Corporate Purpose and Acquisitions

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This study analyzes the relationship between acquisitions—a centerpiece of corporate strategy—and employees' sense of purpose. Using data from nearly 1.5 million employees across more than one thousand firms and 831 deals, we find that purpose is substantially lower in companies following recent acquisitions. This association is driven by deals in industries not commonly targeted by firms in the acquirer's home industry and by deals whose rationales are disclosed using generic, uninformative language. We explore the performance implications of this link. The component of purpose directly attributable to deal attributes strongly predicts subsequent performance, suggesting that the fit between acquisitions and purpose is financially material for firms. Altogether, this study provides evidence on the link between corporate strategy and purpose: acquisitions and employee's sense of purpose are interrelated, and this relationship has important performance consequences for the firm.

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This study examines the relationship between acquisitions and the sense of purpose within organizations. Within the foundational organizational studies during the early to mid-20th century, purpose played a central role in differentiating firms from markets (Barnard, 1938; Selznick, 1948). Whereas markets are guided by price signals and contractible exchange, firms are endowed with the capacity for "purposive adaptation" (Ghoshal and Moran, 1996) in which members act according to a shared aim. Purpose was more than merely a shared organizational objective, but instead comprised the transcendent reason for which the organization exists. As Chester Barnard wrote in rapturous terms in 1938 (pg 283-284), the ultimate role of the executive was to instill a shared purpose inside the organization:

> Leadership…is the indispensable social essence that gives common meaning to common purpose, that creates the incentive that makes other incentives effective…to bind the wills of men to the accomplishment of purposes beyond their immediate ends, beyond their times.

In other words, purpose is "the incentive that makes other incentives effective," the motive force driving collective behavior inside firms.

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

In this study, we refocus attention on purpose and apply it as a lens to study acquisitions. Acquisitions are core to corporate strategy, and provide discrete actions to study relative to purpose. Acquisitions allow companies to develop or deploy capabilities (Karim and Mitchell, 2000; Kaul and Wu, 2016; Ahuja and Katila, 2004), expand and grow (Capron and Mitchell, 2012; Hitt, Hoskisson, and Ireland, 1990), and re-position themselves in the market (Anand and Singh, 1997; Lee and Lieberman, 2010). However, from the acquiring firm's perspective, value is famously difficult to realize from these transactions (Feldman, 2020; King et al, 2004).

This study aims to demonstrate that acquisitions and purpose are linked, and that this link is an important, and overlooked, factor in acquisition success. The underlying reasoning is fairly straightforward: acquisitions alter the set of activities and employees within firm boundaries. This altered set, in turn, may affect the collective understanding of the purpose of the enterprise, with implications for downstream performance of the deal. This reasoning, while not directly observable to us, is consistent with our primary finding: acquisitions that lead to a stronger sense of purpose are also those that outperform, and those that lead to a weaker sense of purpose do not.

While practitioner interest in corporate purpose has increased substantially over the past twenty-five years (Ernst & Young and Oxford Said Business School, 2016), empirical research on the topic has been constrained by measurement challenges. Corporate purpose is inherently intangible and firm-specific, while large sample studies require measures that are both measurable and comparable across firms. Carefully crafted articulations of purpose and values at the corporate level are generally considered non-credible cheap talk (Guiso, Sapienza, and Zingales, 2015; Michaelson, Lepisto, and Pratt, 2020) and therefore unsuited for these types of studies.

To address this challenge, we construct a measure of purpose using actual employee perceptions, via a survey of nearly 1.5 million employees across 1,058 companies, following the approach of Gartenberg, Prat and Serafeim (2019). The logic behind this measure is that credibly implemented corporate purpose – while not directly observable to the empirical researcher – will result in employees holding stronger beliefs, in aggregate, in the meaning and impact of their work. We therefore infer the effectiveness of the corporate purpose of the entity via the aggregate strength of these self-reported beliefs.

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

Not all deals are associated with weaker purpose, however. We find that approximately 35% of our acquisitions actually associated with *higher* purpose post-deal. Notably, common predictors of deal value such as acquirer age, experience, deal relatedness and deal type (c.f. Haleblian et al, 2009), do not predictors of corporate purpose. We do find two deal attributes that predict weaker purpose post-deal: opaque deal rationales and unique industry combinations. We consider deals to have opaque rationales when the acquirers' public statements employ generic, uninformative language in explaining management's objective for the deal. This negative relationship may reflect leaders either unwillingness or inability to articulate a clear rationale for the deal, thereby eroding employees' confidence in the purpose of their collective enterprise. We consider deals to involve unique industry combinations when the acquired company's industry is not commonly targeted by firms in the acquirer's home industry. This negative relationship is particularly strong when the deal is also unique relative to the firm's own prior acquisitions. This result suggests that employees' sense of purpose may be particularly weakened when firms engage in strategies that are fundamentally different from their peers and from what the employees themselves have experienced.

This latter finding suggests a potential tension between strategic and human capital considerations in acquisitions. From the strategic perspective, companies aim for unique positions from which to compete in the market (Barney, 1986; Lippman and Rumelt, 2003). From a human capital perspective, however, uniqueness may undermine employees' view of the organization's purpose. This tension represents an internal analog to the "uniqueness paradox" proposed by Litov, Moreton and Zenger (2012). In their initial formulation of this paradox, uniqueness, while strategically valuable, is difficult for external analysts to interpret and hence is subject to a market discount. Our results suggest that uniqueness may also pose a challenge for employees to interpret, particularly those employees in lower organizational ranks who were likely uninvolved in the acquisition decision and do not have access to the same information as those in senior ranks. This information asymmetry between the executives and their employees may be particularly pronounced in unique deals for which there is little precedent with which to interpret the deal. We provide additional evidence in support of this interpretation after presenting our main findings.

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

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

This research makes the several contributions to corporate strategy research. First, we contribute to the call from King et al. (2004) to study new mechanisms underlying acquisition value. In doing so, our study joins a burgeoning effort that examines institutional and non-market factors (Kaul, Nary, and Singh, 2017; Bettinazzi and Zollo, 2017; Haleblian, Pfarrer, and Kiley, 2017; Hernandez and Feldman, 2020) and that goes inside the firm as a black box to examine the role of individuals relative to formal organizational structure and processes (Meyer-Doyle, Lee and Helfat, 2018; Chen, Huang and Meyer-Doyle, 2017; Shi, Zhang and Hoskisson, 2017). In this study, we consider the role of purpose and specifically how deals relate to the perceptions of corporate purpose by employees.

Second, this study contributes to research on corporate purpose. The role of corporate purpose in organizations can be traced to the inception of organization research (Barnard, 1938; Selznick. 1957) through a more recent resurgence (Bartlett and Ghoshal, 1994; Ghoshal, Bartlett and Moran, 1999; Edmans 2020; Quinn and Thakor, 2019). Large sample empirical work on corporate purpose is relatively

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nascent, given the challenges of measuring corporate purpose in a credible and comparable way. This work has found a link between corporate purpose and firm performance (Gartenberg, Prat and Serafeim, 2019) and ownership structure (Gartenberg and Serafeim, 2020). Our work provides support for the proposition, first set forth by Barnard (1938) and subsequently by Ghoshal, Bartlett and Moran (1999) that organizations distinguish themselves from markets through their capacity to instill a shared purpose among members, and this institutional difference is critical to account for in assessing strategic outcomes.

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

Theoretical development

What is corporate purpose?

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

Corporate purpose, effectively implemented, creates a shared sense of meaning within the organization. In doing so, it plays several roles in relation to the firm. First, it serves as a motivator for the

members of the organization. Individuals, intrinsically driven by meaning (Frankl, 1946), look for purpose in their daily work (Blau and Scott, 2003; Pratt and Ashforth, 2003; Wrzesniewski 2003; Grant et al, 2007; Burbano, 2016). Leaders endow the organization's collective work with meaning (Podolny et al, 2004; Carton et al, 2014; Carton 2018), which in turn influences the perceptions of the members of the organization. Second, corporate purpose establishes a shared set of beliefs about the collective direction of the firm. This coordination around a common purpose can be particularly important as firms grow in size and complexity (Ghoshal, Moran, and Almeida-Costa, 1995) to enable, in Hayek's words, an institutional context that motivates "individuals to do desirable things without anyone having to tell them what to do (Hayek, 1945: 527)." Finally, purpose also reinforces organizational identity and identification by members (Henderson and van den Steen, 2015; Akerlof and Kranton, 2005) by helping define "who we are." Identification, in turn, helps in altering the relevant frame from the individual to the group, such that members of the organization consider the overall interests of the group, in addition to their own, when choosing their actions. In performing these three functions, purpose can exert a powerful influence on the members of an organization, beyond the traditional incentive effects considered in standard theories of firm when distinguishing between markets and hierarchies (Ghoshal, Bartlett, and Moran, 1999; Henderson, 2020; Gartenberg and Zenger, 2020).

How does corporate purpose relate to strategy?

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

As the "why" and the "what" underlying companies, corporate purpose and strategy are interdependent constructs. Since corporate purpose is inherently intangible, strategy endows it with

credibility. Strategic decisions are generally costly and involve commitment (Ghemawat, 1991), such as the choices of which customers to serve and what products to offer. As such, these decisions constitute the type of signals critical to render purpose credible (Henderson, 2020; Henderson and van den Steen, 2015). The example of CVS halting all sales of nicotine projects is an instance of a strategic action that cost CVS an estimated $2 billion in annual sales aimed at reinforcing the company's purpose of "helping people on their path to better health."[2]

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

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

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

> "In '92, we used to talk even about our mission — for example as having a PC in every home and every desk. Except by the end of the decade itself, we had more or less achieved it. Then what? What's next? And that's when I felt like we may have confused marketing slogans for our mission. So that's why I wanted get back to that sense of purpose.…When we walk about our mission of empowering every person and every organization on the planet to achieve more, [it] can't be just a set of words. It has to in some sense capture the very essence of who we are in all of the decisions we make, in the products we create and how we show up with our customers."[3]

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[2] https://cvshealth.com/about-cvs-health/our-purpose#:~:text=Every%20one%20of%20us%20at,%2C%20accessible%2C%20simple%20and%20seamless, Accessed October 22,2020., https://www.forbes.com/sites/brucejapsen/2017/02/20/after-cvs-stopped-cigarette-sales-smokers-stopped-buying-elsewhere-too/?sh=509e7e12c8f5, accessed November 9, 2020.
[3] "Microsoft's CEO on helping a faded legend find a 'sense of purpose'", CNET, August 20, 2018

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

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

Why might corporate purpose be linked to acquisitions?

