.01	−0.10	−0.03	0.08	0.01	−0.13	0.44	0.05	0.13
12. Acquisition motive: manufacturing scale economies	2.38	1.29	1.00	5.00	−0.16	−0.09	−0.09	−0.15	0.11	0.08	−0.14	−0.05	0.02
13. Acquisition motive: acquisition of resources	2.50	1.32	1.00	5.00	−0.01	−0.10	0.02	−0.22	−0.14	0.09	−0.18	−0.03	0.01
14. Acquisition motive: transfer of resources	2.12	1.22	1.00	5.00	−0.01	−0.07	−0.03	0.03	0.01	−0.11	0.09	0.03	0.03
15. Acquisition motive: reduction of overcapacity	1.42	0.91	1.00	5.00	−0.05	0.08	0.02	−0.08	0.13	0.03	−0.05	−0.18	−0.18
16. Acquisition motive: reduction of financial risk	1.58	0.98	1.00	5.00	−0.05	−0.12	0.17	0.00	−0.14	0.05	−0.14	0.08	0.07
17. Acquisition motive: turning around a failing firm	1.73	1.22	1.00	5.00	−0.02	−0.02	0.03	−0.16	−0.01	0.08	−0.19	−0.25	−0.19
18. Acquisition motive: block a rival	2.36	1.42	1.00	5.00	−0.10	0.03	0.05	−0.04	0.14	−0.03	0.12	0.02	−0.19
19. Acquisition motive: pre-merger target profitability	2.90	1.10	1.00	5.00	−0.03	−0.08	−0.03	0.19	−0.06	−0.05	0.09	0.17	0.21
20. Acquisition motive: pre-merger acquirer profitability	2.35	0.94	1.00	5.00	0.04	0.05	−0.01	0.08	−0.04	−0.02	0.01	0.03	0.12
21. Relative annual sales of target to acquirer	1.92	1.29	1.00	5.00	−0.12	−0.11	0.01	−0.10	0.04	0.20	−0.13	−0.23	−0.05
22. Public acquirer	0.40	0.49	0.00	1.00	0.04	−0.09	0.04	0.06	−0.16	−0.11	0.19	0.06	0.02
23. Predicted # of M&As in target country	1483	2700	1.00	7445	−0.43	−0.55	−0.04	0.02	−0.21	0.28	−0.03	0.14	0.08
24. Acquirer country shareholder rights[2]	3.43	1.63	0.00	6.00	0.55	−0.19	0.12	0.06	−0.79	−0.07	−0.16	0.09	0.12
25. Target country shareholder rights[2]	3.39	1.82	0.00	6.00	−0.66	−0.79	−0.02	−0.05	−0.20	0.19	−0.15	0.06	0.04

Table 3. (*Continued*)

Variables	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
1. Difference in acquirer-target shareholder rights															
2. Target country labor rights[1]															
3. Target country labor rights × acquirer M&A experience[1]															
4. Acquirer M&A Experience[1]															
5. Acquirer country labor rights															
6. Target country labor rights × difference in acquirer target shareholder rights															
7. Cross-border acquisition															
8. Domestic industry growth															
9. International domestic growth															
10. Acquisition motive: access to new products															
11. Acquisition motive: new market entry	−0.21														
12. Acquisition motive: manufacturing scale economies	0.06	−0.05													
13. Acquisition motive: acquisition of resources	0.29	−0.11	0.16												
14. Acquisition motive: transfer of resources	−0.02	0.09	0.04	0.18											
15. Acquisition motive: reduction of overcapacity	−0.06	−0.02	0.29	−0.05	0.08										
16. Acquisition motive: reduction of financial risk	0.18	0.09	0.12	0.12	0.14	0.12									
17. Acquisition motive: turning around a failing firm	0.10	−0.04	0.02	0.09	0.10	0.19	0.21								
18. Acquisition motive: block a rival	−0.20	0.10	0.20	0.11	0.08	0.29	0.05	0.13							
19. Acquisition motive: pre-merger target profitability	−0.03	0.10	0.07	0.09	0.08	0.13	0.03	−0.41	−0.15						
20. Acquisition motive: pre-merger acquirer profitability	0.18	0.01	−0.12	0.02	0.01	0.07	0.01	−0.05	−0.01	−0.05					
21. Relative annual sales of target to acquirer	0.10	−0.02	0.37	0.08	−0.04	0.20	0.12	0.06	−0.05	0.07	−0.14				
22. Public acquirer	−0.06	0.10	−0.12	−0.08	0.06	0.02	−0.04	−0.04	0.02	−0.06	0.04	−0.03			
23. Predicted # of M&As in target country	−0.08	0.09	0.03	0.11	0.07	−0.03	0.11	−0.11	0.01	−0.03	−0.11	0.17	0.14		
24. Acquirer country shareholder rights[2]	0.08	0.01	−0.07	0.12	0.02	−0.09	0.12	−0.01	−0.14	0.06	−0.02	0.02	0.12	0.22	
25. Target country shareholder rights[2]	0.09	0.02	0.13	0.12	0.03	−0.03	0.17	0.02	0.00	0.08	−0.07	0.16	0.06	0.67	0.27

[1] To calculate the interaction variable, we mean-centered the variables measuring target labor rights and acquirer M&A experience.
[2] This variable is not directly included in our model. We included it in the correlation table for informative purpose.

