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Outsiders Favor the Most:

Status and the Heterogeneity of Audience Coverage in M&A Deals

Abstract

Uncertainty experienced by market audiences is the fundamental premise for status to take effect. Whereas prior research usually assumes that uncertainty is evenly distributed among audiences, this study emphasizes the heterogeneity of audiences. Audiences usually differ in the scope of firms they cover. They acquire more information and confront less uncertainty when evaluating firms under their coverage than those not. Status may thus exert different effects across audiences. My theoretical development is situated in the context of M&A. In particular, I hypothesize that although an acquirer's status is generally beneficial, it is more appealing to investors who do not cover it, as compared to covering investors. Results of the empirical analysis on the U.S. deals between 1990 and 2014 provide considerable support for my framework.

Introduction

Status refers to a firm's social standing in a particular system (Gould, 2002; Jensen and Roy, 2008). It reflects the amount of recognition firms receive from the society (Bothner, Godart, and Lee, 2010), and shapes audiences' perception of the quality of their products or services (Podolny, 1993). As the result of its signaling effect, status brings firms various advantages (Podolny, 2005). Status is meaningful as a signal because market audiences[1] are not capable of evaluating the quality of firms unambiguously. Uncertainty experienced by audiences, in other words, is the crucial scope condition in the status-based model (Lynn, Podolny, and Tao, 2009). And the value of status increases with uncertainty (Podolny, 2001). While scholars commonly refer to uncertainty when theorizing the status effect (e.g. Stuart, Hoang, and Hybels, 1999), existing literature has usually assumed (implicitly) that uncertainty is evenly distributed among audiences. However, this neglects an important fact that audiences differ in the uncertainty they bear during evaluation (Lynn et al., 2009). To address this gap, I employ an audience-based perspective and discuss how the effect of a firm's status varies across audiences.

This study contributes to status literature. I stress audience coverage as a key source of uncertainty heterogeneity. When specifying the effect of status, existing studies often view industry, market, or firm as the sources of uncertainty heterogeneity. The nature of an industry determines the uncertainty widely spreading over it (Collet and Philippe, 2014). Non-investment grade markets, for instance, involve more uncertainty than investment grade markets (Podonly, 1994). It is also known that firms from the same industry may present audiences with different

[1] The audiences of a firm refer to the stakeholders in the market whose decisions have a direct or indirect influence on its performance. Firms are exposed to different groups of audiences (e.g. investors and customers). Audiences in each group share the same attributes and focus. Customers focus on the quality and price of a firm's products, while investors pay more attention to its growth potentials. Even within the same group, audiences differ in terms of their perception on a firm, which is the main focus of this study. In this paper, I focus on the heterogeneity of audiences within one audience group (i.e. investors), rather than the heterogeneity between audience groups. That is, I test in this paper how the effect of status differs across audiences within one audience group.

uncertainty because of various information disclosure. Young ventures (Stuart et al., 1999) or new entrants (Jensen, 2003), for instance, are difficult to evaluate, because there are limited historical records about them in markets. Those perspectives have an implicit assumption that all market audiences share the same uncertainty, but overlook the heterogeneity of audiences (Zuckerman, 1999; Hirshleifer and Teoh, 2003). Uncertainty is often unevenly distributed among audiences (Lynn et al., 2009) who have unequal access to information. Audiences have limited attention (Ocasio, 1997; Pollock, Rindova, and Maggitti, 2008) and tend to focus their cognitive efforts on only a specific group of firms, rather than paying equal attention to all firms in markets (Zuckerman, 2000; Jensen, 2004). So audiences often differ in their firm coverage. I argue that *coverage audiences* who have been following a firm closely, are likely to gather more information about the firm than non-coverage audiences. Therefore, the uncertainty associated with evaluating the firm are heterogeneous across audiences.

Because of the uneven distribution of uncertainty among audiences, I emphasize further that the effect of status varies across audiences. Firms are often exposed to various groups of audiences, particularly when they have diversified businesses (Zuckerman, 2000). It is well established that a firm's status is meaningful for audiences from different groups. The status of a commercial bank, for instance, is appealing to the customers of both commercial- and investment-banking businesses (Jensen, 2003). The status of a venture capital firm is effective for both domestic and foreign market actors (Guler and Guillén, 2010). We know, however, little about whether and how the effect of status differs across audiences. In this study, I posit that a firm's status is more appealing to non-coverage audiences who experience more uncertainty when evaluating the firm.

My theoretical development is situated in the context of M&A between the U.S. public firms. The central premise is that the status of an acquirer affects the market reactions to its target, and such effect is contingent on the overlap of investors covering the acquirer and the target. First, by constructing M&A agreement as a form for organizational endorsement (Cowen, 2012), I posit that an acquirer's status is beneficial for its target, thus leading the target's investors to have a positive market reaction. However, I continue to argue that such a relationship is less specified because it does not account for the heterogeneity of uncertainty experienced by the investors covering the target. To further develop this argument, I bring in the notion of *investor overlap* as a key contingent factor that determines the effect of an acquirer's status. *Investor overlap* refers to the overlap between the investors covering the acquirer and those covering the target, reflecting the extent to which the target's investors have already covered the acquirer.

By examining investors' reaction to an acquirer's status, I add to the emerging research stream of the behavioral perspective on investor reactions to acquisition announcements (Schijven and Hitt, 2012). Recent studies relax the assumption of investor rationality (Zajac and Westphal, 2004) and argue that boundedly rational investors attempt to gain insights into management's better informed perceptions (Schijven and Hitt, 2012). Whereas research often emphasizes the signaling role of acquisition premium (Laamanen, 2007), this paper stresses firm status as an important signal for the quality and potential of M&A, which is relatively overlooked in M&A research (Cowen, 2012). I argue that investors are quite sensitive to firm status both because an acquirer's status endorses its target firms and because high-status acquirers are more likely to complete acquisitions. Moreover, while prior studies usually focus on information asymmetry between management and investors (Schijven and Hitt, 2012), I

highlight that information is also asymmetrically distributed among investors. I posit that investors have unequal access to information on a particular firm, so that they show different sensitivities to the status cue of the firm.

Theoretical Review and Development

Status and uncertainty

Status signals the perceived quality of a firm's products in relation to the perceived quality of its competitor's products (Podolny, 1993; Sharkey, 2014). High-status firms are usually able to have strong bargaining power over transaction partners (Castellucci and Ertug, 2010), integrate better resources (Rider and Tan, 2015) with lower cost (Podolny, 1993), ask higher prices for products with similar quality (Benjamin and Podolny, 1999), and consequently end up with a better overall performance (Shane and Cable, 2002). Extensive empirical evidence has been found in various contexts including investment banking (Jensen, 2003), winery (Malter, 2014), and the semiconductor industry (Podolny et al., 1996).

The fundamental premise for status to take effect is that market audiences or decision makers experience a certain level of (altercentric) uncertainty regarding the quality of a firm's products or services (Podolny, 2001). Under the condition that the market is perfectly transparent and the quality of the firms is unambiguous, audiences would simply make decisions based on the firms' actual quality, without being inflated by status. That is, without uncertainty, status would become less appealing.[2] The uncertainty may be either market-generic or firm-specific. First, overall market volatility contributes to uncertainty (Collet and Philippe, 2014), which is shared by all audiences. Second, uncertainty may be firm-specific. Less information disclosure to

[2] The effect of status will not completely disappear in the absence of uncertainty because customers may still prefer products from high status firms with the motive of conspicuous consumption (Malter, 2014).

the market creates larger information asymmetry between a firm and its audiences, making the quality of the firm more difficult to be evaluated. Such uncertainty is also assumed to be equally shared by all audiences.

Attributing uncertainty to firm- and market-level features, however, does not recognize the heterogeneity of market audiences. Information is usually unevenly and asymmetrically distributed in markets. Audiences may have unequal access to information about a firm, so as to confront different levels of uncertainty regarding its quality. However, only few studies have explicitly analyzed such heterogeneity. Among the few, Lynn et al. (2009) recognize in their simulation models that dyadic error exists in quality assessment due to uncertainty, such that each actor *i* has some error in perceiving *j*'s quality, and this error is uncorrelated across all *i*'s. Then, why is information unequally distributed? I stress in this study that information and uncertainty are unevenly distributed among audiences because of their heterogeneous coverage.