Given the relationship between strategy and corporate purpose, acquisitions should likewise be related to corporate purpose. Acquisitions are often intrinsically strategic in nature, and sometimes profoundly so. Companies often use acquisitions to adjust their strategic positions by entering markets (Lee and Lieberman, 2010), gaining new capabilities or extending existing capabilities into new areas (Capron and Mitchell, 2012; Hitt, Hoskisson, and Ireland, 1990; Helfat et al, 2007; Kaul and Wu, 2016), acquiring new technologies and resources (Karim and Mitchell, 2000; Ahuja and Katila, 2001; Puranam, Singh, and Zollo, 2006; Sears and Hoetker, 2014; Graebner, Eisenhardt, and Roundy, 2010), or strengthening their network position (Hernandez and Menon, 2018; Hernandez and Shaver, 2019). For example, when Amazon acquired a small online pharmacy, Pillpack, for only $753 million in 2018, the *Wall Street Journal* reported that the shares of top companies in each of three related industries – pharmacies, insurance, and drug wholesalers – fell by approximately 5 percent upon deal announcement.[4] This deal, while relatively small in scale, had such a substantial impact across these multiple industries because it was perceived as core to Amazon's strategy to challenge the entire healthcare sector much as it had challenged much of retail two decades earlier. Indeed, two years later Amazon announced Amazon Pharmacy using the skills obtained in the acquisition, and the stocks of pharmacy leaders fell again by 9-16 percent.[5]

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[4] https://www.wsj.com/articles/amazon-to-buy-online-pharmacy-pillpack-1530191443
[5] https://nypost.com/2020/11/17/amazon-pharmacy-announcement-sends-stocks-of-drugstore-chains-tumbling/

Acquisitions are also particularly credible commitments by firm leaders: they are typically costly, visible, and hard to reverse (Ghemawat, 1991). Following the logic of Henderson and Van den Steen (2015), therefore, they are likely to be interpreted by employees through the lens of purpose, with employees updating their beliefs about the organization's purpose based on the perceived consistency or inconsistency of the acquisition with that purpose. Lastly, acquisitions may also relate to purpose by affecting organizational identification. Acquisitions have been shown to influence identification among employees in both the target and acquiring firm (Giessner, Ullrich, and van Dick, 2011). Often, this influence is negative in that employees often more weakly identify with the new organization than with either of the legacy organizations.

Acquisitions may plausibly be followed by either stronger or weaker corporate purpose. If the acquisitions are perceived as consistent with, and a costly declaration of, the espoused purpose, then purpose will arguably be strengthened following these events. Alternatively, purpose may also be weaker following an acquisition because the expanded set of activities following the deal is perceived to be inconsistent with the corporate purpose as espoused by leaders or obfuscate that purpose. These effects were experienced by one of the study authors prior to entering academia. The author was a senior employee of a technology company with a strong service-focused purpose that acquired a leading creative agency with a strong artist-focused purpose. The incompatibility between these two purposes frustrated and confused employees from both sides of the acquisition. Despite the clear strategic synergies of the deal, employees complained that they "no longer knew what the company stood for."[6] This incompatibility contributed to an exodus of top employees from both legacy organizations.

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

Research questions

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[6] Author personal communication

Our analysis is structured by three research questions.[7] To begin, we seek to understand the average association between acquisitions and purpose. From the discussion above, acquisitions may either enhance or dilute purpose within organizations. Further, given that acquisitions are conscious choices of firm managers, who presumably account for the impact on purpose in their choices, it is unclear what this relationship will be in equilibrium. The association between acquisitions overall and corporate purpose, therefore, is an open empirical question guided by the following research question:

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

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

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

For our third and final research question, we explore the link between deal attributes, purpose, and firm performance. This approach is motivated by a sizeable literature that has consistently demonstrated the effects of deal characteristics on firm performance (Singh & Montgomery, 1987; Haleblian & Finklestein, 1999; Zollo & Singh, 2004). Here we distinguish between the portion of purpose that is ascribable to deal attributes, *purpose (deal)*, and the portion of purpose that is not, *purpose (residual)*. We are primarily interested

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[7] Because of the exploratory nature of our study, we adopt an abductive approach to the analysis, as advocated by King, Goldfarb, and Simcoe (2019), Heckman and Singer (2017), and Gelman and Imbens (2013). This choice is primarily driven by the large sample nature of our study. While purpose is fundamentally intangible in nature, both our dependent and explanatory measures must be standardized across firms, rendering them blunter than those deployed in lab studies of individuals or in large sample studies of more tangible phenomena. Our approach is to present empirical patterns using the measures available and motivated by targeted research questions, followed by interpretations of those patterns.

in how *purpose (deal)* predicts performance; that is, how the portion of purpose that is predicted directly by the deal attributes relates to the downstream performance of the acquiring firm.[8]

It is not ex ante clear what this exploration should find. On the one hand, we know that, on average, corporate purpose increase performance (Gartenberg, Prat and Serafeim, 2019). If that mechanism is universal, then both *purpose (deal)* and *purpose (residual)* should positively predict performance. Stated differently, if this relationship is positive, it would provide evidence that deals that positively predict purpose are also those that perform well. On the other hand, an acquisition may instead reflect a painful repositioning of the firm that ultimately benefits the company but weakens the sense of corporate purpose in the process. In that case, we might expect to find a negative relationship between *purpose (deal)* and performance, while the relationship between *purpose (residual)* remains positive, providing evidence that the acquisitions that lead to lower purpose in the short to medium term are ultimately beneficial for firms. It is unclear which of these two effects predominates. As such, we pose the following question:

Research question 3: How does purpose (deal) predict performance?

Note that our research questions employ associative, rather than causal, language. We choose this approach to account for the absence of an exogenous source of variation in acquisition choice within our setting that would enable clean identification of a treatment effect of acquisitions on corporate purpose and subsequence performance. Cognizant of this limitation, we base our research questions and analysis on conditional correlations, which we then follow with a discussion of plausible interpretations of these correlations.

Methods

Empirical approach

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

We address the three research questions above with a three-part empirical analysis. The first part of our investigation employs a firm-year panel to examine the average effect of acquisition on corporate purpose. The second part of the analysis explores the heterogenous effect of acquisitions on corporate purpose, which we implement by constructing a deal-level data set to examine how industry, firm, and deal characteristics predict post-acquisition corporate purpose following acquisitions. In the third part, we focus on examining the performance implications of deal characteristics. We chose to focus on deal characteristics since we believe these results would shed light on managerial practice.

Sample

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

The primary data source that underlies our empirical investigation is the GPTW survey administered by The Great Place to Work Institute and used to compile the Fortune Magazine's annual "100 Best Companies to Work For" list. It is an employer-employee matched large scale survey data where hundreds of firms and tens of thousands of employees participate in annually across the U.S. This data has been used in various studies (e.g. Guiso et al., 2015; Garret et al., 2014) and further details of the data are described in Gartenberg et al. (2019). Through our data agreement with the Institute, we acquired access to the complete survey data from 2006 to 2017 across all companies that applied to the Fortune list, regardless of whether they were ultimately selected or not.[9]

The GPTW survey has two components: the Trust Index© (TI) and the Culture Audit© . The TI survey, the data source that we use to calculate corporate purpose, is an employee survey of beliefs and

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[9] Although data on corporate purpose is available for all these years, data on acquisitions was missing for the entirety of the year 2008.

attitudes regarding their workplace. To qualify for submission the survey must be randomized and stratified across job level, which include hourly employees, middle managers and supervisors, salaried professional and technical workers, and executives and senior managers.[10] The survey consists of 57 items on a 5-point Likert-like scale where 1 corresponds to "almost always untrue" and 5 corresponds to "almost always true". A second component of the GPTW survey, The Culture Audit Survey© (CAS), contains information about a firm's industry affiliation, location of headquarters, employee composition, and compensation policy. We used information on the CAS, in addition to publicly available data on Compustat, to construct control variables for empirical analyses. The sample contains 2,732 firm-year observations that were aggregated from 1,509,797 survey responses from full time employees. We use this data for Part 1 of our empirical investigation.

Respondents to this survey are firms with more than 1,000 workers that have been in existence for at least 7 years, and have self-selected into the survey because they believe they have a chance to be featured in the Fortune list. Our results are thus most applicable to large and well-managed firms. While this is not representative of the universe of firms, they tend resemble the firms that are more likely to acquire (Villalonga & McGahan, 2005). Hence, we are confident in the generalizability of our results.

We manually merge the GPTW data with SDC Platinum to construct a deal-level data set. SDC Platinum is a comprehensive database that contains detailed information on corporate transactions and is a data source that is commonly utilized by strategy researchers to study mergers and acquisitions (Villalonga & McGahan, 2005; Haleblian & Finklestein, 1999).The CAS contains a section related to the acquisition activity of the firm. We utilize responses on the item "Has your company acquired any companies or merged with any other companies since [date][11]?" to filter the firm-year cases where we conducted manual deal search in SDC. A follow-up question asked, "If yes, which companies were involved?". Based on responses on this question, we manually searched for the deals in SDC. A deal is included in our sample if 1) the name of the acquiring ultimate parent or acquiring subsidiary matches

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[10] Note that it also includes sales and commissioned roles, but we exclude from this study for expositional simplicity
[11] In the data that we received from the Institute, there was an error on this date. We believe this error engendered as a result of coding error in the data processing instead of the data collection. When we examined the data, close to 98% of the deals mentioned in any given firm-year is happened within the last 3 yeas.

with the company name reported on the CAS; and 2) the name of the targeted ultimate parent or targeted subsidiary matched with the names of the involved companies reported in the CAS. In the CAS, 858 firm-year observations responded yes to the first question and 1,451 deals were mentioned in total. We managed to find 834 of these deals on SDC that were mentioned in 441 firm-year observations. The majority (735 out of 834) of the deals involved a private target where information such as the valuation of the target, the premium paid, and size of the target are not available. Our analysis is thus limited to the deal characteristics where SDC has data on. We use this data for Part 2 and Part 3 of our empirical investigation.

Dependent Variable

The main dependent variable of our study is corporate purpose. We based our measure on operationalization on Gartenberg et al. (2019), where they demonstrated the construct validity of the measure in relation to firm performance. Using 53 of the 57 questions on the TI survey,[12] we conducted an exploratory factor analysis that, consistent with Gartenberg et al. (2019), yields four factors that explains the variance across survey items. One factor, which Gartenberg et al (2019) labels "Purpose-Clarity", is adopted in this study as the measure of corporate purpose. The factor includes four items, which constitutes the "meaning" component, that relate to the meaning of an individual's work and three items, which constitutes the "clarity" component, that captures the extent to which management provides clear direction, job responsibilities, and tools that help employees to reach their desired outcomes. Gartenberg et al. (2019) provides a more detailed discussion of this measure as well as exposition on other factors that emerged from the exploratory factor analysis. Items of the "meaning" component are "My work has special meaning: this is 'not just a job'", "When I look at what we accomplish, I feel a sense of pride", "I feel good about the ways we contribute to the community", and "I'm proud to tell others I work here". Items of the "clarity" component are "Management has a clear view of where the organization is going and how to get there", "Management makes its expectations clear", and "Management makes its

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[12] Four items were excluded as they relate to overall outcome measures.

expectations clear". These components fit in well with the existing work on meaningful work (Pratt & Ashforth, 2003; Rosso, Dekas, & Wrzesniewski, 2010), where work is both purposeful and significant to the worker. To construct a firm-year level measure of corporate purpose, we aggregated responses on the Purpose-Clarity factor across all individuals within a firm for any given year. Using the job level information on the CAS, we also constructed measures of corporate purpose that is specific to a job level for each firm-year.

Explanatory Variables

In Part 1 of our empirical investigation, we are interested in the average effect of acquisitions on corporate purpose. The main explanatory variable is whether a firm has engaged in an acquisition. We utilized data on the merger and acquisition section of the CAS (see the Sample section) and constructed a binary variable to represent whether a firm had reported being involved in a recent acquisition.