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Table 4. OLS regressions predicting post-acquisition reorganization

Variables	Post-acquisition target firm restructuring[1]:		
	R&D Model 1	Manufacturing Model 2	Sales networks Model 3
Difference in acquirer-target shareholder rights	0.41*	0.10*	0.40***
	(0.26)	(0.07)	(0.22)
	_0.19_*	_0.18_*	_0.21_***
Target country labor rights	−0.54***	−0.38***	−0.56***
	(0.22)	(0.15)	(0.17)
	_−0.41_***	_−0.40_***	_−0.49_***
Target country labor rights × acquirer M&A Experience	0.09*	_0.03_***	_0.11_***
	(0.06)	(0.01)	(0.05)
	_0.15_*	_0.42_***	_0.26_***
Acquirer M&A Experience	0.00	0.02***	_0.01_
	(0.04)	(0.01)	(0.03)
Acquirer country labor rights	0.05	−0.04	0.16
	(0.17)	(0.13)	(0.14)
Target country labor rights × difference in acquirer-target shareholder rights	1.14~	0.01	−0.59
	(0.78)	(0.51)	(0.65)
Cross-border acquisition	0.41	0.66***	−0.16
	(0.46)	(0.28)	(0.37)
Domestic industry growth	−0.10	−0.18	−0.01
	(0.24)	(0.15)	(0.19)
International industry growth	−0.09	−0.19	−0.15
	(0.24)	(0.15)	(0.19)
Acquisition motive: access to new products	0.03	−0.15**	−0.11
	(0.12)	(0.08)	(0.11)
Acquisition motive: new market entry	−0.25***	−0.39***	−.25***
	(0.12)	(0.08)	(0.10)
Acquisition motive: manufacturing scale economies	0.03	−0.06	0.20
	(0.11)	(0.09)	(0.17)
Acquisition motive: acquisition of resources	−0.13	0.07	−0.12
	(0.12)	(0.07)	(0.14)
Acquisition motive: transfer of resources	0.14	−0.03	0.30***
	(0.14)	(0.09)	(0.11)
Acquisition motive: reduction of overcapacity	−0.01	−0.08	0.17
	(0.26)	(0.15)	(0.20)
Acquisition motive: reduction of financial risk	−0.18	−0.04	−0.25*
	(0.18)	(0.11)	(0.15)
Acquisition motive: turning around a failing firm	0.22*	0.23***	−0.17
	(0.16)	(0.10)	(0.16)
Acquisition motive: block a rival	0.41***	0.30***	0.11
	(0.13)	(0.08)	(0.13)
Pre-merger target profitability	−0.07	−0.07	−0.17*
	(0.11)	(0.09)	(0.12)
Pre-merger acquirer profitability	0.37*	0.29***	0.40***
	(0.24)	(0.15)	(0.19)
Relative annual sales of target to acquirer	0.14	0.09	−0.04
	(0.15)	(0.08)	(0.11)
Public acquirer	0.20	−0.32*	−0.41*
	(0.34)	(0.21)	(0.29)
Predicted # of M&As in target country (selection model)[2]	−1.49**	0.16	−0.11
	(0.08)	(0.46)	(0.01)
Constant	2.81	3.52	3.77
	(1.27)	(0.71)	(1.02)
R^2	21.60%	41.3%	30.3%
n	253	253	253

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Table 4. (*Continued*)