Coverage audiences, target audiences, and audience overlap

Market audiences have limited attention (Ocasio, 1997; Hirshleifer and Teoh, 2003) and can only focus on a specific sets of firms. It is quite rare that an audience covers all firms and have comprehensive (or equal) information of all the firms. So audiences differ in the scope of firms they cover. The heterogeneity of audience coverage may be either horizontal or vertical. A customer, who is a fan of automobiles, may be able to name all the models of *BMW* or *Ferrari*, but knows less about the brands of mountain bikes.[3] Customers who only purchase high-end

[3] A customer, who is a fan of automobile, may know more BMW and Ferrari as compared to FIAT or Hyundai. But if we compare FIAT with less prestigious mountain bike brands, he/she is more likely to know more FIAT. So the point here is that audiences (customers or investors) should know more about firms within their coverage categories (industries) as compared to firms outside their coverage, even though their knowledge on the firms within their coverage categories may still vary.

garments would not follow the introduction of low-end ones. Thus, audiences usually differ in their covering firms (or industries), and each firm has its set of coverage audiences.[4]

Prior studies have long recognized the importance of coverage audiences for two reasons. First, the number of coverage audiences infers the amount of external pressure that a firm bears (Jensen, 2006). With more coverage audiences, a firm attracts more attention from the market and is more likely to make strategic choices in accordance with the expectation of coverage audiences and to remain accountable (Jensen, 2006; Yu, 2008). Second, the number of coverage audiences indicates a firm's legitimacy (Zuckerman, 2000) or prominence (Tan, 2015) in the market. A firm attracts more coverage audiences only when it is widely accepted by the market (Zuckerman, 1999) or it stands out among its peer competitors (Collet and Philippe, 2014; Pollock and Gulati, 2007).

Identifying coverage audiences for a firm is also important to understand how the effect of its status varies across audiences. That is because the coverage audiences tend to acquire more information on the firm, especially when the information is not publicly available in markets. Information is essential to assess the value of firms in market exchanges (Pollock et al., 2008). So the information acquired by a firm's coverage audiences enables them to better evaluate the firm with much less uncertainty. As shown in Figure 1, audiences *a*, *b*, and *c* are the coverage audiences of firms *A*, *B*, and *C*, respectively. Compared to audiences *b* and *c*, audience *a* would likely acquire more information on firm *A*, experience less uncertainty when evaluating firm *A*, and hence become less sensitive to the status of firm *A*. In practice, for instance, when a security analyst specializes in the bio-tech sector, he or she knows more about bio-tech firms. The analyst

[4] Coverage audiences of different firms may or may not be strictly distinct from one another. In other words, it is both possible that two firms share the same set of coverage audiences, and that the two firms share no common coverage audiences at all.

would experience less uncertainty when evaluating a bio-tech firm. However, since the analyst does not follow the semi-conductor sector, he or she may be not capable of accurately evaluating semi-conductor firms.

----------*INSERT FIGURE 1 HERE*----------

It is also important to identify *target audiences* for a firm because the effect of status depends on the uncertainty experienced by its target audiences. Target audiences are in fact the firm's stakeholders including its potential transaction partners (Ozmel et al., 2013), target customers (Pearce and David, 1987), or investors (Hirshleifer and Teoh, 2003; Smith, 2011), whose decisions have a direct or indirect influence on its performance. Not all market audiences are target audiences. Target audiences for a firm are only a part of audiences in the whole market, and are not necessarily its coverage audiences. When a firm enters a new market, for example, its target audiences are those from the new market, rather than the current coverage audiences who have been following it in the existing market.[5]

I further contend that the effect of status depends on audience overlap, or the extent to which a firm's *target audiences* and *coverage audiences* are overlapping. It may range from zero (no overlap) to one (fully overlapping). In Figure 1, the audience overlap between firms *A* and *B* is zero as they do not have a common audience. As Figure 2 shows, the audience overlap is asymmetric. A larger audience overlap means that more target audiences are also the coverage audiences of a firm. With the increase of audience overlap, target audiences would confront less uncertainty on evaluating a firm, because information about the firm is already available to many

[5] In Figure 1, if firm *B* acquires firm *A* and expects to endorse firm *A*, audience *a* is the target audience. And the effect of firm *B*'s status on firm *A*'s performance depends on the perception of audience *a*. In this case, the target audience *a* is not the current coverage audience *b* of firm *B*. Because audience *a* does not cover firm *B*, *a* is likely to bear more uncertainty on *B* and take cues of *B* such as its status. The current coverage audiences are still important for the firm's existing businesses, but not relevant for its business in the new market.

of them. Under such a condition, the target audiences are less sensitive to that firm's status. A firm's status, in other words, becomes less appealing when there is a larger overlap between target audiences and coverage audiences. Therefore, I propose that *a firm's status has a weaker effect on target audiences who are more overlapping with its coverage audiences*. In the following section, I apply this theoretical proposition into the context of corporate acquisition (Cowen, 2012; Shen et al., 2014) and formulate testable hypotheses. In particular, I discuss how the status of an acquirer affects the market reactions of its target firm's investors to the announcement of acquisition. I also emphasize the contingence role of investor overlap, which determines the extent to which a target's investors are sensitive to the status of its acquirer.

----------*INSERT FIGURE 2 HERE*----------

Hypotheses Development: Corporate acquisition, Status, and Investors

Corporate acquisition

Acquisition serves as an essential strategy for a corporate to reach complementary resources, diversify businesses, realize scale of economy, or decrease competition intensity. Yet, acquisition is not without risk. Due to information asymmetry, an acquirer may overestimate the value of targets and overpay transaction prices (Ziegler, 1996; Kim, Haleblian, and Finkelstein, 2011). It is also uncertain whether or not the acquiring and target firms are able to create synergy after an acquisition (Brush, 1996; Cowen, 2012), which may otherwise undermine the post-performance of both.

Acquisition will not only affect the long-term post-performance of acquirers and targets in terms of innovation (Ahuja and Katila, 2001) and economic return (Healy, Palepu, and Ruback, 1992; Haleblian and Finkelstein, 1999), investors in the financial market are also quite

sensitive to the announcements of acquisition deals and tend to make an immediate reaction (Capron and Pistre, 2002). That is because acquisition is perceived as a crucial event for both acquirer and target (Shen et al., 2014). Investors must make trading decisions about their stocks right after the announcements. Yet, the effect of acquisition in the product and financial markets is quite complex such that markets may react both positively and negatively to the event (King, Dalton, Daily, and Coven, 2004). So more research is needed to look beneath the surface.

Acquirer status and market reaction

Recent studies discover that firm status plays a significant role in determining the outcome of acquisition (Cowen, 2012). Firm status is important in corporate acquisition because of both the uncertainty involved with acquisition process and the uncertainty faced by investors in the financial market in evaluating acquisition deals (Shen et al., 2014). I argue that the market return to a target as of the announcement of acquisition is positively related to its acquirer's status, for the following reasons. First, corporate acquisition may be constructed as a form of interorganizational endorsement (Cowen, 2012) so that high-status acquirers signal the high quality or potential of target firms. As an acquisition is announced, investors try to accurately estimate the effect of acquiring firm on the market value of target firm and make reactions in a short time. Doing so requires the investors to have a clear evaluation of the acquirer's quality. However, the market is not completely transparent and information is not perfectly symmetric (Schijven and Hitt, 2012). It is usually hard for the investors to judge the acquirer's quality unambiguously. The status of an acquirer thus becomes an important reference for investors' evaluation and decision making (Shen et al., 2014) because status is a more observable signal for

quality (Podolny, 1993).[6] High-status acquirers are perceived as being capable of identifying potential opportunities, providing superior resources (Benjamin and Podolny, 1999), and managing interfirm relations (Ertug and Castellucci, 2010). Thus, being picked up and acquired by a high-status corporate conveys to investors the fact that the target has a valuable accreditation by a prestigious and influential market actor, so that the investors may react more positively to the acquisition event and upgrade their evaluation on the target. Accordingly, a target firm may expect a more positive market return after announcing that it is acquired by a high-status corporate. For instance, target firms are likely to get positive reactions when announcing that they are about to be acquired by corporations like Google or Apple, as compared to less prestigious ones.