In Part 2, we are interested in the heterogenous effect of acquisition on corporate purpose that emanates from variability in industry, firm, and deal characteristics. Since this study is the first to examine the effect of acquisitions on corporate purpose, we have not hypothesized how specific variables might have a positive or negative effect on corporate purpose. Instead, we adopt an abductive approach (Heckman & Singer, 2017) and consider a collection of "suspect" explanatory variables that might be relevant to the dependent variable and examine their effects without an a priori theory. The choice of explanatory variable examined is mainly guided by prior research that has established a collection of factors at different levels of analysis that are known to shape acquisition outcomes (see Haleblian et al., 2009 and Feldman & Hernandez, 2020 for reviews). Nonetheless, our empirical investigation is limited by the availability of data. We detail the construction of the variables examined in the following.

Industry Characteristics. We examined the effect of three industry characteristics on the effect of acquisition on corporate purpose. First, we are interested in examining the level of concentration in the acquirer's industry. We measured *acquirer industry concentration* by calculating the Herfindahl index of firm-level sales in the acquirer's 4-digit SIC (Bettinazzi and Zollo, 2017). We also examined the acquisition intensity in the acquirer and target industries. Since mapping SIC codes into the entirety of SDC is challenging and prone to error, we utilized the Thomson Reuter mid-level industry classification

to construct both *acquirer industry acquisition intensity* and *target industry acquisition intensity*. We counted the total

number of deals occurred in the acquirer and target industry over 3 years prior to the deal (Li, Peng,

Yang, & Sun, 2009)[13][14].

Firm Characteristics. Since it is well-known that large acquirers with superior firm

performance tend to attain better acquisition outcomes (Hayward & Hambrick, 1997; Kim et al., 2011),

we examine the role of both firm size and firm performance in shaping the purpose outcome following

acquisition. Following prior research, we measure firm size with the number of employees (denoted by

employees) as reported in the CAS survey and *assets* owned as reported in Compustat. We used *return on assets*

to measure firm perforamnce[15]. In addition, studies have also found that acquisition experience do play a

role in shaping acquisition outcomes (Haleblian, Kim, & Rajagopalan, 2006; Ellis et al., 2011). We

measured an acquirer's *acquisition experience* by counting the number of acquisitions a firm has conducted

over the last 3 years.

In the following we detail the deal-level characteristics that we examine in our analyses.

Deal Relatedness. Deal relatedness is a construct that is central to M&A research. Relatedness

has often been considered a source of synergy in acquisitions (Singh & Montgomery, 1987). Following

prior studies (Hayward & Hambrick, 1997; Hitt, Hoskisson, & Kim, 1997; Haleblian & Finklestein, 1999),

we constructed two variables to measure deal relatedness. A binary variable which we call *related* is

constructed to indicate deals where the acquiring firm and the target share the same 4-digit SIC code. A

binary variable which we call *unrelated* is constructed to indicate deals where the acquiring firm and the

target have a different SIC code at the 1-digit level.

Deal Objective. Acquisitions are motivated by different reasons and such variability have

implications for the post-acquisition organization of the firm (Rabier, 2004; Feldman and Hernandez,

2020; Zaheer et al., 2013; Trautwein, 1990). We measure deal objective with the "deal purpose" variable

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[13] We count only transactions that are classified as "Acquisition", "Merger", "Acquisition of Majority Interest", and "Acquisition of Assets" by SDC.
[14] The acquisition intensity measures are logged due to their skewness.
[15] All Compustat variables are measured at the year that the survey was conducted.

in SDC. Every deal in the database is classified into a combination among fourteen categories by SDC[16].

We consolidated these categories into five broad deal objective categories: 1) Market Expansion, 2)

Financial, 3) General/Null, 4) Intellectual Property, 5) Operational Excellence. Since a deal can be

classified into multiple categories in the pre-consolidate scheme, we constructed this measure with a set of

non-exclusive dummy variables. This means that a deal would score a 1 in both the market expansion and

financial dummies if it was categorized by SDC in the purpose categories that fall into both consolidated

categories. In all of our analyses, we use operational excellence as the omitted category.

Deal Characteristics. There are well known differences between the acquisition of public

versus private entities in terms of the level of information asymmetry between acquirer and target (Capron

& Shen, 2007; Faccio, McConnell, & Stolin, 2006) as well as targets that are subsidiaries versus not

(Barden, 2012). We therefore constructed indicator variables for whether the deal involve a *public target*

(versus private target) and whether the deal involve a *subsidiary target* (or not). In addition, we insert a

dummy variable (*deal form)* to indicate whether a deal is classified as a merger versus the default status as

an acquisition.

Deal Uniqueness. In the formulation of strategy, managers face the tension between

conforming and standing out. While unique strategic actions that stems from astute foresight theoretically

should yield superior long-term returns because of its inimitability, strategic actions that runs counter to

popular expectations might suffer a discount because stakeholders might not be able to evaluate the value

of such action (Litov, Moreton, & Zenger, 2012; Zuckerman et al., 1999). In the case of acquisitions and

corporate purpose, employees could perceive a unique acquisition as a distinctive strategic foresight that

reinforce the purpose of the organization. However, a deal that is too groundbreaking might challenge

employees' beliefs about the purpose of the organization which then leads to a weakening of those beliefs.

We examine this tension with a deal uniqueness measure. We measure deal uniqueness using the Jaccard

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[16] We did enquire with Refinitiv (SDC's development company) about the data generation process for the deal purpose code since the exact data generation process of this variable is not generally accessible. What we do know is that SDC employs a team of researchers to compile information on each deal through a variety of sources such as media reports, SEC filings, and proprietary information in other databases. We compared these purpose codes with publicly available sources and found the codes to be both facially valid and reliable.

coefficient with industry classification as the basis of co-occurrence calculation. To construct this measure, we first constructed a co-occurrence matrix using the acquirer's Thomson Reuters proprietary mid-level industry classification (85 classifications) and the target's 4-digit SIC code for all completed deals 3 years prior to the focal deal. We used the coarser mid-level industry classification for the acquirer because we wanted to capture acquisition activity at the corporate level. For each deal d_{ij}, where subscript i denotes the acquirer industry and subscript j denotes the target industry, the uniqueness of the deal is given by $\sum_{t-5}^{t-1} d_{ijt}/d_{it}$. This expression captures the proportion of all deals where the acquirer belongs to industry i and has a target in industry j for the 3 years prior to the focal deal. In calculating this expression (and all the following measures that involve counting deals), we count deals that are classified as "Acquisition", "Merger", "Acquisition of majority interest", and "Acquisition of assets" in SDC[17]. This expression ranges from 0 to 1 and we subtracted the raw Jaccard coefficient from 1 so that a higher value represents a more unique deal. A value of 1 of our uniqueness measures thus represents a deal involving a target industry where no other firm in the acquirer industry has every made in the last 3 years.

Deal Specificity and Transparency. We also include two measures intended on capturing the opacity of the deal rationale. Since acquisitions naturally involve information asymmetry between the decision makers and other stakeholders, the degree of disclosure can either exacerbate or mitigate this asymmetry. Strategy scholars have long recognized the value of textual data in informing the strategic actions of a firm (e.g. Fiol, 1989; Betterman & Weitz, 1983; Hoberg & Philips, 2010). We utilized the text description of an acquisition to draw inferences about the characteristics of the deal. Using the purpose descriptions of acquisitions available in SDC, we conducted a bag-of-words textual analysis to understand the extent to which a deal has a focused and clear strategic objective. We constructed a deal specificity measure by comparing the within-sample similarity of words used in the purpose description. We also constructed a measure of deal transparency by counting the (logged) number of words used in the purpose description. The assumption is that the SDC database would be able to gather more information

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

regarding the strategic purpose of an acquisition if the acquirer and target were transparent about the motivations behind an acquisition.

Control variables. While we have already included a collection of industry- and firm-level variables that would control for unobserved heterogeneity, we take additional steps to further alleviate this concern given that our data structure does not allow us to insert firm fixed effects. To account for firm demographic differences, we controlled for the workforce composition of the firm by job level and firm age. To account for the capital structure of a firm, we controlled for the debt-to-equity ratio. We also insert year, headquarter state, and 1-digit SIC level fixed effects in all of our analyses. In addition, we try to account for imperfect measurement of deal attributes. As there is a time lag between the completion of a deal and the completion of the GPTW survey, we control for the number of years elapsed between the two time points.

Performance Outcomes. In exploring the subsequent performance implications stemming from the effect of acquisitions on corporate purpose, we consider three types of performance measures: short-term accounting performance, goodwill impairment, and long-term stock returns.

Consistent with most M&A research (Zollo & Meier, 2008), we measure short-term accounting performance of acquisitions with return on assets of the same year where the GPTW survey was completed. Around 95% of the deals in our sample were completed one or two years prior to the year the GPTW survey was completed. Such a lag should allow enough time for the performance impact of acquisitions to take effect through corporate purpose. Of course, we do control for the time elapsed between the completion of the deal and the year the GPTW survey was filled out.

Goodwill refers to the difference between the fair value of a target's identifiable assets and the purchase price of the target. In the context of acquisitions, goodwill is often used to price in the target's intangible assets such as human capital (Henning, Steven, Lewis, & Shaw, 2000). Goodwill impairment is a relatively rare event where the acquirer discounts the value of the intangible assets purchased (Edmans et al, 2020). It is conceptually an important performance variable because it could capture events like employee turnover and or the failure to integrate which would be reflected from corporate purpose. We measure goodwill impairment by counting the consecutive number of years over a 5-year period post-

acquisition that the amount of goodwill possessed by the acquirer, as reflected from Compustat, decreased.

We also examine the long-term forward looking stock portfolio returns with a buy-and-hold analysis. The dependent variable is simply the stock price of any publicly traded firms in our sample. We provide more details of how we conduct this analysis in a later section.

Estimating Equations

In all of our analyses, we specify our regressions with ordinary least squares (OLS) models, with standard errors clustered at the firm level to control for autocorrelation of firm-level measurements over time. In Part 1, we estimate the following equation:

$$Purpose - Clarity_{ijt} = \beta_1 Acquisition_{it} + \beta_2 \mathbf{X}'_{it'} + \beta_3 \mathbf{Z}'_{jt'} + \alpha_t + \gamma_j + \varepsilon_{it}$$

(1)

Purpose-Clarity denotes the purpose-clarity measure that we have aforementioned, and *Acquisition* is an indicator variable for whether the firm reported being involved in an acquisition. $\mathbf{X}_{it'}$ is a vector of firm-year level control variables (i indexes for firm and t' indexes for year that is lagged in comparison to year t where corporate purpose is measured), and $\mathbf{Z}_{jt'}$ is a vector of industry-year level (j indexes for industry) control variables. α_t denotes year fixed effects, and γ_j denotes industry fixed effects. Headquarter state fixed effects are absorbed into $\mathbf{X}_{it}$. We use the same notations to represent the same variables going forward unless otherwise stated.

