Ready, AIM, Acquire: Impression Offsetting and Acquisitions

ABSTRACT

Drawing on expectancy violation theory, we explore the effects of anticipatory impression management in the context of acquisitions. We introduce impression offsetting, an anticipatory impression management technique organizational leaders employ when they expect a focal event will negatively violate the expectations of external stakeholders. Accordingly, in these situations, organizational leaders will announce the focal event contemporaneously with positive, but unrelated information. We predict impression offsetting will generally occur in the context of acquisitions, but also more frequently for specific acquiring firms and acquisitions that are more likely to lead to an expectancy violation. We also posit that offsetting will effectively inhibit observers’ perceptions of events as negative expectancy violations by positively influencing shareholder reactions to acquisition announcements. Consistent with our hypotheses, in a sample of publicly traded acquisition targets, we find evidence for impression offsetting, in which characteristics of both acquirers and their announced acquisitions predict its frequency of use. We also find evidence that impression offsetting is efficacious; on average, it reduces the negative market reaction to acquisition announcements by over 40 percent, which translates into approximately $246 million in market capitalization.

Key words: Perception, information processing, and attributions; acquisitions; event study; organization and management theory.