Second, high-status acquirers are more likely to complete acquisition deals. Although one may assume that acquirers strive to complete an acquisition conditional on having made the initial public announcement (Muehlfeld, Sahib, and Witteloostuijn, 2012), many deals are abandoned even after announcement. Investors' reactions to an acquisition are contingent on their assessments regarding the likelihood of an acquiring firm to complete the deal. When expecting a deal likely to be abandoned, investors would not initiate substantial reactions to it or even penalize it. I propose a higher likelihood of high-status acquirers to complete acquisitions because they are capable of conducting thorough acquisition preparation. Prior to public announcement, acquirers need to conduct evaluation such as strategic positioning, target selection, due diligence, and preparations for integration (Haspeslagh and Jemison, 1991). Deals are abandoned often because of acquirers' misevaluation and under-preparation. High-status acquirers are usually able to compose better acquisition teams, accumulate more acquisition

[6] Status is highly correlated with quality so that people consider status as a reliable signal of quality. However, they are loosely coupled such that status is not equated with quality (See Podolny (2005) for a detailed discussion).

experiences, and develop relevant routines, so that they are more likely to make thorough and accurate evaluation and preparations prior to announcement. High-status acquirers are thus less likely to abandon deals because of misevaluation or under-preparation. Moreover, high-status acquirers are reluctant to abandon deals because of their status anxiety. Terminating acquisition deals potentially impairs the status and credibility of a firm (Luo, 2005). High-status acquirers are more concerned with status loss, because they are more susceptible to status loss and would perform less well than low-status firms who suffer a comparable loss of status (Marr and Thau, 2014). As a result, high-status acquirers are more conservative, and tend to avoid activities that may negatively affect their status (Jensen, 2006). Thus, high-status acquirers would avoid abandoning acquisition deals, as compared to low-status ones. For the two reasons together, I argue that high-status acquirers are likely to complete acquisitions, which further enhances investors' positive assessments.

Finally, an acquirer's status may affect the market returns to its target through the acquisition premium paid. The market returns of targets are largely determined by the amount of premiums paid by acquirers, as evidenced by many empirical tests (e.g. Shen et al., 2014). High premium may signal the high potentials of target firms. High-status acquirers may tend to pay high premiums because they have more financial resources than low-status ones. However, if premiums offered to target firms are considered as low-quality decision making, high-status acquirers would not pay high premiums because of their strong acquisition capabilities as discussed above. Therefore, it is difficult to specify a direct effect of acquirer status on acquisition premium because of the two competing logics. However, considering the importance of premium on the market returns to target firms, I empirically control for premium in a direct way. In doing so, I rule out the mixing effects of premium, and I argue that acquirer status would

positively affect targets' market returns through the interorganizational endorsement effect and its effect on completion likelihood. See Hypothesis 1:

> *Hypothesis 1: Controlling for acquisition premium, there is a positive relationship between acquirer status and the market return to target.*

Acquirer status and investor overlap

The effect of an acquirer's status is contingent on the uncertainty experienced by its target's investors. When an acquirer takes various targets, it would speak to different groups of investors. In Figure 1, if firm *B* acquires firms *A* and *C*, it speaks to investors *a* and *c*, respectively. When a target's investors are more familiar with the acquirer, they confront less uncertainty and are thus less sensitive to its status. I argue that the degree of investor overlap determines the extent to which a target's investors are uncertain about its acquirer. When the investor overlap increases, a large proportion of a target's investors covering the acquirer, those investors would have gathered more information about the acquirer. Information can reduce the uncertainty experienced by the investors, so that they become less sensitive to the acquirer's status. In this case, the acquirer's status would exert a weaker effect in affecting the market return to the target.

Investor overlap may be determined by both the industry and geographic positions of acquiring and target firms. First, investor overlap changes with industry relatedness. Investors and security analysts in stock markets usually specialize by industries (Zuckerman, 1999). Each industry attracts a set of investors. When a target is taken by a corporate from a related industry, their investor overlap is large because they are likely to share similar sets of investors and analysts (for instance, *Youtube* is likely to share similar investors with *Google*). Put differently, the investors of acquiring and target firms are more overlapping if they reside in related

industries. And information about the acquirer would become more available to the investors of the target. If so, the target's investors could evaluate the acquirer less ambiguously, and thus refer less to its status for decisions. The status of the acquirer becomes less appealing to the target's investors, and the endorsement effect of the acquirer to the target is hence weakened. In contrast, investors for unrelated industries are often divergent (Zuckerman, 1999). When being acquired by a corporate from an unrelated industry, a target's investors are less likely to have been covering the acquirer. Information asymmetry and uncertainty, accordingly, rise for the target's investors when evaluating the acquirer. They may start to rely more on the acquirer's status to perceive its quality. If so, the endorsement effect of the acquirer to the target is strengthened. Therefore, I hypothesize that

> *Hypothesis 2: The positive relationship between acquirer status and the market return to target is weaker when there is a larger industry relatedness between acquirer and target.*

Investor overlap may also change with geographic distance between acquirer and target firms. Investors in the stock market tend to specialize by regions because they exhibit a strong preference for local investments (Ivokovic and Weisbenner, 2005). They usually generate more returns from their local holdings relative to their nonlocal holding because investors possess significant informational advantages in evaluating nearby investments (Coval and Moskowitz, 2001) and can exploit local knowledge. Since investors are localized, the investor overlap between acquiring and target firms would be large when they are proximate in geography (e.g., *Coca-Cola Company* is likely to share more investors with *Delta Air Lines*, as compared to *British Airways*). When a target is taken by a corporate in the vicinity, the investors of the target are likely to have acquired more information about the acquirer. The investors would be less uncertain about the quality of the acquirer, so as to become less sensitive to the acquirer's status.

Hypothesis 3: The positive relationship between acquirer status and the market return to target is weaker when acquirer and target firms are geographically proximate.

Methods

Sample

I tested hypotheses with corporate acquisitions of the U.S. public firms occurring from 1990 through 2014 in the database of ThomsonOne Banker. Consistent with previous studies (Shen et al., 2014), I excluded special deals that involve minority stake purchases, acquisition of remaining interest, privatizations, leveraged buyouts, spinoffs, recapitalizations, self-tenders, exchange offers, and repurchases. I collected fundamental financial data from COMPUSTAT, the information of stock market return from EVENTUS, and the data of security analyst coverage from I/B/E/S. Matching data of different sources and excluding observations with incomplete information, I ended up with a dataset of 3,697 acquisition deals for estimations.

Dependent variable

Cumulative abnormal return (CAR). I measured the market return to target by calculating cumulative abnormal stock market return to a target for each corporate acquisition announcement. CAR is the most frequently employed stock market performance measure in a particular event analysis (Gulati, Lavie, and Singh, 2009; King et al., 2004; MacKinley, 1997) such as M&A (Shen et al., 2014; Liu, Taffler, and John, 2009), reflecting the *ex-ante* market-based measure of unexpected return for a firm participating in an acquisition deal. So CAR can reflect the extent to which investors react to acquisition events, which is consistent with my theoretical assumption. In addition, stock market prices reflect the subjective perceptions of heterogeneous audiences, neatly quantified and aggregated (Westphal and Zajac, 1998). It is

measured as the actual returns for a firm during a given period minus expected returns, where expected returns are determined by the overall performance of the market and the extent to which the firm's returns were correlated with the market in the past. In particular, I calculated the CAR for target *i* over the period (t-1, t+1) as

$$CAR_{t-1,t+1} = \sum_{t-1}^{t+1} a_{it},$$

where a_{it} is the abnormal return of target *i* at day *t*. Consistent with previous research on market reaction to event, I measured CAR from the day before the announcement through the day after it (Sharkey, 2014; Shen et al., 2014). The data was collected from *EVENTUS*. Firm-level explanatory variables were all measured at one year before acquisition announcement.