In Part 2, we are interested in the deal characteristics that predict post-acquisition corporate purpose, conditioned on a firm having acquired in a given year. We estimate the following equation:

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

(2)

Since a firm can report multiple deals in a given year, we use subscript k to capture any deal-level characteristics for firm i. *Industry* denotes the industry concentration and both acquirer's and target's industry acquisition intensity; *Firm* denotes the firm size, firm performance, and acquisition experience variables; *Deal* denotes any deal-level characteristics. In addition to the firm- and industry-controls, we also control for a vector of deal-specific attributes, denoted by $\mathbf{D}_k$, which includes the time elapsed between deal completion and the GPTW survey year and deal transparency.

In Part 3, we examine the performance implications of the effect of acquisitions through corporate purpose. We implement a two-stage regression to isolate the effect of the component of corporate purpose that is explained by deal attributes. To do so, we regress performance variables on the linear prediction of corporate purpose that is estimated using the deal-level variables in (2). The implementation of this analysis will be described in more detail in the Results section.

Descriptive statistics

Table 1a and 1b shows the summary statistics for the variables used in the analyses for the two data sets used in this study. In Part 1, we use a firm-year level data to examine the effect of acquisition on corporate purpose. As Table 1a shows, 30% of the observations reported having acquired a company. Firms in our sample tend to be large with an average revenue of $2,230 million and average number of employees of 5,431. Table 1b shows the summary statistics of the deal- and firm-level variables used in Part 2 and Part 3. Close to 90% of the deals in our sample are private deals. Firms on average report deals that had completed 1.4 years prior to the completion of the GPTW survey.

<< Insert Table 1 about here >>

Research question 1: The Effect of Acquisition on Corporate Purpose

We begin our empirical investigation by first examining the raw data. Figure 1 plots the proportion of survey response reported having conducted an acquisition by deciles of corporate purpose. The figure shows a clear negative slope such that higher corporate purpose is associated with a lower likelihood of having conducted an acquisition.

<< Insert Figure 1 about here >>

We then turn to regression analyses of the average effect of acquisitions on corporate purpose. Table 2 shows the coefficients estimated with equation (1). The coefficient on *Acquisition* is of primary interest. Model (1) controls for the revenue and number of employees of a firm, Model (2) inserts a host of firm-level characteristics as controls, and Model (3) controls for lagged corporate purpose. Since we do not have complete data on a firm's prior corporate purpose, we imputed missing data with the mean and use a dummy variable to indicate this imputation. Across all models, *Acquisition* is negatively predictive of

22

corporate purpose and its effect is precisely estimated for all four models ($p < .05$). Using the coefficient in Model (2), the status of having conducted an acquisition is associated with a roughly 0.12 standard deviation decrease in corporate purpose. Appendix Table 1 breaks down Model (2) in Table 2a by job levels. The negative effect of *Acquisition* on corporate purpose seems to be primarily driven by middle managers ($b = -.022$, $p < .01$), professional and technical workers ($b = -.018$, $p = .07$) and hourly workers ($b = -.024$, $p < .01$). *Acquisition* does not seem to have any impact on corporate purpose for executives ($b = -.005$, $p = .71$).

<< Insert Table 2 about here >>

We are aware that the decision to acquire is not random and it is very possible that there is selection bias built into our analyses. Table 3 provides the results from a series of propensity score matching models to evaluate the extent to which selection bias in the decision to acquire might confound our analyses. Using nearest neighbor and caliper matching with a logistic model to model selection on *Acquisition* by matching firms on the covariates included in Table 2. Matching firms on all covariates in Model (4) yielded a robust negative effect for *Acquisition*. In the matching procedure, dropping the number of employees or the lagged corporate purpose nullified the effect of *Acquisition* and dropping lagged return on assets weakened the effect. This suggests that there is evidence of selection on firm size, firm performance, and prior corporate purpose with regards to the decision to acquire. We must thus caution that our results could be driven by reverse causality and sampling bias in the GPTW survey.

<< Insert Table 3 about here >>

In sum, we found that having conducted an acquisition has an average negative effect on a firm's corporate purpose. Disaggregated by job levels, such a negative effect seems to be primarily driven by the middle managers and hourly workers of a firm rather than senior executives and professional workers. There is evidence that there is selection bias in terms of performance and size in relation the decision to acquire. The effect of acquisition on corporate purpose, however, should not be hastily dismissed.

Research Question 2: Corporate Purpose and Deal Characteristics

Having established the average effect of acquisition on corporate purpose, we now examine the heterogenous effect of acquisitions with deal characteristics. Figure 2 plots the distribution of the level of corporate purpose in ascending order among firm-year observations where an acquisition was reported. The figure shows that there is tremendous variability in the level of corporate purpose among firms that were involved in an acquisition. Roughly half of the cases had a negative corporate purpose and the other half actually had a positive post-acquisition corporate purpose. The following section seeks to explain this variability in post-acquisition corporate purpose. Specifically, we examine how firm, industry, and deal characteristics account for such variability.

<< Insert Figure 2 about here >>

Table 4 shows the results for the effect of firm, industry, and deal characteristics on post-acquisition corporate purpose. Model (1) examines the effect of industry characteristics of the acquirer. All industry characteristics are not predictive of corporate purpose ($p > .1$). Model (2) examines the effect of firm characteristics in shaping acquisition outcomes. We see that the firm size variables, *employees* and *assets*, are both predictors of corporate purpose among acquirers (b = -.025, $p = .055$; b = .04, $p < .05$). However, the two variables have different signs: number of employees has a negative sign but the assets owned has a positive sign. This suggests that firm size as conceptualized from an operational perspective (i.e. employees) versus a financial perspective (i.e. assets) have different implications for corporate purpose. R*eturn on asset* has a significantly positive effect on corporate purpose among acquirers (b = .38, $p = .04$), such that a one standard deviation increase for return on asset is associated with .15 standard deviation increase in corporate purpose. Acquisition experience does not predict corporate purpose among acquirers.

In Model (3), we examined a host of deal characteristic variables. The target and deal type (*Public Target, Subsidiary Target,* and *Deal form*) do not seem to predict corporate purpose. *Related* is positively predictive of corporate purpose (b = .04, $p < .05$), while *unrelated* has an effect that is indistinguishable from null ($p = .2$). In this model, we also examine the effect of deal objective. Compared to the omitted category of operational excellence, deals that aimed to achieve market expansion are associated with a lower degree of corporate purpose (b = -.026, $p = .053$). Such a difference is on average equivalent to a

.16 standard deviation in corporate purpose. Other deal objectives do not seem to be associated with different levels of post-acquisition corporate purpose.

Model (4) inserts deal uniqueness. *Deal uniqueness* has a negative effect on corporate purpose (b = -.097, $p < .05$). This suggests that the positive effect of related deals on purpose is masked by whether conducting related deals is a unique strategic action within the industry. A one standard-deviation increase in deal uniqueness is expected to be associated with .12 standard deviation decrease in corporate purpose. *Deal specificity* has a significant positive effect on corporate purpose (b = .133, $p < .05$). This suggests that acquisitions with a focused and specific objective are associated with higher levels of corporate purpose. A one standard deviation increase in deal specificity is associated with a .16 standard deviation increase in corporate purpose. *Deal transparency* is not predictive of corporate purpose (b = .004, $p = .19$). Comparing Model (4) to Model (3), the effect of *related* is attenuated, such that its p value is now .20. This suggests that the effect of deal relatedness can be largely attributed to the uniqueness and specificity of a deal.

Model (5) served as a robustness check of the previously obtained results by controlling for lagged corporate purpose. While the magnitude of some of the coefficients are attenuated, the results are qualitatively the same. This gives us confidence that the results are not primarily driven by reverse causality and that we should expect firm, industry, and deal characteristics to affect a firm's corporate purpose post-acquisition.

Using Model (4) in Table 4, Appendix Table 2 breaks down the analysis by job levels. We focus on the coefficients of deal uniqueness, specificity, and transparency due to their relative strong effects. The effect of *deal uniqueness* for executives is indistinguishable from zero ($p = .49$) but the same effect is negative for middle managers (b = -.078, $p = .086$), professional/technical workers (b = -.01, $p = .04$), and hourly workers (b = -.078, $p = .037$). The effect of *deal specificity* seems to be driven by the professional/technical workers (b = .14, $p = .056$). While the effect of *deal transparency* was not significant for the full sample, we see that the non-significance was primarily driven by the executives (b = .004, $p = .5$). Otherwise, *deal transparency* seems to have a positive effect on workers of other job levels.

<< Insert Table 4 about here >>

To briefly summarize, we first found that deals that aim to improve operational excellence are associated with higher post-acquisition corporate purpose. We also found deal uniqueness to be negatively associated and deal specificity to be positively associated with corporate purpose.

Research Question 3: Performance Implications

So far, our analyses have established that acquisitions have a negative effect on corporate purpose and that there is heterogeneity in this average effect across deals that can be explained by industry, firm, and deal characteristics. In this section, we focus on understanding the performance implications of the deal characteristics through their effect on corporate purpose. We chose to focus on deal characteristics because unlike industry and firm characteristics they involve a strategic component where managers can control in reality. These results would thus be informative to managers who are planning to make acquisitions.

To empirically examine the performance implications of deal characteristics through corporate purpose, we first performed a first-stage regression where we regress corporate purpose on all deal-level covariates as illustrated by equation (3). The linear prediction of this regression, *corporate purpose (deal-related)*, constitutes the component of corporate purpose that is attributable to deal characteristics, and the residual of this regression, *corporate purpose (residual)*, is the component of corporate purpose that is not attributable to the deal characteristics that we have considered. A second stage regression then examines how these two components affect performance variables. In all the second stage regressions, we include all covariates that has been used in the previous analyses. Following Guiso et al. (2015), we additionally control for employee's response to the question "This is a physically safe place to work" in the TI survey to account for the overall level of happiness in the organization. This is important because the overall level of happiness in an organization might drive higher scores to responses to corporate purpose.

Table 5 shows the results for the second stage regression with return on assets as the outcome variable. In Model (1), we formed a baseline regression where we regressed return on assets on the raw scores of corporate purpose, where deal characteristics are not considered. We see an insignificant average effect of corporate purpose on return on assets (b = .017, p = .28). Model (2) broke down the average

effect of corporate purpose into deal-related and residual components. Controlling for past performance, we see a strong positive effect of deal-related corporate purpose on post-acquisition firm performance (b = .12, $p < .01$) and a null effect for the residual component (b = -.09, $p = .67$). In economic terms, holding past performance and other covariates constant, a one standard deviation increase in deal-related corporate purpose is associated with a .26 standard deviation increase in return on assets post-acquisition. In terms of deal attributes, deals with an objective of market expansion is associated with a .032 unit decrease in corporate purpose which translate to an average .07 standard deviation decrease in post-acquisition return on assets. In terms of deal uniqueness, since a one standard deviation increase in deal uniqueness is associate with a .019 unit decrease in corporate purpose, it is expected to lower return on assets by .03 standard deviation.

Model (3) and (4) augment these results by segmenting to recent and distant acquisitions using a 2-year cutoff on the time elapsed between deal completion and GPTW survey year. If it is true that deal characteristics affect for firm performance through corporate purpose, then we should see a stronger effect on *corporate purpose (deal-related)* for recently reported deals compared to distant deals because the correlation between deal characteristics and corporate should be higher due to the proximity of the two measurements. Indeed, this is what we see in Model (3) and (4). These results thus provide evidence that the deal characteristics of acquisitions have non-trivial effects on subsequent short-term firm performance because of its effects on corporate purpose.