Variables	Post-acquisition redeployment of acquirer resources to target[1]:		
	Technology Model 4	Marketing Model 5	Management Model 6
Difference in acquirer-target shareholder rights	0.04	0.13	−0.02
	(0.14)	(0.17)	(0.18)
	0.03	*0.08*	*−0.01*
Target country labor rights	−0.20***	−0.29***	−0.33***
	(0.11)	(0.13)	(0.14)
	*−0.26****	*−0.30****	*−0.31****
Target country labor rights × acquirer M&A Experience	0.01*	0.01*	0.02***
	(0.01)	(0.01)	(0.01)
	*0.14**	*0.14**	*0.23****
Acquirer M&A Experience	0.01	0.02*	0.05***
	(0.01)	(0.02)	(0.02)
Acquirer country labor rights	0.08	0.12	0.13
	(0.09)	(0.11)	(0.12)
Target country labor rights × difference in acquirer-target shareholder rights	0.23	−0.46	−0.32
	(0.41)	(0.48)	(0.53)
Cross-border acquisition	−0.27	−0.20	−0.47*
	(0.22)	(0.25)	(0.28)
Domestic industry growth	0.02	0.19*	0.17
	(0.11)	(0.13)	(0.15)
International industry growth	−0.13	−0.12	−0.18
	(0.12)	(0.14)	(0.15)
Acquisition motive: access to new products	0.06	0.13**	0.06
	(0.07)	(0.07)	(0.08)
Acquisition motive: new market entry	−0.02	−0.04	0.07
	(0.07)	(0.07)	(0.08)
Acquisition motive: manufacturing scale economies	−0.01	0.06	−0.12
	(0.09)	(0.09)	(0.09)
Acquisition motive: acquisition of resources	−0.03	−0.03	0.02
	(0.08)	(0.08)	(0.09)
Acquisition motive: transfer of resources	0.09	0.12*	0.03
	(0.08)	(0.08)	(0.09)
Acquisition motive: reduction of overcapacity	0.20***	0.13	0.13
	(0.10)	(0.11)	(0.13)
Acquisition motive: reduction of financial risk	−0.04	0.04	−0.15*
	(0.10)	(0.10)	(0.12)
Acquisition motive: turning around a failing firm	−0.06	−0.01	−.17**
	(0.08)	(0.09)	(0.09)
Acquisition motive: block a rival	0.10*	0.06	0.05
	(0.07)	(0.07)	(0.08)
Pre-merger target profitability	−0.17***	−0.12**	−0.28***
	(0.08)	(0.09)	(0.10)
Pre-merger acquirer profitability	−0.05	0.10	0.01
	(0.10)	(0.10)	(0.11)
Relative annual sales of target to acquirer	0.09	0.14*	0.12*
	(0.08)	(0.08)	(0.09)
Public acquirer	0.37***	0.18	0.33*
	(0.17)	(0.19)	(0.22)
Predicted # of M&As in target country (selection model)[2]	−0.21	−0.74*	−1.08***
	(0.43)	(0.51)	(0.57)
Constant	1.01	0.73	1.55
	(0.65)	(0.76)	(0.84)
R^2	16.3%	16.4%	16.9%
n	253	253	253

Table 4. (*Continued*)

Variables	Post-acquisition redeployment of target resources to acquirer[1]:		
	Technology Model 7	Marketing Model 8	Management Model 9
Difference in acquirer-target shareholder rights	0.17***	0.27***	0.11***
	(0.08)	(0.09)	(0.06)
	*0.27****	*0.39****	*0.22****
Target country labor rights	−0.23*	−0.35***	−0.19***
	(0.15)	(0.16)	(0.10)
	*−0.23**	*−0.31****	*−0.26****
Target country labor rights × Acquirer M&A Experience	−0.29	−0.68	0.00
	(0.52)	(0.60)	(0.00)
	−0.05	−0.11	*0.00*
Acquirer M&A Experience	0.20	−0.09	0.00
	(0.25)	(0.29)	(0.00)
Acquirer country labor rights	0.20*	0.39***	0.15*
	(0.14)	(0.15)	(0.10)
Target country labor rights × Difference in acquirer-target shareholder rights	−0.13	0.79*	0.25
	(0.52)	(0.58)	(0.35)
Cross-border acquisition	−0.06	0.27	0.01
	(0.27)	(0.32)	(0.18)
Domestic industry growth	0.07	−0.28**	0.19***
	(0.14)	(0.17)	(0.10)
International industry growth	0.13	0.36***	−0.03
	(0.15)	(0.17)	(0.10)
Acquisition motive: Access to new products	0.13**	0.34***	0.03
	(0.07)	(0.09)	(0.05)
Acquisition motive: New market entry	−0.02	−0.02	0.07*
	(0.07)	(0.09)	(0.05)
Acquisition motive: Manufacturing scale economies	0.03	0.35***	0.10*
	(0.09)	(0.10)	(0.06)
Acquisition motive: Acquisition of resources	0.08	−0.10	0.11***
	(0.08)	(0.10)	(0.06)
Acquisition motive: Transfer of resources	0.04	0.12	0.03
	(0.08)	(0.10)	(0.06)
Acquisition motive: Reduction of overcapacity	0.21**	0.34**	0.13**
	(0.13)	(0.18)	(0.08)
Acquisition motive: Reduction of financial risk	0.08	−0.21*	0.09
	(0.11)	(0.13)	(0.07)
Acquisition motive: Turning around a failing firm	0.03	0.15*	−0.01
	(0.09)	(0.11)	(0.06)
Acquisition motive: Block a rival	0.06	−0.03	0.02
	(0.08)	(0.09)	(0.05)
Pre-merger target profitability	0.01	−0.01	0.10*
	(0.10)	(0.09)	(0.06)
Pre-merger acquirer profitability	0.02	−0.05	−0.05
	(0.10)	(0.12)	(0.10)
Relative annual sales of target to acquirer	0.18***	0.02	0.18***
	(0.09)	(0.10)	(0.06)
Public acquirer	−0.16	−0.03	−0.03
	(0.21)	(0.25)	(0.14)
Predicted # of M&As in target country (selection model)[2]	0.04	0.01	−0.06
	(0.05)	(0.05)	(0.01)
Constant	1.02	0.75	0.55
	(0.68)	(0.77)	(0.48)

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Table 4. (*Continued*)

Variables	Post-acquisition transfer of target resources to acquirer[1]:		
	Technology Model 7	Marketing Model 8	Management Model 9
R^2	17.7%	39.4%	29.1%
n	253	253	253

[1] Standard errors of regression coefficients are shown in parentheses. For our three theoretical independent variables, the standardized regression coefficients are shown in italics beneath the standard error.
[2] The number of M&As was predicted using the model reported in Table 2. The regression coefficient and its standard error for this variable have been multiplied by 10,000.
* $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$; one-tailed tests.

resistance. Capturing new resources from the target might be more complex, more idiosyncratic, and less subject to the experience effect.