Independent variables

Acquirer status. The widely used network centrality (Podolny, 1993; Pollock, Lee, Jin, and Lashley, 2015) is less feasible for measuring status here because it is impractical to construct comparable network matrix across many industries. When analyzing firms from various industries, scholars often use external coverage as an indicator of firm status or prominence (e.g. Shen et al., 2014; Tan, 2015). Accordingly, I measured status using the number of sell-side security analysts that covered a firm in a particular year. High-status firms usually receive more attention and rewards from markets (Jensen, 2006), and analyst coverage is hence a good indicator as it reflects the amount of attention and recognition that a firm receives from markets (Collet and Philippe, 2014). That is, high-status firms are expected to receive large analyst coverage (Jensen and Roy, 2008), while low-status firms attract fewer security analysts to

follow. Although the number of analysts depends on many factors, it is widely used as a proxy of firm status (e.g. Jensen, 2004; Pollock and Gulati, 2007; Collet and Philippe, 2014).[7]

I collected the data on analyst coverage from I/B/E/S database. I counted the number of analysts providing recommendation reports for acquirer *i* each year *t-1*, regardless of the content of reports (Jensen, 2006; Pollock and Gulati, 2007), and matched it with the acquisition announcement of year *t* that involved firm *i*. I did not make a distinction between positive and negative reports because most analyst coverage is positive (Jensen, 2006). Analyst coverage is hence always "a good sign" (Chang et al., 2006; Shen et al., 2014). Jensen also (2004: 300) [8] argued that, analysts are extremely reluctant to provide negative reports and would rather drop the coverage of firms they have lost confidence in than issue sell recommendations, which could jeopardize relationships with the poorly performing firm. The status of firms without any analyst reports was coded as zero. I made logarithmic transformation of it for analysis because the raw measure is largely skewed.[9]

However, many other factors in addition to status may determine analyst coverage. Thus, following previous studies, (e.g. Shen et al., 2014), I regressed analyst coverage with firm size and performance at first and used the residual of analyst coverage as a proxy for firm status. Particularly, I used an acquirer's total assets and ROA as the indicators for its size and financial performance, respectively. But the financial data for acquirers is limited in this dataset so that the

[7] I emphasize here that analyst coverage is a good indicator for status, regardless the cause-effect relationship between status and coverage. In other words, coverage is effective as status measure, as long as they are highly consistent with each other, no matter if status causes coverage or coverage leads to status. While the causal relationship between status and coverage is far more complicated and out of the scope of this paper, it is more intuitive and reasonable that coverage results from status, rather than the other way around. This view is also consistent with prior studies on this issue (Shen et al., 2014; Collet and Philippe, 2014; Tan, 2015). So my arguments here emphasize that high coverage is the result of a firm's high status.

[8] Sell recommendations accounted for less than 5 percent of all recommendations in 1996 (Phillips and Zuckerman, 2001).

[9] One is added to all the raw status values before logarithmic transformation, making it possible to transform zeros.

sample would be largely biased (over one third of the sample would be dropped). To avoid the bias due to missing data, I set missing values of total asset and ROA to be 0 and defined two corresponding dummy variables *missing total assets* and *missing ROA*, respectively, as 1. This is a typical way of dealing with missing values in econometrics (e.g. Singh, 2008). By ruling out the effects of firm size and performance, the status measure should be more robust. In an additional analysis not reported here, I used as status measure the simple number of analysts instead of the regression residual, and found consistent results.

In order to validate the status measure of analyst coverage, I compared it to *Fortune's Most Admired Companies* name list, which is widely used as the indicator for firm reputation (Fombrun and Shanley, 1990; Philippe and Durand, 2011). Although there may be a distinction between economists' notion of reputation and sociologists' notion of status (Washington and Zajac, 2005), they are also found to be highly correlated (e.g. Pollock et al., 2015) since they both reflect the perceived quality of firms (Podolny, 1993). Scholars often use status and reputation interchangeably (e.g. Erden et al., 2015: 254). Thus, if the status measure here is valid, it should be consistent with the reputation rankings (Shen et al., 2014). I collected the *Fortune's Most Admired Companies* name list 2009-2012, and found that firms included in the list have significantly higher status than others ($t = 3.923$; $d.f. = 298$; $p = 0.0001$), hence confirming its validity.

Industry relatedness. Like prior studies (e.g. Haleblian and Finkelstein, 1999), I measured industry relatedness in two different ways. First, I defined a dummy of *same industry*, being 1 if acquirer and target firms a same three-digit standard industry code. I used the three-digit level

because this middle range of aggregation provides a more useful rendering of the analyst coverage structure (Zuckerman, 1999) and industry distinction.[10]

While this classification scheme created a dichotomous measure, both industry relatedness and investor overlap may vary across industries. To capture the variation, I developed a continuous measure, *analyst overlap*. While it is impossible to map the distribution of all investors, I focused on the distribution of analysts both because it can well reflect investors' distribution and because analysts usually specialize by industries (Zuckerman, 1999) that serves well for the operationalization of industry relatedness. Moreover, analyst coverage has also been found highly correlated with other types of coverage such as media coverage (Shen et al., 2014), thus indicating its representativeness. I first identified analysts covering the industry of a target firm, by searching for all analysts that covered at least one firm sharing the same three-digit SIC code with the target at year *t-1*. I then checked whether each of those analysts also covered the industry (three-digit SIC) of its acquirer at year *t-1*. An analyst was thus identified as an overlapping one if he or she covered both the industries of acquiring and target firms. Thus, I measured analyst overlap as

$$Analyst\ overlap_{\ mn,\ t\text{-}1} = \frac{Analyst\ coverage_{mn,t-1}}{Analyst\ coverage_{\ m,t-1}},$$

where $Analyst\ overlap_{\ mn,\ t\text{-}1}$ refers to the audience overlap between target industry *m* and acquirer industry *n* at year *t-1*; $analyst\ coverage_{\ mn,\ t\text{-}1}$ is the number of analysts covering both industry *m* and *n*; and $analyst\ coverage_{\ m,\ t\text{-}1}$ refers to the number of all analysts covering target industry *n*.

[10] By contrast, aggregation at two-digit level may not only produce a highly skewed distribution of analysts, it also clusters firms with substantial different business activities together. Conversely, aggregation at four-digit level generates too many industries, each of which has a very small number of public firms and analysts (Zuckerman, 1999).

Geographic proximity. I used two ways of measuring geographic proximity. First, I defined a dummy variable of *same state,* denoting 1 if acquirer and target firms locate in the same states in the U.S., and 0 otherwise. Second, I used a continuous variable of state distance, measuring the geographic distance between acquirer and target's states. In particular, I collected the average latitude and longitude for U.S. states, and use the following formula (Sorenson and Stuart, 2001):

$$d_{ij}=C\{acrcoss[sin(lat_i)sin(lat_j)+ cos(lat_i)cost(lat_j)cos(|long_i-long_j|)]\},$$

where latitude (lat) and longitude (long) are measured in radians and C is 6,371 (kms) and represents the constant based on the radius of the globe that converts the result into linear units of measure.

Control variables

I controlled for a set of variables including both deal- and firm-level features. *Acquisition premium* is a key factor affecting acquisition performance because the premium paid by an acquirer to its target has a great impact on the market response to both firms. A larger premium may infer the low-quality decision making of the acquirer (e.g. Sirower, 1994; Laamanen, 2007; Schijven and Hitt, 2012), but is good news for the target (Shen et al., 2014). A targets' CAR is thus likely increased with a higher premium paid by its acquirer. However, because a large proportion of data on acquisition premium is not available, I set missing values of acquisition premium to be 0, defined one corresponding dummy variable *Missing premium* as 1, and included both variables in estimates as suggested by prior studies (e.g. Singh, 2008)[11].

[11] In an additional analysis not reported here, I exclude both variables for acquisition premium, and find highly consistent results.

I included acquiring firms' *acquisition experiences*. Acquirers with more acquisition experiences in the past may be perceived with stronger capabilities in dealing with interorgnizational relationship (Kim et al., 2011; Gulati et al., 2009), so that the market may react more positively to the acquisition announcements by them. I measured acquisition experiences by the number of targets that an acquirer has taken over before the focal year.

I controlled for the financial situation of a target, by including *target asset* as the indicator of its size and scale, *target ROA* as the indicator of performance and profitability, and *target debt ratio*, in one year before the acquisition announcement. I also included a dummy variable, *poison pill*, indicating if a target has a poison pill policy. The poison pill, or shareholder rights plan, is a security issued by the board of directors in order to make hostile acquisition more difficult by largely increasing the potential cost a hostile acquirer needs to pay (Davis, 1991). Thus, a target with poison pill policy may devalue the announcement. The *target share price* one day prior to announcement was included because a firm's current market value may influence its potential to grow or decline in future. Similarly, I controlled for the size and profitability of an acquirer, by including its *acquirer assets* and *acquirer ROA*[12], because they may affect the market reaction to the target firm. I controlled for the *number of bidders* for the deal. Promising deals may attract more bidders to compete for acquisition.

----------*INSERT TABLE 1 HERE*----------

Statistics analysis

[12] As stated early, I set missing values of total asset and ROA to be 0, defined two corresponding dummy variables missing total assets or missing ROA, respectively, as 1 (e.g. Singh, 2005), and included those variables in the models.

Table 1 reports descriptive statistics and correlations. There are about 54.2% within-industry acquisitions. It is also worth noting that acquirer status has the largest correlation with acquisition experiences[13], and is negatively related to acquisition premium.