<< Insert Table 5 about here >>

Table 6 shows the results of the same specification with goodwill impairment as outcome variable. Model (1) examines the average effect of corporate purpose on goodwill impairment. The average effect of corporate purpose is not predictive of goodwill impairment (b = -.11, $p = .6$). Model (2) breaks this down by corporate purpose that is related versus unrelated to deal characteristics. Both components are not predictive of goodwill impairment (b = -.37, $p = .33$; b = -.09, $p = .67$). Further disaggregation by deal recency reveals that this null effect is possibly masked by measurement error of deals that have elapsed for more than two years. Model (3) shows that for deals reported within two years of completion, there is a marginally negative effect of *corporate purpose (deal-related)* on goodwill impairment. This means that firms

27

with a high level of corporate purpose that is attributable to acquisition characteristics are less likely to report any goodwill impairment post-acquisition.

<< Insert Table 6 about here >>

The BHAR analyses on long-term stock return are slightly more involved than the previous analyses as we are interested in obtaining the stock return that is strictly predicted by deal characteristics through corporate purpose and not the component of corporate purpose that is expected to generate long-term market returns. In the BHAR analyses, we first regressed corporate purpose on all non-deal characteristics (i.e. $\mathbf{X}'_{it}, \mathbf{Z}'_{jt}, \alpha_t, \gamma_j$). We take the residual of this regression, which contains the component of corporate purpose that is not driven by firm- and industry-level determinants, and regress this on all the deal-level variables (i.e. relatedness, objective, uniqueness, etc.). We then divided the first and fourth quartile of the linear prediction of corporate purpose that is supposedly attributable to deal characteristics to form a low and high corporate purpose stock portfolio. We obtained the leading 72 monthly stock returns of the two stock portfolio from CRSP and regress the stock returns on the Fama-French four factors – market, size, value, and momentum factors. Table 6 shows these results. Coefficients on *Alpha*, which denotes the average stock returns, is of interest. Compared to the low deal-related purpose stock portfolio (*Alpha* = .0020, p = .21), the high deal-related purpose stock portfolio generates substantially higher returns (*Alpha* = .0054, p < .05). In economic terms, the high deal-related corporate purpose portfolio is expected to generate a 6.68% yearly return in stock price over three years. Appendix Table A5.1, A5.2, and A5.3 breaks down this effect by job levels and by deal recency. We found that the long-term stock return generated by high deal-related purpose is primarily driven by non-executive workers.

<< Insert Table 7 about here >>

To sum up, we found that deal-related corporate purpose is positively related to short-term accounting performance, negatively associated with goodwill impairment, and strongly associated with increased long-term stock returns.

Discussion

The aim of this study is to explore the link between acquisitions and corporate purpose. Our analysis thus far can be summarized as follows. First, acquisitions on average negatively predict purpose; that is, the firms in our sample that have engaged in recent acquisitions appear to have lower purpose than those who do not. Second, this negative relationship masks considerable heterogeneity across deals. The negative association appears to be driven by acquisitions that are more unique, less transparent, and with an expansionary motivation. Third, these effects appear to have performance consequences. Purpose positively predicts both accounting and stock performance, consistent with prior research (Gartenberg, Prat, and Serafeim, 2019). When we decompose corporate purpose into the component directly attributable to the deal and the portion that is attributable to other aspects, we find that both components continue to predict performance. This result is consistent with the important role of human capital in driving acquisition success: acquisitions that reinforce corporate purpose are likelier to outperform, while those that degrade purpose are not. This pattern is inconsistent with a plausible alternative that the negative relationship between acquisitions and purpose reflect painful but necessary strategic repositioning. If that alternative were true, we would expect that deal-attributable purpose would negatively predict performance, which is not the case. These results raise three important questions to which we now turn.

Correlation versus causality

First, to what extent are the patterns reported reflective of causal relationships, whereby acquisitions that are unique, less transparent, and made for expansionary reasons weaken the sense of corporate purpose among employees? The likely alternative is that our results are driven by other factors not captured in our analysis. This is particularly plausible in studies of acquisitions, as these deals are never made at random, and the same factors that lead to the deal can also affect the sense of purpose within the firm. For example, if market pressures lead the firm to reposition itself via acquisition, these conditions may simultaneously depress the sense of corporate purpose among employees. Similarly, if an entrenched CEO makes inadvisable acquisitions for private reasons, this CEO may also negatively impact the sense of purpose within the firm.

Our setting does not provide a natural experiment or sufficiently powered exogenous variation of acquisitions for identification using standard statistical methods. Nor does our purpose data provide us with an adequately balanced panel to permit a differences analysis. Given these empirical limitations, in this section we provide evidence that a treatment effect of acquisitions on purpose appears to be part of the story. In doing so, we avoid the stronger claim that our results are driven exclusively by this treatment effect: we can neither make this stronger claim using the evidence on hand, nor do we think it plausible. Instead, our view is that the reported relationships likely reflect both treatment and correlational components.

To begin, several patterns that we have already presented in our main analysis are supportive of a treatment argument. We find the strongest links between acquisitions and corporate purpose within the lower levels of the firm: managers, salaried professionals and hourly workers, rather than at the executive and senior manager level. If our results were driven by market conditions or poor firm performance, our view is that the senior levels would be affected most. Senior managers and executives have the most comprehensive information concerning conditions driving an acquisition, and they are most closely incentivized by firm performance. As such, if poor positioning is driving both acquisitions and weak purpose, it should be reflected most strongly at the senior levels. This is not, however, what we observe. Moreover, we control for several periods of past performance, both profitability and growth. In addition, Appendix Table 1 shows the results of our matched analysis, whereby we match on observable factors that would likely be reflective of conditions driving acquisitions (including, for example, firm performance and size, industry growth, consolidation). While our results attenuate somewhat under some matching criteria, the negative effect of acquisitions on the strength of corporate purpose remains.

We also conduct several tests to provide additional evidence. One of our primary data challenges is that our data does not permit us to conduct a pre/post analysis of purpose surrounding a merger event. This is likely due to the nature of the GPTW survey data, whereby applications to be listed are time-consuming and costly for firms. This in turn leads to a selection effect in our sample whereby firms only apply to be listed as a "Fortune's 100 Best Places to Work" if executives believe they have a reasonable chance of winning. While this selection effect generally biases our sample to large, well-managed firms, it

also leads to an imbalanced panel, precluding differences-in-differences analyses that would be our first choice empirical model. We do however, have a limited number of firms for which we have measures of purpose before and after an acquisition, encompassing 109 out of 2,732 observations in our data. For these observations, we calculate the change in corporate purpose in the year that they reported a past acquisition and the year prior. We compare this change to two benchmarks: 1) the change in purpose for all firms in the panel that do not report an acquisition for two consecutive years and 2) the change in purpose for the same firms for which we have pre/post purpose data surrounding an acquisition, but for other consecutive years for which no acquisitions are reported. Appendix Table 7 reports these comparisons. We find that the change in purpose in years surrounding an acquisition is much more negative than the change in purpose both i) for firms not engaging in acquisitions and ii) for those acquiring firms in periods in which they did not acquire. These patterns are consistent with a treatment interpretation, whereby firms acquire and then purpose subsequently drops, rather than purpose is weak within firms that subsequently engage in acquisitions. Taken together, our evidence is generally consistent with a treatment effect, whereby acquisitions affect the strength of purpose within firms.

Strategic uniqueness and corporate purpose

Perhaps our most interesting result concerns the relationship between the uniqueness of the acquisition and corporate purpose. We find a substantial negative association between deal uniqueness and corporate purpose. This association is driven by middle ranked and hourly employees, rather than those in senior ranks. In other words, the more unique an acquisition relative to acquisitions by peer companies in the firm's home industry, the weaker the corporate purpose.

This result is notable given the role that uniqueness plays in strategy. Uniqueness is generally thought to be core to competitive advantage, in the form either as firms engaging in a unique system of activities (Porter, 1996; Siggelkow, 2002) or as firms controlling resources that are scarce, inimitable, and valuable (Barney, 1992; Peteraf, 1993). Engaging in an acquisition that is unique relative to one's peers is consistent with both of these approaches.

31

Prior work, however, has shown that uniqueness poses a problem for firms given information asymmetries. Litov et al., (2012) proposes the "uniqueness paradox", whereby firms with unique strategies are harder for external analysts to value, and are therefore discounted by the market. This idea is further developed by Zenger (2013) who states the paradox as follows (pg 58) "The strategies most valuable over the long term are also the most unusual and difficult to evaluate." This uniqueness paradox creates a lemons problem for strategies, involving "well-informed, well-intentioned managers selecting strategies that they believe will maximize firm value… confronting investors unable (or unwilling to incur the costs) to decipher that value." (Benner and Zenger, 2016: 71). This uniqueness problem arises because of information asymmetries between managers and those outside the firm. Managers are better informed about the benefits of the unique strategies, but cannot impact that tacit information to these outside parties.

Our results are consistent with a different manifestation of this uniqueness paradox. While uniqueness may valuable from a strategic standpoint, it may also challenge the perceptions of the organization's purpose held by employees. As middle and lower ranked employees do not have the same access to the information as those at the top of the organization, their beliefs are reinforced or weakened by visible and costly actions by management, including acquisitions. Unique acquisitions may be more challenging for employees below the top ranks to understand and reconcile with their preexisting beliefs for the same reasons as unique strategies are harder to understand for stakeholders outside the organization. This interpretation is consistent with micro organizational research on meaning and leadership. This research finds that meaning is fostered by leaders who perform two simultaneous actions: i) articulate the organizations ultimate aspirations and ii) connect these aspirations to the daily work of the employees (Bass and Riggio, 2006; Carton, 2017). This research finds that performing these two actions successfully is a challenge: "the very properties that make ultimate aspirations meaningful are those that leave employees unable to sense how their daily responsibilities are associated with them." (Carton, 2017: 325). In other words, aspiration goals are by nature intangible, rendering them difficult to connect to the daily work of employees. Moreover, research has found that organizational aspirations may actually negatively impact employees by rendering their own work prosaic by contrast (Simons, 1999; Schwarz

and Bless, 1992). These effects are likely exacerbated by uniqueness. When firms expand their business in ways for which there is no precedent, leaders will likely face a greater challenge in providing clarity regarding how the unique action reinforces the espoused purpose, how it relates to the employees of the firm, and how the work of employees remains relevant to the newly combined firm.

While we cannot definitively establish that this mechanism, given the larger sample nature of our study, we do provide several pieces of evidence consistent with this interpretation. If uniqueness does in fact present a challenge for employee's beliefs in corporate purpose, we would expect this effect to be stronger under various conditions. First, related to the deal, we would expect uniqueness to pose a particular problem for employees if the executives are less clear in how they communicate the nature of the deal. We create two proxies of deal clarity, based on the public filings. The first measure is the specificity of the deal, as measured by the specificity of their deal description in SDC relative to the other deals in our sample. The second measure is the deal transparency as measured by the length of the deal description in SDC, as gathered from the public filings. If this mechanism were in fact driving our result, we would expect it to be particularly pronounced within the low clarity subsamples, as these are the subsamples for which the deal motivations were most opaque. We provide results for this test in Appendix Table 3. We split our sample at the medians by low specificity and transparency (Columns 1 and 2) and high specificity and transparency (Columns 3 and 4). Our results are consistent with our prediction: the negative relationship between uniqueness and purpose is driven by the low clarity acquisitions, those for which the deal motivation is particularly opaque.