Interestingly, we found a positive and significant main effect of experience on the extent to which the acquirer restructures the target's manufacturing assets (Model 2) and sales networks (Model 3), as well as on the extent to which it redeploys its commercial (Model 5) and managerial (Model 6) resources to the target. Among other control variables, we also found that the labor rights in the acquirer country were positively associated with resource redeployment from target to acquirer (Models 7, 8, and 9). This result is consistent with the literature on cross-border labor solidarity at multinational firms, which suggests that if labor has power in the home country, the acquirer is more likely to enhance the value of the target by redeploying resources than by downsizing (Guillén 2001: 123–156). We also note some interaction effects between labor rights in the target country and the differences in shareholder rights of the previous owner and those of the new owner (notably for Models 1 and 8). In addition, we found a positive and significant relationship between acquirer motive for turning around the target and the extent of post-acquisition restructuring. In contrast, acquirer motive for entering a new geographical market is negatively associated with post-acquisition restructuring. Industry growth is positively associated with post-acquisition resource redeployment. Profitable acquirers are more likely to restructure unprofitable targets and redeploy resources to assist the development of profitable targets. Finally, the predicted number of M&As in the target country was also found to be significant in Models 1, 3, 5, and 6.

We conducted supplementary analyses to ensure the robustness of our results and found qualitatively unchanged results. First, we performed regressions using another index of labor protection developed by Kucera (2002) at the International Labour Organization (ILO). This is a measure that captures the violations of the right to free association and collective bargaining (FACB). In the context of our study, we rescaled the values of the FACB rights violations to obtain our measure of labor rights. The rescaled index varies from zero to 10. For instance, Germany has a score of 0.53 with Kucera's FACB rights violation score; its labor rights score becomes 9.47. The United States has a score of 5.26 with Kucera's FACB rights violation score; its labor rights score became 4.74. The correlation between the OECD EPL index and the rescaled ILO FACB is 0.85. The results remained qualitatively unchanged.

We also performed regressions on the subsample of cross-border acquisitions ($N = 177$, 71% of the total sample). We found a similar pattern of results, with the interaction term between target labor rights and acquirer experience becoming even more significant in a few models (Models 4, 5, 6, 7, and 8).

To further control for self-selection into specific countries due to differences in shareholder and labor rights protection, we also ran a model including a control for the level of foreign direct investment inflow into the target country during our study period. This variable was significantly correlated with the level of M&A activity in the country ($r = 0.42$, $p < 0.001$). The inclusion of this additional variable did not change the rest of our results. Finally, we added dummy variables accounting for the year of the acquisition and obtained similar results.

We also estimated a model including a dummy variable capturing whether the acquiring firm had

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Table 5. AMOS structural equation models predicting post-acquisition reorganization[1]

Variables	Target restructuring Model 10	Resource redeployment to target Model 11	Resource redeployment to acquirer Model 12
Difference in acquirer-target shareholder rights	0.19***	0.08* [3]	0.27***
	(0.11)	(0.10)	(0.10)
	_0.32***_	_0.14*_	_0.46***_
Target country labor rights	−0.17***	−0.30***	−0.15***
	(0.07)	(0.06)	(0.06)
	_−0.17***_	_−0.30***_	_−0.16***_
Target country labor rights × acquirer M&A Experience	−0.01	0.27***	0.00
	(0.01)	(0.01)	(0.01)
	_−0.01_	_0.02***_	_0.00_
Acquirer M&A Experience	0.01	0.31***	0.12*
	(0.00)	(0.00)	(0.00)
Acquirer country labor rights	0.09**	0.14**	0.21***
	(0.08)	(0.07)	(0.07)
Target country labor rights × Difference in acquirer-target shareholder rights	0.01	−0.01	0.11*
	(0.40)	(0.36)	(0.37)
Cross-border acquisition	0.07	−0.12*	0.13**
	(0.19)	(0.17)	(0.18)
Domestic industry growth	0.01	−0.08	0.02
	(0.09)	(0.08)	(0.09)
International industry growth	−0.01	0.04	−0.11*
	(0.10)	(0.09)	(0.09)
Acquisition motive: access to new products	−0.05	0.11*	0.42***
	(0.06)	(0.06)	(0.06)
Acquisition motive: new market entry	−0.42***	−0.03	−0.03
	(0.06)	(0.05)	(0.05)
Acquisition motive: manufacturing scale economies	0.02	−0.01	0.18***
	(0.07)	(0.06)	(0.06)
Acquisition motive: acquisition of resources	−0.16***	−0.05	−0.09**
	(0.07)	(0.06)	(0.06)
Acquisition motive: transfer of resources	0.16**	0.09	0.13**
	(0.07)	(0.07)	(0.07)
Acquisition motive: reduction of overcapacity	0.03	0.12**	0.11*
	(0.10)	(0.09)	(0.09)
Acquisition motive: reduction of financial risk	−0.08	−0.04	−0.02
	(0.09)	(0.08)	(0.09)
Acquisition motive: turning around a failing firm	−0.01	−0.02	0.12*
	(0.07)	(0.07)	(0.07)
Acquisition motive: block a rival	0.22***	0.08	0.05
	(0.06)	(0.06)	(0.06)
Pre-merger target profitability	−0.21***	−0.02	−0.08
	(0.07)	(0.07)	(0.07)
Pre-merger acquirer profitability	0.17**	0.10*	0.05
	(0.12)	(0.11)	(0.11)
Relative annual sales of target to acquirer	0.05	0.12*	0.06
	(0.07)	(0.06)	(0.06)
Public acquirer	−0.04	0.08	0.00
	(0.18)	(0.16)	(0.17)
Predicted # of M&As in target country (selection model)[2]	0.04	−0.15***	0.06
	(0.00)	(0.00))	(0.00)
R^2	44%	41%	48%