In this study, I analyze the impact of an acquirer status on the stock market return to its target firm. However, the deals between acquirer and target do not occur randomly. For example, an acquirer may be more likely to take over targets that locate in close regions or with related businesses (Chakrabarti and Mitchell, 2015). If this endogeneity issue is not properly addressed, my analysis may be biased. I hence used the Heckman two-stage procedure (Heckman, 1979) to correct the potential bias. I pooled all acquirers and targets by announcement years. Any acquirers with deal announcements in a particular year were considered as facing the risk of forming acquisition deals with any targets that were acquired in the same year. That is, an acquirer with deal in 1995 is likely to take over any potential targets that were acquired in 1995. With the pooled dataset (*N=744,701*), I predicted why an acquirer took over a particular target rather than others. Based upon previous studies, I included the following predictors: *status difference*, *same industry*, and *same state* between acquirer and target, which represent the distances between acquirer and target in the social (Podolny, 1994), business, and geographic dimensions (Chakrabarti and Mitchell, 2013; King et al., 2004), respectively. *Status difference* was calculated by subtracting target status from acquirer status, which were measured in the same way. More precisely, I regressed acquirer status with target status, and used the residual as the measure for status difference. *Same state*, a dummy variable equaling to 1 if acquire and target locate in the same state of U.S., was used as an instrument variable, which likely affects

[13] However, it is difficult to assert the causality between acquirer status and acquisition experiences. Both directions seem reasonable that high status firms are more likely to conduct acquisitions and that firms may accumulate status through acquisitions. Although the causality between status and acquisition experience is not the focus of this study, it is an important question to be answered.

the likelihood of acquisition deal (Chakrabarti and Mitchell, 2013), but unlikely influences the market return to targets.

Results for the first stage model are reported in Table 2. As expected, both same industry ($\beta = 0.682$, $p < 0.01$) and same state ($\beta = 1.165$, $p < 0.01$) have a significantly positive effect upon the likelihood of acquisition; while status difference shows a negative effect ($\beta = -0.041$, $p < 0.01$). This analysis generated an Inverse Mills' ratio, which denotes the hazard of non-selection. I included it into the latter models for hypotheses testing.

----------*INSERT TABLE 2 HERE*----------

I used a multi-level mixed-effects model to test hypotheses because acquirer firms are nested within industries and therefore are not independent of each other (Rabe-Hesketh and Skrondal, 2008). Specifically, I specified a three-level model with random intercepts at both the acquirer industry and acquirer firm levels and with year fixed effects (Arregle, Miller, Hitt, and Beamish, 2013). Specifying random intercepts at the acquirer firm level also enables me to compare the market returns to different targets of one acquirer, consistent with my theoretical framework. The intraclass correlation tests (ICC) comparing the three-level models with one-level ordinary linear regression models are significant, which suggests that the three-level mixed-effects approach is appropriate. I also reran the analyses with simple OLS and clustered standard errors by acquirer firm (Shen et al., 2014), and found similar results.

Results

Table 3 reports regression results for hypotheses testing. Model 1 includes only control variables, which perform mostly as expected. For instance, both *acquisition premium* and *acquisition experiences* are positively related to *CAR*, which is consistent with results in prior

research (e.g. Shen et al., 2014). Model 2 includes *acquirer status*, which is significantly positive ($\beta = 0.009$, with $p < 0.05$). One standard deviation change (*S.D = 0.920*) in *acquire status* would lead to about 0.8% increase of target's *CAR*. The effect size is not marginal, considering the mean and standard deviation of *CAR* are 18.4% and 24.3%, respectively. The effect size becomes even stronger in later models with interaction terms included. The baseline Hypothesis 1 is hence supported.

----------*INSERT TABLE 3 HERE*----------

While I found a significant effect of acquirer status on target's CAR, it is worth noting that the correlation between CAR and acquire status is not significant (r=0.005) in Table 1. In an additional analysis, I tried to understand what causes the effect to become statistically significant in my regressions. First, I included only acquirer status without any control variables. Then I added control variables separately, in order to see which control variable(s) interacts with acquirer status causing the effect to become significant. Through the iterative process, I identified two control variables important for the effect of acquirer status: *target share price* one day prior to announcement and *acquisition premium*. As shown in Table 4, the effect of acquirer status is nonsignificant and even marginally negative in Model 7 without any control variables. It turns to positive ($\beta = 0.008$; p=0.073) in Model 8 including *target share price*, and becomes more significantly positive ($\beta = 0.009$; p=0.012) in Model 9 that adds *acquisition premium*. And the effects of both *target share price* and *acquisition premium* on target CAR are highly significant ($p<0.001$). Such results suggest that when analyzing the effect of status on CAR, it is statistically important to control for target share price and acquisition premium. The importance of target share price and acquisition premium is quite reasonable. Target share price one day prior to announcement is intuitively important for CAR because the increase or decrease of a

company's market value at *t* is dependent on its value at *t-1*. In other words, a target with a high prior share price (or market value) would usually have less growth potential than one with a low or undervalued share price. The effect of acquisition premium on CAR is also quite reasonable as discussed earlier because a high acquisition premium is good news for targets as evidenced (Shen et al., 2014).

----------*INSERT TABLE 4 HERE*----------

Interaction effects were introduced in separate models in accordance with prior studies (e.g. Stuart, 1999; Gulati et al., 2009) in order to avoid multicollinearity. Model 3 includes *same industry*, and its interaction with *acquirer status*. The interaction term is marginally negative (β = -0.013, with $p < 0.1$), while the main effect of acquirer status remains significantly positive. It means that although acquirer status is generally beneficial for all targets, the effect is weaker for within-industry deals. Model 4 includes *analyst overlap*, and its interaction with *acquirer status*. The interaction term is negative (β = -0.016) and significant ($p < 0.05$). It implies that the effect of acquirer status becomes weaker when there is a larger analyst overlap between acquirer and target firms. Thus, I conclude that Hypothesis 2 is marginally supported when measuring industry relatedness as same industry, and is largely supported when measuring it as analyst overlap.

To better interpret the size of interaction effects, I plotted the predicted value of CAR in Figure 3, based on the results of Table 3. I used the values of one standard deviation below (i.e. low level) and above (i.e., high level) the mean of *acquirer status*, the dichotomous values of *same industry*, and the minimum and maximum values of *analyst overlap*.[14] Those plotted figures further illustrate that the effect sizes of interactions are quite substantial.

[14] I did not use the values one standard deviation below (i.e. low level) and above (i.e., high level) the mean of overlap variables, because the values of one standard deviation above the mean would exceed maximum (i.e., 1.00).

----------*INSERT FIGURE 3 HERE*----------

Model 5 includes *same state*, and its interaction with *acquirer status*. The interaction term is negative as argued, which means that the effect of acquirer status is weaker for within-state deals, as compared to cross-state deals. Model 6 includes *state distance*, and its interaction with *acquirer status*. The interaction is positive, consistent with my argument that geographic distance (proximity) makes the effect of status stronger (weaker). Both effects, however, are nonsignificant at $p<0.1$ level. Hypothesis 3 is hence not supported with either measure.

Additional analysis

I employed several additional analyses to check the sensitivity of my results. To ensure that the findings are not biased by the choice of the three-day observation window, I tried two alternative windows, which observed the cumulative abnormal returns from the day prior to announcement through the day of announcement (Gulati et al., 2009) and from two days prior to announcement through two days after it, respectively. As reported in Table 5, Models 10-14 used a two-day window, and Models 15-19 employed a five-day window to calculate target CAR. The results are mostly consistent with prior findings.

----------*INSERT TABLE 5 HERE*----------

In addition, recent studies emphasize that it is the status difference between acquirer and target, rather than the status of acquirer per se, that affects acquisition performance (Shen et al., 2014). Status difference creates an unambiguous power order between acquirer and target so as to decrease the potential conflicts during interorganizational coordination (Cowen, 2012). If so, the effect of status difference should be more likely to occur after a certain time period of cooperation and coordination between acquirer and target. That is, conflicts associated with

status similarity are less likely to emerge immediately after the announcement of an acquisition deal, without any actual coordination. However, external investors may have accumulated the experience that status difference is important for the success of acquisition deals (Shen et al., 2014), so they are sensitive to status difference shortly after deal announcement. Therefore, I replaced *acquirer status* with *status difference*, repeated all regression models, and reported the results in Table 6. Results are similar to my findings regarding acquirer status in Table 3. Those results also confirm that outsiders favor organizational status (of acquirer firm) the most, even after taking the status of target firm into consideration.