We conduct a second additional test of our mechanism by considering how the acquiring firm's own experience might mitigate the effects of uniqueness on corporate purpose. The reasoning behind this test is as follows: if the firm has experience with acquisitions, particularly in areas that may be unique to the industry but not to the firm itself, this experience should mitigate the impact of uniqueness on purpose. We therefore split our sample by three separate experience variables: the uniqueness of the acquisition relative to the firm's own prior deals, the degree of acquisition experience, and the acquisition intensity. The results are shown in Appendix Table 4, with low experience (therefore high predicted relationship between uniqueness and corporate purpose) in Columns 1-3, and high experience in

Columns 4-6. The results of this test also confirm our prediction. We find that the relationship between uniqueness and corporate purpose is particularly pronounced within firms that have little acquisition experience, particularly in the industry of the focal deal. These patterns are consistent with unique acquisitions posing a particular challenge the maintain corporate purpose within firms for which the workforce is unaccustomed to these unique acquisitions.

Lastly, we test the performance implications of this mechanism by looking at the link between *purpose (deal)* and performance by splitting our sample into high and low uniqueness. We show the results in Appendix Table 6. We find that the relationship between deal with *purpose (deal)* and performance is substantially stronger for high uniqueness deals. Taking together, this analysis is consistent with deals that are unique posing a particular challenge for firms: specifically, these are the deals for which maintaining a strong sense of corporate purpose among employees is particularly critical for performance, but for which maintaining this purpose is also especially challenging. This extension of the uniqueness paradox raises a dilemma for managers who may wish to use acquisitions as a means of obtaining strategic advantage: these acquisitions may enable the firms to buy their way into a unique position, and yet managers must be cognizant of the negative consequences for corporate purpose that may result from the actions.

Robustness

When drawing broader inferences for corporate strategy outside, it is important to make several points about both our data and our sample. First, our measure of purpose is drawn from firms that apply to be listed in Fortune's 100 Best Companies to Work For, a self-selected sample of firms that are willing to incur the cost of conducting the survey and submitting an application since they believe they have a realistic chance of making the list. As such, our sample is comprised of large, human capital-intensive firms that are generally well-managed. Our results, therefore, most directly apply to other large, well-managed companies. That said, it is plausible that our setting provides a stricter test than the population as a whole, given that companies in our sample are likelier more focused on building a credible purpose than companies in the general population.

34

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

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

This cognitive blueprint that links the organization's aspirations to everyday work parallels the combination of purpose-clarity in our measure of corporate purpose, wherein purpose can be understood as the aspirations and clarity can be understood as the link between aspirations and the employees' work. Empirically, this measure also emerges from an exploratory factor analysis of the survey that reveals that these two constructs covary together as a single factor. In other words, employees that score high in along the purpose dimensions also tend to score high along the clarity dimensions, indicating that these to constructs are jointly present or absent among respondents. The survey also yields three other factors, but only purpose-clarity leads to better performance (Gartenberg, Prat and Serafeim, 2019) and hence is the only factor that is value-relevant. For these reasons, both theoretical and empirical, we view effective corporate purpose as requiring both elements of purpose and clarity.

Conclusion

Acquisitions play a central role in corporate strategy. And yet their uneven results continue to confound both executives and academics alike. In this paper we propose an additional lens through which to view acquisitions: that of corporate purpose. We find that acquisitions are negatively associated with the strength of corporate purpose. This negative association is not determined by the degree of relatedness of

the acquisitions, but instead by how unique it is relative to other acquisitions in the industry, as well as those that are less transparent and done with expansionary motives in mind.

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

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

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Tables and Figures

Figure 1: Corporate Purpose and prevalence of past mergers
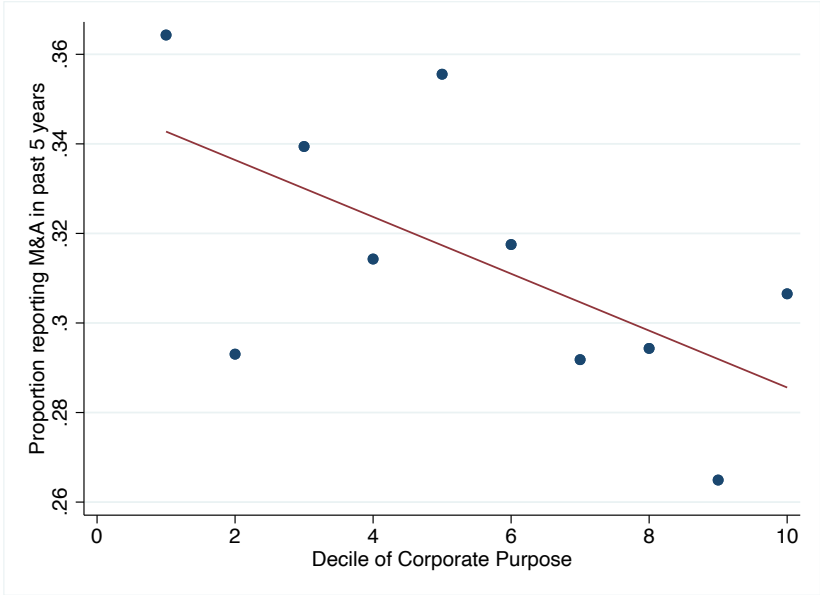
Figure 2: Corporate purpose and prevalence of past mergers
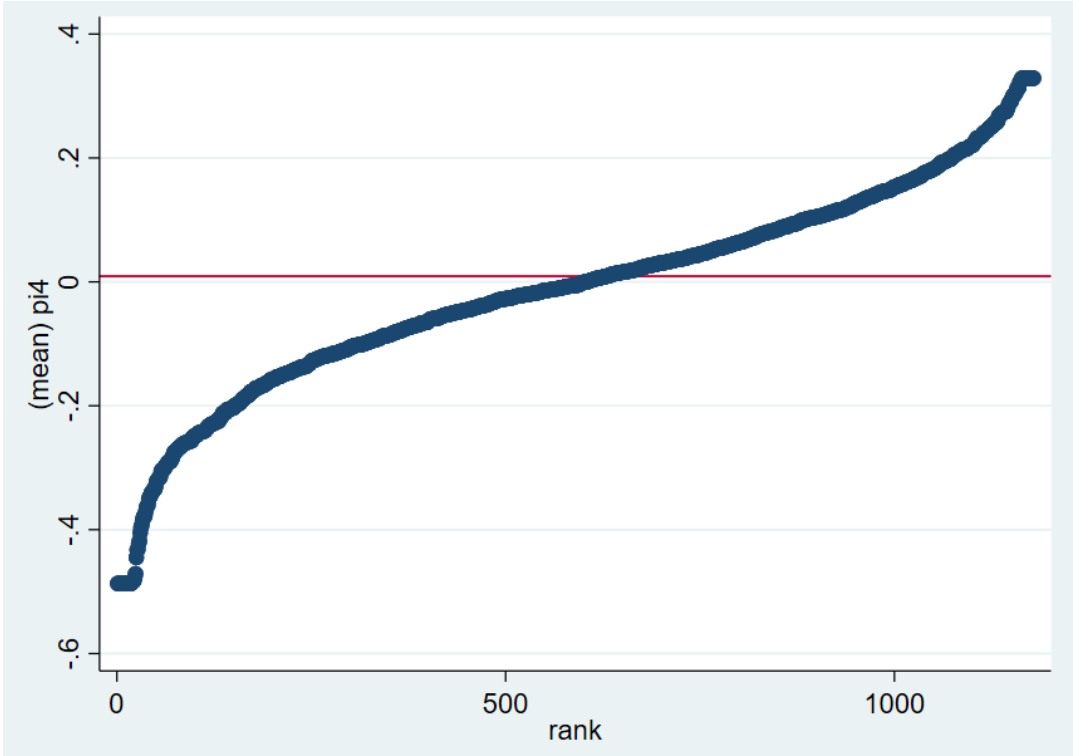
Table 1a: Descriptive statistics (Part 1)

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

Notes. Revenue and *Employees* are logged.

Table 1b: Descriptive statistics (Part 2&3)

Variable	N	Mean	Standard Deviation	Minimum	Maximum
Purpose-Clarity	831	.013	.16	-.49	.33
Industry Concentration	831	.25	.19	.017	1
Acquirer industry acquisition intensity	831	6.06	.82	2.40	9.05
Target industry acquisition intensity	831	6.43	.79	.79	7.70
Employees	831	3.21	1.37	0	6.63
Assets	829	9.40	1.96	-1.25	14.52
Return on assets	772	.12	.075	-.0036	.25
Acquisition experience	831	13.66	12.69	1	78
Public target	831	.11	.32	0	1
Subsidiary target	831	.23	.42	0	1
Deal form (merger)	831	.20	.40	0	1
Related	831	.20	.40	0	1
Unrelated	831	.38	.49	0	1
Deal objective (expansion)	831	.26	.44	0	1
Deal objective (financial)	831	.023	.15	0	1
Deal objective (general/null)	831	.33	.47	0	1
Deal objective (intellectual property)	831	.19	.40	0	1
Deal objective (operational excellence)	831	.19	.39	0	1
Deal uniqueness	831	.84	.20	.17	1
Deal specificity	831	0	.075	-.36	.20
Deal transparency	831	3.53	2.30	0	6.68
Deal elapsed	831	1.43	.57	0	3
"This is a physically safe place to work"	831	4.73	.18	3.87	4.96
Goodwill impairment	831	.29	.45	0	1

Table 2: Corporate Purpose and Acquisitions

Dependent variable:	Purpose-Clarity		
	(1)	(2)	(3)
Acquisition	-0.0165	-0.0196	-0.0141
	(0.0237)	(0.00615)	(0.0178)
Public Firm	-0.0259	-0.0289	-0.0161
	(0.0191)	(0.00913)	(0.0382)
Revenue	0.0182	0.0170	0.0117
	(7.57e-07)	(2.12e-06)	(5.28e-06)
Employees	0.0114	0.0143	0.00850
	(0.0242)	(0.00334)	(0.0169)
Leverage		0.00297	-0.0249
		(0.941)	(0.221)
Industry concentration		-0.0207	-0.000492
		(0.372)	(0.982)
Return on assets (t-3)		0.00686	0.00122
		(0.674)	(0.942)
Revenue growth (t-3 to t-2)		0.0512	0.0270
		(0.613)	(0.696)
Lagged Corporate Purpose			0.601
			(0.000)
Lagged Corporate Purpose (Missing)			0.0227
			(0.00248)
Constant	-0.419	-0.370	-0.274
	(8.62e-10)	(0.000194)	(0.000279)
Industry FE	Y	Y	Y
State FE	Y	Y	Y
Firm controls	Y	Y	Y
Year FE	Y	Y	Y
Observations	2,643	2,643	2,643
R-squared	0.315	0.325	0.459

Notes. OLS regressions. Table shows estimates of the effect of acquisition on corporate purpose. P-values in parentheses.