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Table 5. (*Continued*)

Variables	Target restructuring Model 10	Resource transfer to target Model 11	Resource transfer to acquirer Model 12
Chi-Square (degree of freedom)	1378 (300)	1383 (300)	1396 (300)
n	253	253	253

[1] Standard errors of regression coefficients are shown in parentheses. For our three theoretical independent variables, the standardized regression coefficients are shown in italics beneath the standard error.
[2] The number of M&As was predicted using the model reported in Table 2. The regression coefficient and its standard error for this variable have been multiplied by 10,000.
[3] Significant with one-tailed test. * $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$; one-tailed tests.

made only one acquisition in our sample (i.e., it returned only one survey about one specific target) or had made more than one acquisition (i.e., it returned several surveys about several different targets). We did not find any qualitative differences in our results. We also added some dummies to control for the length of time that elapsed between the acquisitions and the informants' depiction of them. The time elapsed varied from three to five years. We found no significant effect.

The standardized coefficients reported in Table 4 for asset restructuring (Models 1, 2, and 3) for the three key variables of interest indicate that, when both shareholder and labor rights are significant, the negative effect of labor rights is greater in magnitude than the positive effect of the differences in shareholder rights. These two effects are of similar magnitude for resource redeployment to target (see Table 4, Models 4, 5, and 6). The magnitude of the standardized interaction effect between labor rights and acquirer experience is so large that a standard deviation increase in acquisition experience—that is, gaining experience with 6.62 more acquisitions—offsets the negative effect of a standard deviation increase in labor rights for Model 2, and nearly offsets this effect for Model 6.

In addition to the OLS estimations reported in Table 4 (Models 1–9), we also ran three specifications (Models 10–12 of Table 5) employing structural equation modeling (SEM). We used this approach because the data on the dependent variables come from a survey with multiple items representing different facets of post-acquisition target reorganization. In Model 10, the dependent variable, 'target restructuring' (η_1), is a construct consisting of the three 'target restructuring' items that were used in Models 1 (R&D), 2 (manufacturing), and 3 (sales networks), with respective loadings of 0.72, 0.84, and 1 ($\alpha = 0.65$). In Model 11, the dependent variable, 'resource redeployment to target' (η_2), is a construct consisting of the three 'resource redeployment to target' items that were used in Models 4 (technology), 5 (marketing), and 6 (management), with respective loadings of 0.67, 0.91, and 1 ($\alpha = 0.76$). In Model 12, the dependent variable, 'resource redeployment to acquirer' (η_3), is a construct consisting of the three 'resource redeployment to acquirer' items that were used in Models 7 (technology), 8 (marketing), and 9 (management), with respective loadings of 0.42, 1, and 0.72 ($\alpha = 0.65$). Given the multifaceted nature of our constructs, we obtained good loadings for each construct except η_3. In order to explore this problem further, we reran the analysis in Model 12 without the item whose loading was 0.42, and our results did not change.

Our results fully support Hypotheses 1 and 2 and tend to be stronger (at two-tailed tests) than the results we obtained throughout Models 1–9 using OLS. We obtained some variation for Hypothesis 3. In the SEM analyses, the interaction of acquisition experience with labor rights had a significant effect only on 'resource redeployment to target' (η_2), whereas in OLS regressions it also had a significant effect on target restructuring (Models 1–3). We also ran a baseline model (i.e., without the hypothesized independent variables), and the R^2 dropped from 44 percent to 35 percent in Model 10, from 41 percent to 16 percent in Model 11, and from 48 percent to 38 percent in Model 12, all of which are highly significant.