----------*INSERT TABLE 6 HERE*----------

Finally, I tried to differentiate between the different potential causes for higher CARs associated with status. In other words, which theoretical mechanism(s) I argued for Hypothesis 1 explains the positive effect of acquirer status on target CAR? In this additional analysis, I aim to understand whether the stock prices right after M&A announcements are systematically above or below acquisition bids. Specifically, I collected data on targets' stock prices one day and two days after the announcements from the CSPR database, and compared them to the acquisition bids offered by acquirers. If the prices are above acquisition bids, it would mean that the stock market may expect that the high status acquirers are more likely to increase the bids than low-status ones, which ultimately leads to larger target CARs. On the other hand, if the prices are systematically below the acquisition bids, it would mean that high-status acquirers get lower bid discount. Lower discount may suggest that the stock market expect the high-status acquirers to be more likely to complete the M&A deals than low-status ones. Whereas both mechanisms are consistent with my empirical findings, differentiating between the potential causes helps enrich our theoretical understanding.

We calculated the ratios between stock prices after announcement and acquisition bids, and then made t-test to compare the ratios with one. Results are reported in Table 7. As shown in Panel A, the stock prices in the full sample are on average slightly lower than the acquisition bids, after one day and two days of announcement (ratio=0.902 and 0.924, respectively)[15]. But the differences between the two ratios and one are nonsignificant at $p<0.1$ level. I then split the sample by mean acquirer status. The stock prices for high-status acquirers are marginally above bids (ratio=1.124, p=0.140 after one day; ratio=1.172, p=0.079 after two days); while the stock prices for low-status acquirers are significantly below bids (ratio=0.616, p=0.0003 after one day; ratio=0.610, p=0.0004 after two days). And in the last column, the differences between price-to-bid ratios with high-status acquires and those with low-status acquirers are statistically significant. Altogether, such findings mean that the stock market provides systematically larger bid discount to deals with low-status acquirers, but not for those with high-status acquirers. This may imply that the market expects that low-status acquirers are less likely to complete the deals than high-status acquirers. Panel B repeats all analyses but splits the sample by median acquirer status, and provides consistent results. Confirming the lower bid discount associated with status, however, cannot fully reject the alternative mechanism because both effects could work at the same time. My research design does not allow me to completely tease them apart, thus suggesting an important direction for future research.

----------*INSERT TABLE 7 HERE*----------

Discussion

[15] I chose to use the window of one and two days after announcement, to keep consistent with the CAR calculation in this study. The number of observations are slightly different due to missing value.

This study employs an audience-based perspective to analyze the effect of status. While scholars have widely recognized uncertainty as the key scope condition for status to take effect (Podolny, 1993), limited attention has been paid to the heterogeneity of uncertainty across market audiences, with a few exceptions (e.g. Lynn et al., 2009). In this study, I highlight that audiences differ in the scope of firms and industries they cover. An audience may have more information and bear less uncertainty when evaluating firms under its coverage than other firms out of coverage. With such logic, I have stressed that the effect of status differs across audiences, and is more appealing to outside audiences. By examining corporate acquisitions in the U.S., I find that while an acquirer' status has a positive effect on the market performance of its target in general, the effect is stronger when there is lower industry relatedness between the acquirer and the target. It is consistent with my argument that the effect of status is contingent on the overlap between the investors covering the acquirer and the investors covering the target. However, the moderation effect of geographic proximity is not supported. This study provides important implications to both status theory and M&A literature in different ways.

Implications for status theory

First, the findings imply that outsiders favor an organization's status the most. Although status is commonly defined as a firm's social position within its focal industry (Podolny, 1993; Jensen and Roy, 2008), status is effective in other industries as well. For instance, the status of commercial banks is meaningful in both commercial banking and investment banking industries (Jensen, 2003). However, we do not know whether and how its effect differs across industries. Extending this line of work, this study shows that status exerts a stronger effect outside the focal industry. It implies that, to obtain more profit from its status, a firm may be encouraged to

initiate some businesses in distance, where audiences bear more uncertainty of evaluating its actual quality. For instance, if French customers are already capable of accurately evaluating wine, it may be difficult for prestigious wineries (e.g. *Château Lafite Rothschild*) to make extra profits from their status. However, prestigious wineries may charge abnormally high prices when entering into Asia market (e.g. *China*) where customers face more uncertainty on wine evaluation. When an author is awarded with the *Nobel* prize (status upward-shift), his or her books would become more appealing to all readers. However, such effect may be weaker for the readers who have been following him or her for long and know clearly the quality of the books.

To a certain extent, the findings initiate a debate with the research on category (Zuckerman, 1999; Hsu, 2006; Smith, 2011). A firm is usually not encouraged to diversify businesses into different categories, which may discount its legitimacy in markets and make its identity ambiguous. However, I find that the effect of a firm's status is stronger in other categories (industry) and weaker in its focal category. This may imply that audiences of its focal category may gradually gather more information and accumulate more experience on a firm, which exhausts the value of its status (Jensen, 2003). In that sense, in order to take the advantage of status, it may be both beneficial and necessary for high-status firms to span categories.

Finally, this study provides important implications to status transfer between firms. Status transfer has been identified as a key mechanism to explain status dynamics (Podolny and Phillips, 1996; Cowen, 2012). Scholars tend to assume that status transfer is symmetric and a zero-sum game. However, the asymmetry of audience overlap (as shown in Figure 2) may imply an asymmetric status transfer between organizations. When two firms form a relationship, the status is often transferred asymmetrically in between. If so, status transfer between partners should not be a zero-sum game. The asymmetry of status transfer demands theoretical extension.

Implications for M&A literature

This study also contributes to the behavioral perspective on investor reactions to acquisition announcements (Schijven and Hitt, 2012). First, I highlight an acquirer's status as an important signal for the quality and potential of the M&A deal, to which investors may refer in order to reduce information asymmetry. The strong effect of acquirer status on target CAR implies that a target's investors are indeed quite sensitive to its acquirer's status. An additional analysis further shows that the positive relationship between target CAR and acquirer status is likely to be explained by a systematically larger bid discount (compared to the actual bid) for M&A deals with low-status acquirers. This suggests that the stock market may expect that low-status firms are less likely to complete the deal than high-status firms.

Second, while existing literature emphasizes information asymmetry between management and investors, I highlight that investors may get access to unequal information so that information is also asymmetrically distributed among investors. Studies on M&A announcements focus mainly on the features of deals and the characteristics of acquirers and targets, but have overlooked the heterogeneity of investors in the market. This study provides preliminary evidence on the importance of investor coverage and heterogeneity. However, more theoretical development and empirical testing is required on the feature and difference of investors.

Finally, this study implies that industry is a better proxy for the segmentation of investors, as compared to geography. I discuss investor overlap from two dimensions: industry and geography. While the effect of industry relatedness is significant, I did not find support for the effect of geographic proximity. It suggests that industry classification can better infer the

distribution and segmentation of investors, even though investors also tend to specialize their investments by geographical regions (Ivokovic and Weisbenner, 2005)

Limitations and future research

Although this study has multiple implications for literature and practice, I also recognize some limitations that open up interesting avenues for future research. First, I explicitly assume that investors have equal information on a firm if they cover it. This assumption ignores the heterogeneity of investors in terms of their experience and expertise. An experienced investor should have more information on a firm than an inexperienced one even though they both cover the firm. Similarly, experienced investors with broad expertise may know the quality of a firm even though they do not cover it.

Second, this study implicitly assumes that industries are homogenous in many aspects. Some industries (e.g. internet or retail) are more transparent to general audiences than others (e.g. laser), so that audiences or investors would know the quality of firms in such industries even if they are not covering the industries or the firms. Under such a situation, the effect of audience overlap would be reduced.

Third, while this study focuses on the heterogeneity of audiences within one group (i.e. investors), I do not pay attention to the heterogeneity of different audience groups. Investors may experience different uncertainty from suppliers or customers. Future studies may compare different groups of audiences to see whether and how the effect of status differs across them.

Fourth, while I examine hypotheses within the U.S. corporate acquisition context in order to control for the confounding effect of countries, this single research setting limits the generalizability of findings.