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

Set of matched controls	Nearest Neighbor	Caliper = .005	Caliper = .001	Caliper = .0005
Full	N = 2625 B = -.024 T = -2.49	N = 2579 B = -.021 T = -2.21	N = 254 B = -.019 T = -2.09	N = 1548 B = -.018 T = -1.99
Exclude two-period lagged revenue	N = 2625 B = -.029 T = -2.05	N = 2574 B = -.018 T = -2.03	N = 2086 B = -.015 T = -1.67	N = 1532 B = -.019 T = -1.95
Exclude one-period lagged revenue	N = 2625 B = -.025 T = -2.81	N = 2572 B = -.024 T = -2.72	N = 2092 B = -.021 T = -2.41	N = 1590 B = -.022 T = -2.52
Exclude employees	N = 2629 B = -.005 T = -1.12	N = 2580 B = -.005 T = -1.06	N = 2164 B = -.005 T = -.6	N = 1651 B = -.004 T = -.42
Exclude lagged return on assets	N = 2625 B = -.016 T = -1.7	N = 2584 B = -.016 T = -1.76	N = 2070 B = -.013 T = -1.47	N = 1510 B = -.015 T = -1.64
Exclude lagged purpose-clarity	N = 2625 B = -.005 T = -.7	N = 2578 B = -.005 T = -.66	N = 2108 B = -.005 T = -.56	N = 1587 B = -.003 T = -.4

Table 4: Corporate Purpose and Deal Characteristics

Dependent variable:	Purpose-Clarity				
	(1)	(2)	(3)	(4)	(5)
Industry Characteristics					
Acquirer industry concentration	-0.0956	-0.0753	-0.0534	-0.0410	-0.0111
	(0.143)	(0.147)	(0.302)	(0.428)	(0.788)
Acquirer industry acquisition intensity	-0.000763	0.00864	0.00455	0.00534	0.00344
	(0.946)	(0.457)	(0.690)	(0.641)	(0.723)
Target industry acquisition intensity	-0.00721	-0.0111	-0.00495	-0.00554	-0.00377
	(0.345)	(0.105)	(0.482)	(0.420)	(0.528)
Acquiring Firm Characteristics					
Employees		-0.0248	-0.0258	-0.0286	-0.0294
		(0.0546)	(0.0429)	(0.0248)	(0.00815)
Assets		0.0440	0.0424	0.0438	0.0380
		(2.98e-06)	(5.02e-06)	(1.02e-06)	(2.58e-07)
Return on asset		0.379	0.370	0.377	0.390
		(0.0398)	(0.0374)	(0.0315)	(0.00810)
Acquisition experience		0.000333	0.000328	0.000216	-0.000396
		(0.717)	(0.714)	(0.812)	(0.616)
Deal relatedness					
Related			0.0396	0.0232	0.0203
			(0.0204)	(0.201)	(0.199)
Unrelated			-0.0175	-0.0157	-0.0104
			(0.198)	(0.256)	(0.390)
Deal objective					
Expansion			-0.0262	-0.0322	-0.0286
			(0.0531)	(0.0192)	(0.0314)
Financial			0.000515	-0.0101	-0.00332
			(0.985)	(0.698)	(0.894)
General/Null			0.00501	0.0135	0.00414
			(0.706)	(0.475)	(0.818)
Intellectual Property			-0.0155	-0.0180	-0.0188
			(0.280)	(0.207)	(0.164)
Deal Characteristics					
Public Target			0.0358	0.0275	0.0158
			(0.0941)	(0.183)	(0.422)
Subsidiary Target			0.0209	0.0175	0.00985
			(0.117)	(0.188)	(0.399)
Deal form (Merger)			-0.0180	-0.0207	-0.0202
			(0.247)	(0.177)	(0.162)
Deal uniqueness				-0.0965	-0.0753
				(0.0230)	(0.0379)

Deal specificity				0.133	0.160
				(0.0246)	(0.00528)
Deal transparency				0.00418	0.00222
				(0.190)	(0.492)
Lagged Corporate Purpose					
Lagged Purpose-Clarity					0.504
					(1.53e-10)
Lagged Purpose-Clarity (Non-missing)					0.0395
					(0.0683)
Constant	0.316	-0.118	-0.104	-0.0420	-0.201
	(0.00593)	(0.586)	(0.630)	(0.849)	(0.291)
Year, state, industry FE	Y	Y	Y	Y	Y
Other controls	Y	Y	Y	Y	Y
Observations	831	831	831	831	831
R-squared	0.404	0.521	0.543	0.554	0.621

Notes. OLS regressions. Table shows estimates of the effect of industry-, firm-, and deal-level characteristics on post-acquisition corporate purpose. P-values in parentheses.

Table 5: Performance implications (return on assets)

| Dependent variable: | Return on assets | | | |
| | All acquisitions | | Recent acq (<2 years) | Distant acq (2 or more years) |
	(1)	(2)	(3)	(4)
Purpose-Clarity	0.0173			
	(0.284)			
Purpose-Clarity (deal)		0.121	0.157	0.0695
		(0.00102)	(0.00310)	(0.135)
Purpose-Clarity (residual)		0.00937	0.0250	-0.0146
		(0.555)	(0.225)	(0.500)
"This is a physically safe place to work"	-0.0157	-0.0193	-0.0126	-0.0275
	(0.545)	(0.450)	(0.662)	(0.462)
Lagged return on assets	0.918	0.923	0.872	0.992
	(0)	(0)	(0)	(0)
Constant	0.0634	0.0705	0.0115	0.121
	(0.664)	(0.627)	(0.945)	(0.510)
Year, State, Industry FE	Y	Y	Y	Y
Firm, Time-varying Industry controls	Y	Y	Y	Y
Observations	831	831	478	353
R-squared	0.850	0.853	0.848	0.898

Notes. OLS regressions. Table shows estimates of the effect of average, deal-related, and residual corporate purpose on return on assets. Column (1) and (2) shows the results for all deals. Column (3) subsets deals that have elapsed less than 2 years and column (4) subsets deals that have elapsed more than 2 years. P-values are in parentheses.

Table 6: Performance implications (Goodwill impairment)

Dependent variable:	Goodwill Impairment			
	All acquisitions		Recent acq (<2 years)	Distant acq (2 or more years)
	(1)	(2)	(3)	(4)
Purpose-Clarity	-0.110			
	(0.605)			
Purpose-Clarity (deal-related)		-0.374	-0.956	0.353
		(0.331)	(0.0660)	(0.618)
Purpose-Clarity (residual)		-0.0905	-0.0332	-0.349
		(0.673)	(0.897)	(0.315)
"This is a physically safe place to work"	-0.377	-0.368	-0.572	-0.334
	(0.111)	(0.119)	(0.0518)	(0.375)
Lagged goodwill impairment	0.0987	0.0992	0.0907	0.123
	(0.00465)	(0.00441)	(0.0189)	(0.0166)
Constant	2.177	2.163	2.667	4.195
	(0.0650)	(0.0670)	(0.0685)	(0.0488)
Year, State, Industry FE	Y	Y	Y	Y
Firm, Time-varying Industry controls	Y	Y	Y	Y
Observations	758	758	478	280
R-squared	0.356	0.356	0.389	0.518

Notes. OLS regressions. Table shows estimates of the effect of average, deal-related, and residual corporate purpose on goodwill impairment. Column (1) and (2) shows the results for all deals. Column (3) subsets deals that have elapsed less than 2 years and column (4) subsets deals that have elapsed more than 2 years. P-values are in parentheses.

Table 7: Performance implications (long run stock returns)

Portfolio definition:	High deal-related purpose-clarity	Low deal-related purpose-clarity
	(1)	(2)
Alpha	0.00474	0.00226
	(0.00970)	(0.198)
Excess Return on the Market	1.034	0.990
	(0)	(0)
Small-Minus-Big Return	0.0923	0.352
	(0.213)	(2.04e-05)
High-Minus-Low Return	-0.00738	0.0544
	(0.933)	(0.469)
Momentum Factor	-0.268	-0.158
	(0.000243)	(8.63e-05)
Observations	144	144
R-squared	0.858	0.858

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

Appendix Tables and Figure

Appendix Table 1: Corporate Purpose and Acquisitions

Dependent variable:	Purpose-Clarity			
	Execs	Middle Manager	Profession/ Technical	Hourly
	(1)	(2)	(3)	(4)
Acquisition	-0.00499	-0.0224	-0.0181	-0.0236
	(0.710)	(0.00858)	(0.0712)	(0.00683)
Public Firm	-0.000789	-0.0151	-0.0322	-0.0415
	(0.954)	(0.228)	(0.0159)	(0.000596)
Revenue	0.0106	0.0212	0.0156	0.0164
	(0.00470)	(4.38e-07)	(0.000155)	(8.26e-07)
Employees	0.0472	0.0201	0.0132	0.0115
	(0)	(0.00264)	(0.0655)	(0.0206)
Leverage	0.0350	0.00947	-0.00833	-0.0605
	(0.232)	(0.712)	(0.782)	(0.0241)
Industry concentration	-0.0605	-0.0420	0.0263	0.0164
	(0.105)	(0.227)	(0.451)	(0.610)
Return on assets (t-3)	0.0709	0.131	-0.00238	0.0739
	(0.576)	(0.253)	(0.984)	(0.474)
Revenue growth (t-3 to t-2)	0.0373	-0.0135	0.00481	0.00650
	(0.265)	(0.397)	(0.827)	(0.782)
Constant	-0.649	-0.554	-0.478	-0.326
	(6.05e-05)	(1.50e-07)	(0.000251)	(0.00494)
Industry FE	N	Y	Y	Y
State FE	N	Y	Y	Y
Firm controls	N	Y	Y	Y
Year FE	Y	Y	Y	Y
Observations	2,447	2,609	2,581	2,609
R-squared	0.173	0.249	0.178	0.287

Appendix Table 2: Corporate Purpose and deal characteristics, by job levels

Dependent variable:	Purpose-Clarity			
	Execs	Middle Manager	Professional /Technical	Hourly
	(1)	(2)	(3)	(4)
Firm Characteristics				
Employees	0.0221	-0.00855	-0.0425	-0.0430
	(0.244)	(0.478)	(0.0171)	(0.00539)
Assets	0.0181	0.0376	0.0465	0.0436
	(0.134)	(1.25e-05)	(1.16e-05)	(1.93e-06)
Return on asset	0.511	0.321	0.395	0.346
	(0.0281)	(0.0726)	(0.0199)	(0.0357)
Acquisition experience	0.00294	0.000712	0.000408	-0.00175
	(0.0890)	(0.377)	(0.716)	(0.0810)
Industry Characteristics				
Industry concentration	-0.148	-0.0933	-0.0103	-0.0337
	(0.105)	(0.0690)	(0.864)	(0.580)
Acquirer industry acquisition intensity	0.0174	0.00679	0.0109	0.00326
	(0.334)	(0.547)	(0.407)	(0.786)
Target industry acquisition intensity	-0.0227	0.00677	-0.00612	-0.0156
	(0.0960)	(0.362)	(0.433)	(0.0724)
Deal Relatedness				
Related	-0.00286	0.0147	0.0254	0.0313
	(0.922)	(0.429)	(0.183)	(0.120)
Unrelated	-0.0290	-0.0178	-0.00632	0.00756
	(0.278)	(0.218)	(0.693)	(0.599)
Deal Objective				
Expansion	-0.0373	-0.0239	-0.0395	-0.0293
	(0.128)	(0.150)	(0.0177)	(0.178)
Financial	-0.0910	0.00305	0.00899	-0.0125
	(0.125)	(0.913)	(0.801)	(0.664)
General/Null	0.00794	0.0115	0.0284	0.0216
	(0.822)	(0.608)	(0.241)	(0.369)
Intellectual Property	-0.00568	-0.0323	-0.0141	-0.0139
	(0.832)	(0.0405)	(0.367)	(0.575)
Deal Characteristics				
Public Target	0.0638	0.0265	0.0192	0.0292
	(0.0915)	(0.329)	(0.462)	(0.422)
Subsidiary Target	0.00584	0.00529	-0.000219	0.0126
	(0.843)	(0.703)	(0.988)	(0.372)
Deal form (Merger)	-0.0184	-0.0172	-0.0131	-0.0285
	(0.555)	(0.318)	(0.469)	(0.255)