DISCUSSION AND CONCLUSION

Although post-acquisition reorganization is quintessentially a micro process of change, we

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have found evidence for our argument that the extent of target asset restructuring and resource redeployment depends on the nature of regulatory macro institutions, an insight that had not been previously pursued by strategy scholars. We examined the characteristics of national systems of corporate governance to theorize about the nature of the shareholders' and employees' interests when it comes to reorganization, under the assumption that the firm is coalitional in nature. Using a cross-national dataset of corporate acquisitions and post-acquisition reorganization, we found support for our predictions that stronger legal protection of shareholder rights in the acquirer country compared to the target country increases the acquirer's ability to restructure the target's assets and leverage the target's resources, while the protection of employee rights in the target country restricts the acquirer's ability to restructure the target's assets and redeploy resources to and from the target.

In finding a robust effect of macro-regulatory institutions on micro-level decisions and outcomes, we have further developed and advanced a key insight of institutional theory, namely that economic action is embedded in dynamics of interest, power, and influence. Post-acquisition reorganization lends itself to theorizing this important aspect of institutional analysis because of its intrinsic potential for conflict. We have also found that experienced acquirers partially mitigate the negative effects of target labor rights on target asset restructuring and resource redeployment. This finding is consistent with theories of experiential learning, highlighting that acquisition experience helps firms overcome hurdles in their acquisition process, among which institutional constraints can be important. It is also congruent with the resource-based view of the firm and its assumption of firm heterogeneity because firms with experience have a capability that enables them to overcome institutional obstacles. Institutional theory can benefit from the insights of experiential learning theory and the resource-based view because institutions are internalized by economic actors in different ways, especially in the case of macro-institutions like corporate governance rules and regulations.

While strategy scholars have made important contributions using institutional theory to study competitive strategy in general, and M&As in particular, previous research has not applied a similar approach to post-acquisition dynamics. Our theoretical and empirical analysis presents yet another way in which institutional theory can be brought to bear on important strategy issues. The finding that micro-level decisions and processes are affected by macro-institutions has implications for both strategy research and practice. The concept of the competitive environment needs to be expanded to include not only industry aspects, but also national institutions. Firms operate in a nested environment, which in turn can be shaped by their political strategies (Bonardi, Hillman, and Keim, 2005; Capron and Chatain, 2008). Undertaking research without acknowledging this important fact runs the risk of specification error, and making actual business decisions ignoring the implications of national institutions could lead firms seriously astray.

It is important to note that our theoretical explanation for the negative effect of target employees' resistance to post-acquisition reorganization is qualitatively different from that offered by previous research in strategy. Scholars have tended to attribute employees' negative emotions and attitudes to cultural misfit, loss of organizational identity, fear of job losses, or the acquirer's lack of fairness (Ranft and Lord, 2002; Larsson and Finkelstein, 1999). Past research has not examined the conditions under which target employees could actually exert their power in the acquisition process and successfully oppose shareholders' interests. Our findings suggest that the political balance between acquirer shareholders and target employees depends, to a certain extent, on the institutional characteristics of both acquirer and target countries.

Our empirical results have some managerial implications. They suggest that managers need to take the role of national governance institutions into account when making acquisitions. Acquiring firms should strive to assess the impact of those legal variables on the expected cash flows and to factor them into the target price. On the one hand, national governance institutions can prevent the acquirer from making necessary post-acquisition changes, and so the target price should be discounted to account for that risk. On the other hand, acquirers may create value in cross-border acquisitions due to institutional arbitrage opportunities, and so the target price should be adjusted upwards to account for those opportunities. Acquirers from a shareholder-friendly country who buy a target from a less shareholder-protective environment

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have opportunities for value creation by enforcing value-creating changes at the target. In the same vein, an acquirer that is highly constrained by a restrictive labor regulation can acquire firms in countries with less restrictive labor regulation in order to implement strategies based on asset restructuring or resource redeployment that would not be easily implemented in its home country. Also, merging firms can create a new combined governance system in order to leverage the best of their respective institutional environment. This is illustrated by Lenovo's acquisition of the IBM Personal Computer Business and the borrowing of many elements from the American governance system to manage the newly merged entity.

Our theoretical and empirical analyses have several limitations. First, our study is restricted to post-merger target asset restructuring and resource redeployment decisions in horizontal M&As. In this specific and potentially tense context, employment protection may diminish acquirers' ability to cope with the need for substantial and rapid labor force adjustments. Our arguments do not imply that labor protection systematically hinders shareholders' interests and economic returns. Several studies have shown that stable employment relationships may promote workers' efforts, cooperation, and investment in firm-specific human capital, which may enhance productivity and create value, notably in industries with a cumulative knowledge base (Bassanini and Ernst, 2002).

Second, we used survey data to capture micro-level processes of post-acquisition target reorganization. As with any survey-based data, concerns about accuracy of retrospective data and desirability bias may arise (Sudman and Bradburn, 1973; Golden, 1992). Third, we examined post-acquisition processes that took place during the 1990s. To ensure the relevance of our results, we examined how the institutional variables used in our model have evolved in the last decade. The EPL strictness index has remained relatively unchanged over the past decade, with a correlation of 0.91 between the 1990 index and the 2003 index. The same observation holds for shareholder rights, for which we observe a correlation of 0.95 between the index of the early 1990s and the index of the early 2000s. The persistent nature of cross-country institutional differences indicates that acquirers making acquisitions today are very likely to face similar constraints to those faced by acquirers in the 1990s.