Finally, in addition to the audience overlap that I emphasize in this study, it is also necessary for future studies to deepen status research by incorporating recent progress of the signaling theory. As Connelly et al. (2011) reviewed, there are multiple aspects that influence the effect of signal, such as signalers, receivers, signal, feedback, and signaling environments. This study focuses on receivers, i.e. investors, while many other aspects remain underexplored. For instance, the robustness and consistency of status may be important factors for its effect.

Despite the aforementioned limitations, this study emphasizes the heterogeneity of audiences, argues that audiences would confront less uncertainty when evaluating firms under their coverage than those not, and stresses that status may exert different effects across audiences in one group (i.e. investors). Empirical results from the U.S. M&A deals support my theory.

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Table 1. Descriptive statistics and correlations

Variable	Mean	S.D.	Min	Max	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1. CAR	0.184	0.243	-0.951	3.050																
2. Acquirer status	0.000	0.920	-2.846	2.205	0.005															
3. Same industry	0.542	0.498	0.000	1.000	-0.010	0.079														
4. Analyst overlap	0.662	0.440	0.000	1.000	-0.009	0.089	0.835													
5. Same state	0.308	0.462	0.000	1.000	-0.007	-0.101	0.041	0.076												
6. State distance	4.875	3.347	0.000	9.073	0.005	0.112	-0.042	-0.084	-0.972											
7. Acquisition experiences	0.682	0.958	0.000	4.454	0.039	0.226	0.027	0.088	-0.041	0.005										
8. Target Asset[a]	5.772	2.016	0.431	13.929	-0.099	0.095	0.086	0.112	0.009	-0.046	0.299									
9. Target ROA	0.778	0.846	-0.202	10.352	0.016	-0.018	-0.108	-0.180	-0.192	0.218	-0.235	-0.289								
10. Number of bidders	1.074	0.321	1.000	6.000	-0.044	-0.011	0.030	0.020	-0.018	0.018	-0.045	0.089	0.037							
11. Poison Pill	0.006	0.077	0.000	1.000	-0.014	-0.011	0.008	0.000	-0.036	0.038	-0.005	0.028	0.037	0.048						
12. Target debt ratio	0.602	0.300	0.000	4.204	-0.032	-0.159	0.040	0.089	0.104	-0.150	0.186	0.412	-0.148	-0.012	-0.032					
13. Target share price[a]	2.634	0.962	0.058	6.957	-0.160	0.148	0.032	0.061	0.012	-0.036	0.238	0.577	-0.184	0.020	0.029	0.142				
14. Acquisition premium	0.285	0.384	-0.952	5.677	0.579	-0.029	0.001	-0.010	0.009	0.000	-0.043	-0.114	0.020	0.048	0.015	-0.041	-0.179			
15. Acquirer ROA	0.476	0.754	-0.012	17.735	0.043	0.000	-0.065	-0.054	-0.131	0.148	-0.130	-0.146	0.453	0.007	0.011	-0.187	-0.082	0.017		
16. Acquirer Asset[a]	5.264	4.025	0.000	14.598	0.081	0.000	0.000	0.177	-0.030	0.020	0.267	0.272	-0.110	-0.012	-0.001	0.099	0.201	-0.025	0.272	
17. Status difference	0.000	0.840	-2.996	2.764	0.018	0.914	0.068	0.075	-0.067	0.063	0.248	0.110	-0.031	-0.010	-0.027	0.000	0.124	-0.023	-0.037	-0.022

[a] logarithmic transformation

Significance at $p<0.05$ level if value in absolute way is larger than 0.04

Table 2. First-stage of Heckman selection model: Predicting the likelihood of deals between acquirer and target

Variables	Coefficients
Status difference	-0.041***
	(0.007)
Same industry	0.682***
	(0.015)
Same state	1.165***
	(0.013)
Constant	-2.897***
	(0.085)
Log likelihood	-19,871
Pseudo R^2	0.202
Observations	744,701

Standard errors in parentheses
*** p<0.01, ** p<0.05, *p<0.1

Table 3. Multiple level regressions with selection bias correction

VARIABLES	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Acquirer status		0.009**	0.017***	0.020***	0.011**	0.005
		(0.004)	(0.006)	(0.006)	(0.005)	(0.007)
Same industry			-0.013			
			(0.011)			
Acquirer status × Same industry			-0.013*			
			(0.007)			
Analyst overlap				-0.017*		
				(0.010)		
Acquirer status × Analyst overlap				-0.016**		
				(0.008)		
Same state					-0.003	
					(0.008)	
Acquirer status × Same state					-0.007	
					(0.008)	
State distance						-0.000
						(0.001)
Acquirer status × State distance						0.001
						(0.001)
Acquisition experiences	0.011***	0.009**	0.009**	0.009**	0.009**	0.009**
	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
Target Asset	-0.012***	-0.013***	-0.012***	-0.013***	-0.013***	-0.013***
	(0.002)	(0.002)	(0.003)	(0.003)	(0.003)	(0.003)
Target ROA	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
Number of bidders	-0.044***	-0.044***	-0.044***	-0.044***	-0.044***	-0.044***
	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)
Poison Pill	-0.061	-0.059	-0.055	-0.055	-0.059	-0.058
	(0.041)	(0.041)	(0.041)	(0.041)	(0.041)	(0.041)
Target debt ratio	0.003	0.006	0.006	0.006	0.006	0.006
	(0.014)	(0.014)	(0.014)	(0.014)	(0.014)	(0.014)
Target share price	-0.009*	-0.009**	-0.009**	-0.009**	-0.009**	-0.009**
	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
Acquisition premium	0.355***	0.356***	0.355***	0.355***	0.356***	0.356***
	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)
Acquirer ROA	0.005	0.005	0.006	0.005	0.005	0.006
	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
Acquirer Assets	0.010***	0.011***	0.011***	0.011***	0.011***	0.011***
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Inverse Mills ratio	0.023	0.027	0.068	0.065*	0.033	0.019
	(0.029)	(0.029)	(0.048)	(0.039)	(0.034)	(0.034)
Constant	0.137**	0.144**	0.133**	0.141**	0.143**	0.148**
	(0.064)	(0.064)	(0.065)	(0.064)	(0.064)	(0.065)
Wald chi2	2,230	2,237	2,245	2,249	2,239	2,239
AIC	-1,682	-1,685	-1,686	-1,688	-1,682	-1,681
BIC	-1,421	-1,417	-1,409	-1,408	-1,402	-1,402
Dummies for missing values	Yes	Yes	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes
Observations	3,697	3,697	3,697	3,697	3,697	3,697

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 4. Additional analysis on the main effect of acquirer status

VARIABLES	Model 7	Model 8	Model 9
Acquirer status	-0.001	0.008*	0.009**
	(0.005)	(0.005)	(0.004)
Target share price		-0.044***	-0.019***
		(0.004)	(0.004)
Acquisition premium			0.356***
			(0.009)
Constant	0.182***	0.296***	0.131***
	(0.007)	(0.013)	(0.012)
Observations	3,697	3,697	3,697

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 5. Additional analysis with alternative windows for target CAR