Deal uniqueness	-0.0371	-0.0569	-0.0874	-0.0676
	(0.549)	(0.151)	(0.0532)	(0.0473)
Deal specificity	0.206	0.0859	0.153	0.0324
	(0.0637)	(0.208)	(0.0302)	(0.679)
Deal transparency	0.00173	0.00540	0.00582	0.00623
	(0.778)	(0.149)	(0.176)	(0.126)
Lagged Corporate Purpose				
Lagged Purpose-Clarity	0.582	0.579	0.395	0.339
	(2.45e-06)	(3.98e-07)	(9.01e-06)	(0.00556)
Lagged Purpose-Clarity (Non-missing)	0.0562	0.0487	0.0509	0.0513
	(0.0974)	(0.0350)	(0.0426)	(0.0204)
Constant	-0.273	-0.589	-0.0300	0.414
	(0.470)	(0.0125)	(0.911)	(0.237)
Year, state, industry FE	Y	Y	Y	Y
Other controls	Y	Y	Y	Y
Observations	738	826	825	826
R-squared	0.481	0.543	0.566	0.490

Appendix Table 3

Dependent variable:	Purpose-Clarity			
	Low Specificity	High Specificity	Low Transparency	High Transparency
	(1)	(2)	(3)	(4)
Industry Characteristics				
Industry Concentration	-0.0103	-0.0774	0.0118	-0.0591
	(0.871)	(0.222)	(0.859)	(0.311)
Acquirer industry acquisition intensity	0.00844	0.00589	0.00984	-0.00189
	(0.511)	(0.728)	(0.427)	(0.914)
Target industry acquisition intensity	-0.0119	-0.00215	-0.00956	0.00377
	(0.163)	(0.873)	(0.315)	(0.706)
Firm Characteristics				
Employees	-0.0295	-0.0227	-0.0434	-0.0126
	(0.0301)	(0.262)	(0.00336)	(0.424)
Assets	0.0429	0.0414	0.0467	0.0407
	(9.77e-06)	(0.00225)	(2.91e-05)	(5.25e-05)
Return on asset	0.309	0.465	0.248	0.499
	(0.0844)	(0.0691)	(0.156)	(0.0183)
Acquisition experience	0.000334	0.00107	0.000650	-0.000348
	(0.743)	(0.429)	(0.501)	(0.796)
Deal relatedness				
Related	0.0189	0.0481	0.0166	0.0518
	(0.325)	(0.0677)	(0.447)	(0.0254)
Unrelated	-0.0134	-0.0258	-0.0106	-0.0289
	(0.446)	(0.191)	(0.606)	(0.0828)
Deal objective				
Expansion	-0.0366	-0.00767	-0.0392	-0.0243
	(0.0841)	(0.708)	(0.123)	(0.151)
Financial	-0.0241	0.00388	-0.0323	0.00979
	(0.786)	(0.907)	(0.730)	(0.722)
General/Null	0.0153	0.0423	0.00847	0.00356
	(0.585)	(0.0966)	(0.773)	(0.878)
Intellectual Property	-0.0393	0.0110	-0.0347	-0.0102
	(0.0263)	(0.619)	(0.133)	(0.566)
Deal Characteristics				
Public Target	0.0243	0.0430	0.0298	0.0164
	(0.457)	(0.183)	(0.507)	(0.504)
Subsidiary Target	0.0205	0.00347	0.0207	0.00538
	(0.200)	(0.882)	(0.234)	(0.752)
Deal form (Merger)	0.00297	-0.0717	0.00524	-0.0332
	(0.875)	(0.00811)	(0.832)	(0.0904)

Deal uniqueness	-0.124	-0.0251	-0.123	-0.0543
	(0.00445)	(0.696)	(0.0146)	(0.360)
Deal specificity	0.191	0.0631	0.240	0.136
	(0.147)	(0.804)	(0.150)	(0.439)
Deal transparency	0.00839	0.0299	0.00966	0.0120
	(0.115)	(0.381)	(0.124)	(0.726)
Constant	0.114	-0.495	0.0937	-0.142
	(0.645)	(0.152)	(0.723)	(0.630)
Year, State, Industry FE	Y	Y	Y	Y
Other controls	Y	Y	Y	Y
Observations	530	301	424	407
R-squared	0.557	0.673	0.603	0.614

Appendix Table 4

Dependent variable:	Purpose-Clarity					
	Low Deal Uniqueness	High Deal Uniqueness	High Acquisition Exp	Low Acquisition Exp	Low Acquirer Industry Acquisition Intensity	High Acquirer Industry Acquisition Intensity
	(1)	(3)	(5)	(2)	(4)	(6)
Industry Characteristics						
Industry Concentration	-0.0908	0.00157	-0.0514	-0.0180	-0.0340	-0.113
	(0.124)	(0.983)	(0.425)	(0.807)	(0.620)	(0.213)
Acquirer industry acquisition intensity	0.0333	-0.00571	-0.0168	0.0319	-0.0256	-0.0501
	(0.127)	(0.625)	(0.247)	(0.115)	(0.222)	(0.0211)
Target industry acquisition intensity	-0.0165	-0.00312	0.00897	-0.00862	-0.0143	-0.0147
	(0.357)	(0.698)	(0.409)	(0.295)	(0.134)	(0.140)
Acquiring Firm Characteristics						
Employees	-0.0316	-0.0185	-0.0151	-0.0930	-0.0345	-0.0153
	(0.0740)	(0.220)	(0.272)	(0.000783)	(0.0731)	(0.313)
Assets	0.0421	0.0391	0.0428	0.0703	0.0609	0.0321
	(0.000374)	(7.73e-05)	(0.000741)	(6.65e-05)	(5.02e-06)	(0.00391)
Return on asset	0.380	0.377	0.123	0.876	0.732	0.138
	(0.0664)	(0.0814)	(0.528)	(0.000783)	(0.000837)	(0.545)
Acquisition experience	0.000206	0.000342	-0.000730	-0.00163	-0.000848	0.000482
	(0.853)	(0.722)	(0.863)	(0.141)	(0.529)	(0.687)
Deal relatedness						
Related	0.0398	0.0244	0.0102	0.00725	0.0261	0.000848
	(0.112)	(0.349)	(0.605)	(0.691)	(0.147)	(0.972)
Unrelated	0.0168	-0.0227	-0.0110	-0.0339	-0.0171	-0.0222
	(0.502)	(0.159)	(0.537)	(0.0301)	(0.277)	(0.220)
Deal objective						
Expansion	-0.0344	-0.0198	-0.0513	-0.00200	-0.0230	-0.0299
	(0.0677)	(0.306)	(0.0133)	(0.866)	(0.187)	(0.0796)
Financial	0.0104	-0.0116	0.0161	-0.0479	-0.0645	-0.0480
	(0.748)	(0.752)	(0.665)	(0.193)	(0.155)	(0.120)
General/Null	0.0107	0.00525	0.00963	0.0105	0.00234	0.0392
	(0.580)	(0.866)	(0.733)	(0.558)	(0.926)	(0.0498)
Intellectual Property	-0.0349	-0.00191	-0.0313	-0.00347	-0.0552	0.00903
	(0.0281)	(0.933)	(0.125)	(0.847)	(0.00201)	(0.575)
Deal Characteristics						
Public Target	0.0229	0.0311	0.00357	0.0436	0.00675	0.0207
	(0.363)	(0.290)	(0.888)	(0.0622)	(0.809)	(0.436)
Subsidiary Target	0.0203	0.0241	0.00429	0.0132	-0.00871	0.0204
	(0.221)	(0.206)	(0.805)	(0.230)	(0.588)	(0.175)

Deal form (Merger)	-0.0596	-0.00312	-0.00471	-0.0149	-0.00995	-0.0162
	(0.00609)	(0.889)	(0.820)	(0.270)	(0.564)	(0.511)
Deal uniqueness	-0.171	-0.0149	-0.0954	-0.0588	-0.0157	-0.192
	(0.00284)	(0.770)	(0.0433)	(0.0962)	(0.706)	(0.00120)
Deal specificity	0.136	-0.0348	0.168	0.0506	0.0768	0.171
	(0.0797)	(0.682)	(0.0531)	(0.436)	(0.229)	(0.0888)
Deal transparency	0.00697	0.00241	0.00570	0.00147	0.00806	0.00473
	(0.0172)	(0.678)	(0.257)	(0.633)	(0.0746)	(0.180)
Constant	-0.514	0.0215	0.149	0.0647	-0.253	0.677
	(0.0637)	(0.934)	(0.682)	(0.849)	(0.486)	(0.00769)
Year, State, Industry FE	Y	Y	Y	Y	Y	Y
Other controls	Y	Y	Y	Y	Y	Y
Observations	416	415	428	403	416	415
R-squared	0.666	0.574	0.576	0.728	0.654	0.687

Appendix Table 5

Dependent variable:	Return on Assets		Goodwill Impairment	
	Low Deal Uniqueness	High Deal Uniqueness	Low Deal Uniqueness	High Deal Uniqueness
	(1)	(2)	(3)	(4)
Purpose-Clarity (deal)	0.141	0.156	-0.879	-0.417
	(0.00874)	(0.0115)	(0.135)	(0.499)
Purpose-Clarity (residual)	-0.00805	0.0195	-0.442	0.000947
	(0.735)	(0.291)	(0.184)	(0.996)
"This is a physically safe place to work"	-0.0537	-0.0244	0.365	-0.500
	(0.294)	(0.276)	(0.507)	(0.0502)
Lagged return on assets	0.863	0.860		
	(0)	(0)		
Lagged goodwill impairment			0.0943	0.0992
			(0.0530)	(0.0139)
Constant	0.294	0.780	-0.0128	3.778
	(0.269)	(0.768)	(0.938)	(0.00890)
Year, State, Industry FE	Y	Y	Y	Y
Firm, Time-varying Industry controls	Y	Y	Y	Y
Observations	417	417	386	375
R-squared	0.874	0.833	0.365	0.514

Appendix Table 6

Sample	Non-acquiring Firms	Purpose-Clarity Acquiring Firms, non-Acquiring period	Acquiring Firms, Acquiring Period
Full Sample			
Post-acquisition mean	0.0041	0.0158	-0.0023
Pre-acquisition mean	-0.0004	0.0085	-0.0008
Difference	0.0045	0.0073	-0.0015
Observations	947	294	109