Fourth, we focused our analysis on the institutional attributes of the merging firms' countries. Research has also found other country-level factors such as political, cultural, ideological, historical, and technological variables or intellectual property protection regimes to affect firm-level strategy and performance outcomes (Oxley, 1999; Henisz, 2000; Kogut, Walker, and Anand, 2002; Delios and Henisz, 2003; Davis, 2005; Fiss and Zajac, 2004). Finally, we focused on country-level variation in governance systems to capture a phenomenon that is likely to be a combination of country (Hall and Soskice, 2001), region (Saxenian, 1994), industry (Herrigel, 1996), and firm-level characteristics (Westphal and Zajac, 1998; Wulf, 2004; Capron and Shen, 2007).

These limitations offer avenues for future research on the relationship between corporate governance institutions and M&As. Our study represents just a first step in our understanding of the complexity of the relationship between firm-level governance systems, micro-level processes of value creation, and country-level institutional regimes.

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APPENDIX 1: CALCULATION OF SUMMARY INDICATORS OF THE EPL STRICTNESS INDEX
EPL summary indicators at four successive levels of aggregation

Level 4 Scale 0–6	**Level 3** Scale 0–6	**Level 2** Scale 0–6	**Level 1** Scale 0–6	
Overall Summary indicator	Regular contracts (version 2: **5/12**) (version 1: ½)	Procedural inconveniences **(1/3)**	1. Notification procedures	(1/2)
			2. Delay to start a notice	(1/2)
		Notice and severance pay for no-fault individual dismissals **(1/3)**	3. Notice period after 9 months	(1/7)
			4 years	(1/7)
			20 years	(1/7)
			4. Severance pay after 9 months	(4/21)
			4 years	(4/21)
			20 years	(4/21)
		Difficulty of dismissal **(1/3)**	5. Definition of unfair dismissal	(1/4)
			6. Trial period	(1/4)
			7. Compensation	(1/4)
			8. Reinstatement	(1/4)
	Temporary contracts (version 2: 5/12) (version 1: ½)	Fixed-term contracts **(1/2)**	9. Valid cases for use of fixed-term contracts	(1/2)
			10. Maximum number of successive contracts	(1/4)
			11. Maximum cumulated duration	(1/4)
		Temporary work agency (TWA) employment **(1/2)**	12. TWA work is illegal	(1/2)
			13. Restrictions on number of renewals	(1/4)
			14. Maximum cumulated duration	(1/4)
	Collective dismissals (version 2: **2/12**) (version 1 : 0)		15. Definition of collective dismissal	(1/4)
			16. Additional notification requirements	(1/4)
			17. Additional delays involved	(1/4)
			18. Other special costs to employers	(1/4)

The first step of the procedure was to score all of these first-level measures of EPL in comparable units. They were converted into cardinal scores that were normalized to range from 0 to 6, with higher scores representing stricter regulation (see Table 2.A1.1). The three remaining steps consisted of forming successive weighted averages, constructing three sets of summary indicators that correspond to successively more aggregated measures of EPL strictness (see Table 2.A1.2). The last step of the procedure involved computing, for each country, an overall summary indicator based on the three

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subcomponents: strictness of regulation for regular contracts, temporary contracts and collective dismissals. The summary measure for collective dismissals was attributed just 40% of the weight assigned to regular and temporary contracts. The rationale for this is that the collective dismissals indicator only reflects *additional* employment protection triggered by the collective nature of the dismissal. In most countries, these additional requirements are quite modest. Moreover, summary measures for collective dismissals have only been available since the late 1990s. An alternative overall index, so-called version 1, has been thus calculated as an unweighted average of the summary measures for regular and temporary contracts only. While more restrictive than the previous index (so-called version 2), this alternative measure of overall EPL strictness allows comparisons over a longer period of time.

In our study, we used version 1 of the EPL strictness index because we had operations that dated back to the early 1990s. We also used version 2 of the index in sensitivity analyses, and our results remained similar.

APPENDIX 2: SURVEY ITEMS

CONSOLIDATION AND RESTRUCTURING OF R&D

Please give a **ROUGH ASSESSMENT** of the **proportion** of the physical **R&D facilities closed or resold**, the proportion of the **R&D personnel affected by the restructuring of R&D facilities,** and the proportion of the **R&D personnel cut as a result of the merger**.