VARIABLES	Model 10	Model 11	Model 12	Model 13	Model 14	Model 15	Model 16	Model 17	Model 18	Model 19
Acquirer status	0.007*	0.015***	0.017***	0.012**	-0.001	0.012***	0.020***	0.023***	0.012**	0.009
	(0.004)	(0.006)	(0.006)	(0.005)	(0.007)	(0.004)	(0.006)	(0.007)	(0.005)	(0.007)
Same industry		-0.000					-0.015			
		(0.011)					(0.012)			
Acquirer status × Same industry		-0.016**					-0.015**			
		(0.007)					(0.007)			
Analyst overlap			-0.004					-0.017		
			(0.010)					(0.011)		
Acquirer status × Analyst overlap			-0.015*					-0.017**		
			(0.008)					(0.008)		
Same state				-0.012					-0.005	
				(0.009)					(0.009)	
Acquirer status × Same state				-0.015**					-0.003	
				(0.008)					(0.008)	
State distance					0.001					-0.000
					(0.001)					(0.001)
Acquirer status × State distance					0.002					0.001
					(0.001)					(0.001)
Acquisition experiences	0.010**	0.010**	0.010**	0.010**	0.010**	0.006	0.006	0.006	0.006	0.006
	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
Target Asset	-0.005**	-0.005**	-0.005**	-0.005**	-0.005**	-0.014***	-0.014***	-0.014***	-0.014***	-0.014***
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
Target ROA	0.007	0.007	0.007	0.006	0.007	0.001	0.002	0.001	0.001	0.001
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
Number of bidders	-0.033***	-0.033***	-0.033***	-0.034***	-0.034***	-0.041***	-0.041***	-0.041***	-0.041***	-0.041***
	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)
Poison Pill	-0.060	-0.058	-0.058	-0.060	-0.060	-0.045	-0.041	-0.041	-0.046	-0.045
	(0.042)	(0.042)	(0.042)	(0.042)	(0.042)	(0.043)	(0.043)	(0.043)	(0.043)	(0.043)
Target debt ratio	-0.010	-0.011	-0.011	-0.011	-0.011	0.012	0.011	0.011	0.012	0.012
	(0.014)	(0.013)	(0.013)	(0.014)	(0.014)	(0.014)	(0.014)	(0.014)	(0.014)	(0.014)
Target share price	-0.006	-0.006	-0.006	-0.006	-0.006	-0.011**	-0.011**	-0.011**	-0.011**	-0.011**
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
Acquisition premium	0.262***	0.261***	0.261***	0.262***	0.262***	0.345***	0.344***	0.344***	0.345***	0.345***
	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)
Acquirer ROA	0.009	0.010*	0.010*	0.009*	0.009*	0.006	0.007	0.006	0.006	0.006
	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
Acquirer Assets	0.007***	0.007***	0.007***	0.007***	0.007***	0.013***	0.013***	0.013***	0.013***	0.013***
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Inverse Mills ratio	0.003	-0.001	0.009	0.025	0.013	0.021	0.069	0.059	0.032	0.018
	(0.029)	(0.048)	(0.039)	(0.034)	(0.034)	(0.030)	(0.050)	(0.040)	(0.035)	(0.035)
Constant	0.170***	0.174***	0.174***	0.166**	0.162**	0.131*	0.118*	0.128*	0.129*	0.132*
	(0.065)	(0.066)	(0.065)	(0.065)	(0.066)	(0.067)	(0.068)	(0.067)	(0.067)	(0.068)
Wald chi2	1,177	1,184	1,183	1,184	1,181	1,959	1,967	1,969	1,960	1,959
AIC	-1,570	-1,572	-1,571	-1,573	-1,570	-1,367	-1,369	-1,369	-1,363	-1,363
BIC	-1,304	-1,293	-1,291	-1,293	-1,290	-1,099	-1,090	-1,090	-1,084	-1,083
Dummies for missing values	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	3,697	3,697	3,697	3,697	3,697	3,697	3,697	3,697	3,697	3,697

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Models 10-14 use a two-day window to calculate CAR; and Models 15-19 use a five-day window to calculate CAR.

Table 6. Additional analysis with status difference

VARIABLES	Model 20	Model 21	Model 22	Model 23	Model 24
Status difference	0.012***	0.021***	0.022***	0.014***	0.008
	(0.004)	(0.006)	(0.007)	(0.005)	(0.007)
Same industry		-0.014			
		(0.011)			
Status difference × Same industry		-0.015**			
		(0.008)			
Analyst overlap			-0.017*		
			(0.010)		
Acquirer status × Analyst overlap			-0.015*		
			(0.008)		
Same state				-0.003	
				(0.008)	
Status difference × Same state				-0.006	
				(0.008)	
State distance					-0.000
					(0.001)
Status difference × State distance					0.001
					(0.001)
Acquisition experiences	0.008*	0.008*	0.008**	0.008*	0.008*
	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
Target Asset	-0.013***	-0.012***	-0.013***	-0.013***	-0.013***
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Target ROA	-0.001	-0.001	-0.001	-0.001	-0.001
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
Number of bidders	-0.044***	-0.044***	-0.044***	-0.044***	-0.044***
	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)
Poison Pill	-0.057	-0.054	-0.054	-0.057	-0.057
	(0.041)	(0.041)	(0.041)	(0.041)	(0.041)
Target debt ratio	0.003	0.003	0.003	0.003	0.003
	(0.014)	(0.014)	(0.013)	(0.014)	(0.014)
Target share price	-0.009**	-0.009**	-0.009**	-0.009**	-0.009**
	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
Acquisition premium	0.356***	0.355***	0.355***	0.356***	0.356***
	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)
Acquirer ROA	0.006	0.006	0.006	0.006	0.006
	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
Acquirer Assets	0.011***	0.011***	0.012***	0.011***	0.011***
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Inverse Mills ratio	0.028	0.072	0.067*	0.034	0.021
	(0.029)	(0.048)	(0.039)	(0.034)	(0.033)
Constant	0.143**	0.130**	0.138**	0.142**	0.147**
	(0.064)	(0.065)	(0.064)	(0.064)	(0.065)
Wald chi2	2,245	2,253	2,255	2,245	2,245
AIC	-1,689	-1,690	-1,691	-1,686	-1,686
BIC	-1,422	-1,411	-1,411	-1,406	-1,406
Dummies for missing values	Yes	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes	Yes
Observations	3,697	3,697	3,697	3,697	3,697

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 7. Above or below acquisition bids

Panel A.	All firms	High status firms	Low status firms	Difference
Ratio between price one day after announcement and acquisition bid	0.902 (0.081)	1.124 (0.115)	0.616 (0.112)	0.508*** (0.163)
t-test between ratio and one	p=0.113	p=0.140	p=0.0003	
No. of observations	3,045	1,712	1,333	
Ratio between price two days after announcement and acquisition bid	0.924 (0.085)	1.172 (0.121)	0.610 (0.116)	0.561*** (0.171)
t-test between ratio and one	p=0.188	p=0.079	p=0.0004	
No. of observations	2,880	1,612	1,268	

Panel B.	All firms	High status firms	Low status firms	Difference
Ratio between price one day after announcement and acquisition bid	0.902 (0.081)	1.135 (0.122)	0.668 (0.107)	0.466** (0.162)
t-test between ratio and one	p=0.113	p=0.135	p=0.001	
No. of observations	3,045	1,523	1,522	
Ratio between price two days after announcement and acquisition bid	0.924 (0.085)	1.193 (0.129)	0.656 (0.111)	0.538*** (0.170)
t-test between ratio and one	p=0.188	p=0.078	p=0.0014	
No. of observations	2,880	1,440	1,440	

Standard errors in parentheses; *** p<0.001, ** p<0.01

Figure 1. Audience coverage

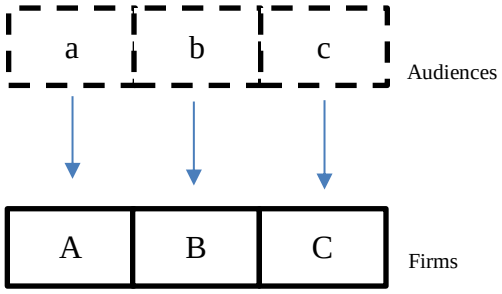

Figure 2. Audience overlap between firms *I* and *II*

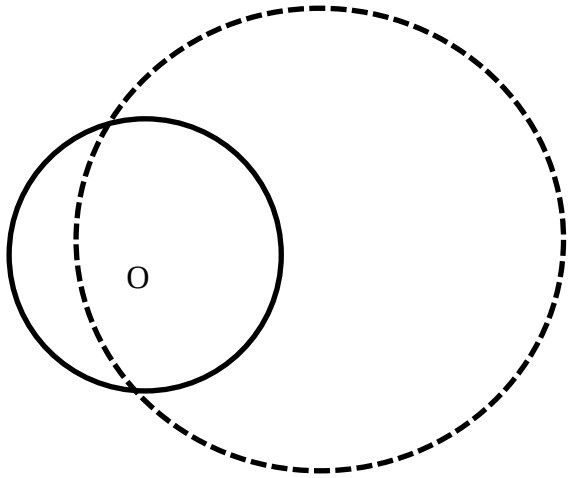

Figure 3a. Interaction with same industry

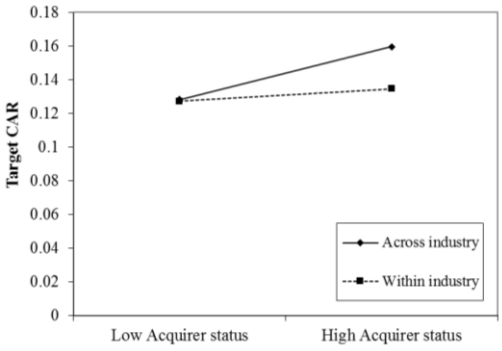

Figure 3b. Interaction with I-I overlap