Acquired business							
% of physical R&D facilities closed or resold (as a proportion of total physical R&D facilities)	0%	1–10%	11–30%	31–50%	51–70%	71–90%	91–100%
% of R&D personnel affected by the restructuring of R&D facilities (as a proportion of total R&D personnel)	0%	1–10%	11–30%	31–50%	51–70%	71–90%	91–100%
% of R&D personnel cut (as a proportion of total R&D personnel)	0%	1–10%	11–30%	31–50%	51–70%	71–90%	91–100%

CONSOLIDATION AND RESTRUCTURING OF MANUFACTURING

Please give a **ROUGH ASSESSMENT** of the **proportion of the physical manufacturing facilities closed or resold,** the proportion of the **production capacity restructured**, and the proportion of the **manufacturing workforce cut as a result of the merger**.

Acquired business							
% of physical manufacturing facilities closed or resold (as a proportion of total physical manufacturing facilities)	0%	1–10%	11–30%	31–50%	51–70%	71–90%	91–100%
% production capacity restructured (as a proportion of total production capacity)	0%	1–10%	11–30%	31–50%	51–70%	71–90%	91–100%
% of manufacturing workforce cut (as a proportion of total manufacturing workforce)	0%	1–10%	11–30%	31–50%	51–70%	71–90%	91–100%

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CONSOLIDATION AND RESTRUCTURING OF SALES NETWORKS

Please give a **ROUGH ASSESSMENT** of the **proportion** of the **sales networks closed or resold**, the proportion of the **sales affected by the restructuring of sales networks**, and the proportion of the **sales personnel cut as a result of the merger**.

Acquired business							
% of sales networks closed or resold (as a proportion of total sales networks)	0%	1–10%	11–30%	31–50%	51–70%	71–90%	91–100%
% sales affected by the restructuring of sales networks (as a proportion of total sales)	0%	1–10%	11–30%	31–50%	51–70%	71–90%	91–100%
% of sales personnel cut (as a proportion of total sales personnel)	0%	1–10%	11–30%	31–50%	51–70%	71–90%	91–100%

TRANSFER OF RESOURCES, KNOWLEDGE, AND CAPABILITIES

To what extent have the **acquired business's staff** and **your existing business's staff been transferred or rotated** across the two firms?

	Transfer of staff									
	From the acquired business to your business					From your business to the acquired business				
	NOT AT ALL		TO SOME EXTENT		TO A VERY LARGE EXTENT	NOT AT ALL		TO SOME EXTENT		TO A VERY LARGE EXTENT
1. Senior executives	1	2	3	4	5	1	2	3	4	5
2. Engineers, technicians	1	2	3	4	5	1	2	3	4	5
3. Researchers	1	2	3	4	5	1	2	3	4	5
4. Manufacturing workers	1	2	3	4	5	1	2	3	4	5
5. Sales personnel	1	2	3	4	5	1	2	3	4	5
6. Administrative staff	1	2	3	4	5	1	2	3	4	5

Control questions

At the time of the acquisition, what was the **growth of the market** for the line of business of the acquired firm? (Please answer with respect to both your domestic and international markets).

The domestic market (your country)

1. A RAPIDLY GROWING MARKET
2. A SLOWLY GROWING MARKET
3. A STABLE MARKET
4. A SLOWLY DECLINING MARKET
5. A RAPIDLY DECLINING MARKET
6. NOT APPROPRIATE, (please specify):

The international market

1. A RAPIDLY GROWING MARKET
2. A SLOWLY GROWING MARKET
3. A STABLE MARKET
4. A SLOWLY DECLINING MARKET
5. A RAPIDLY DECLINING MARKET
6. NOT APPROPRIATE, (please specify):

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Please use the scale below to assess the **importance of the following motives in** acquiring the target business (from one to five, one being not important at all, five being very important).

		NOT IMPORTANT AT ALL				VERY IMPORTANT
1.	To enter a new geographical market	1	2	3	4	5
2.	To achieve economies of scale in manufacturing	1	2	3	4	5
3.	To achieve economies of scale in R&D, sales promotion, distribution, or administration	1	2	3	4	5
4.	To acquire assets (tangible and/or intangible) or capabilities to be used in your existing business	1	2	3	4	5
5.	To transfer assets (tangible and/or intangible) or capabilities to assist the acquired business	1	2	3	4	5
6.	To reduce overcapacity in the industry	1	2	3	4	5
7.	To diversify your financial risk	1	2	3	4	5
8.	To turn around a failing firm	1	2	3	4	5
9.	To prevent a competitor from acquiring the target business	1	2	3	4	5

Relative proportion of the acquired business's annual sales in comparison to your firm's sales before the acquisition (in the line of business concerned):

1. <25% 2. 25–49% 3. 50–74% 4. 75–100% 5. >100%

Profitability (profit/capital employed) of the acquired business relative to industry average before the acquisition:	Profitability (profit/capital employed) of your existing business relative to industry average before the acquisition:
1. MUCH MORE PROFITABLE	1. MUCH MORE PROFITABLE
2. MORE PROFITABLE	2. MORE PROFITABLE
3. EQUIVALENT	3. EQUIVALENT
4. LESS PROFITABLE	4. LESS PROFITABLE
5. MUCH LESS PROFITABLE	5. MUCH LESS PROFITABLE

Number of business(es) or firm(s) acquired by your firm within the last five years:

. . ... Acquired Firms

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