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Not All Friends Are Alike: A Categorization of Friendly Acquisitions Integrating the Acquired Firm Profile with the Acquirer's Approach

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Although previous studies have examined the distinct motivations of acquirers and contrasted the differences between friendly and hostile acquisitions, the combination of the acquirer and target firm perspectives, particularly within friendly acquisitions, has not yet been addressed. By adopting a multidisciplinary approach and integrating the acquiring and acquired firms' perspectives, this study identifies different types of friendly deals and investigates their impact on post-acquisition performance. A unique dataset of 668 acquisitions was constructed by merging the Zephyr and Orbis databases. A regression analysis revealed that, in general, rescue and appealing targets obtain better post-acquisition performance than average targets. The effect of rescue and appealing targets is accentuated by greater accumulated knowledge. Conversely, in partial acquisitions, the effect of rescue and appealing targets is diminished for high-accumulated knowledge. This signal change of the knowledge-moderating parameter implies that under general conditions, rescue and appealing targets outperform average targets. However, if the acquirer seeks to follow a collaborative approach to extract the accumulated knowledge of the target firm, then it is better to signal a more cooperative stance through a partial acquisition.

Introduction

The literature recounts the high interest of academics and practitioners in mergers and acquisitions (M&As) (Haleblian *et al.*, 2009), which is evident in the increasing number of M&As carried out every year (ca. 40,000 in 2022) and the many studies carried out by scholars from various disciplines. As a result, the literature provides valuable knowledge about pre-acquisition aspects related to the organization profile (King *et al.*, 2004), acquisition motives (Betzer, Doumet and Goergen, 2015), executive drivers (Devers *et al.*, 2007), target choice (Kaul and Wu, 2016), negotiation dynamics (Ahammad *et al.*, 2016b), due diligence (Angwin, 2001) and payment terms (Agarwal and Kwan, 2018). Also investigated are post-acquisition factors such as the integration approach (Tarba *et al.*, 2019), operational aspects (Seth, 1990), knowledge sharing (Sarala *et al.*, 2016), people management (Sarala, Vaara and Junni, 2019), cultural differences (Weber and Tarba, 2012) and communication (Friedman *et al.*, 2016).

Nevertheless, the M&A literature is mainly focused on the acquirer perspective, without sufficiently differentiating the various types of deals, and there is therefore still a need to deepen the understanding and improve the performance of acquisitions (Ferreira *et al.*, 2014; Gomes *et al.*, 2020). Evidence suggests that most acquisitions fail to deliver the expected value (Tuch and O'Sullivan, 2007). Previous studies have also delved deeply into the differences and impacts of hostile and friendly acquisitions, with special attention paid to financial aspects (Healy, Palepu and Ruback, 1997; Lois *et al.*, 2021). However, although the differences between friendly and hostile transactions have been widely studied, researchers have not addressed the potential performance variations within friendly acquisitions. This is an important lacuna because in an environment of acquisitions driven largely by strategic rather than mere financial goals, most transactions tend to be conducted in a friendly manner (Andrade, Mitchell and Stafford, 2001). From a performance effect perspective, the substantial body of knowledge in the literature indicates that friendly acquisitions are preferable to hostile deals but still, most friendly transactions fail to perform in accordance with expectations (Sinkovics, Zagelmeyer and Kusstatscher, 2011). Moreover, evidence suggests that friendly acquisitions are not a uniform phenomenon and can differ regarding various features (Ghauri and Buckley, 2003; Lubatkin, 1983).

With a focus predominantly on the acquirer's viewpoint (Graebner and Eisenhardt, 2004), previous studies have analysed the multiple factors that motivate and distinguish acquisitions (Bower, 2001; Howell, 1970). The factors examined include the management receptiveness (Rao-Nicholson, Salaber and Cao, 2016), executive biases and drivers (Doukas and Petmezas, 2007; Haleblian and Finkelstein, 1999), trust development and communication (Reus and Lamont, 2009) and financial circumstances (Tuch and O'Sullivan, 2007), but overlook integrated perspectives of the acquirer and target firm. The target firm context results from the financial situation generated by the accounting results and accumulated knowledge associated with the intangible assets. We analyse the impact of the target financial situation with the moderation of the accumulated knowledge on the post-deal performance, depending on the acquirer strategy. This allows us to examine different types of friendly acquisitions, for which we use a unique dataset of 668 friendly deals constructed by merging the Zephyr and Orbis databases.

We make three important contributions to the literature on hostile and friendly acquisitions. First, this study is the first to acknowledge and test the assumption that not all friendly acquisitions are alike and demonstrates the impact of distinct target contexts on the performance following completion. This represents a major contribution to the literature, as prior research has focused mostly on the distinction between friendly and hostile transactions, which might not be representative of the prevailing acquisitions given the over-occurrence of friendly deals (Healy, Palepu and Ruback, 1997; Muehlfeld, Sahib and van Witteloostuijn, 2007).

A second crucial contribution of this study results from the multidisciplinary approach adopted. Several scholars have emphasized that the M&A literature tends to be highly compartmentalized and lacks the multidisciplinary approach necessary to understand this complex and multifaceted phenomenon (Gomes *et al.*, 2013). The combination of the acquired firm's financial and strategic aspects, such as the accumulated knowledge, with the acquirer's strategy, represents another important contribution to the literature. This multidisciplinary approach enables us to draw upon the M&A, finance and strategic management literatures to unveil some of the complexities of a multifaceted phenomenon (Angwin, Paroutis and Connell, 2015; Dullard and Hawtrey, 2012).

A third important contribution results from the integration of both the acquirer perspective in light of the acquisition strategy (full or partial) and the acquired firm perspective, by examining the context of the target company at the time of the acquisition as reflected in their financial situation and accumulated knowledge levels. Graebner and Eisenhardt (2004) make the criticism that most studies tend to focus on the acquirer's perspective and argue that it is important to combine the acquirer and acquired firm perspectives because an acquisition is a joint buyer and seller process, oriented towards common objectives. To complement the extensive literature on factors impacting acquisitions, this study reveals that the effectiveness of the acquisition strategy depends largely on the context of the acquired firm, which highlights the poorly understood complexity of a transaction process that often leads to disappointing results (Lois *et al.*, 2021).

Theoretical background and hypotheses

Moving from between to within heterogeneities

The literature discusses the generic differences between hostile takeovers and friendly acquisitions, with a particular focus on financial and, to a certain extent, strategic and behavioural aspects. Acquisitions used to be driven mainly by financial objectives leading to hostile takeovers, but currently most transactions seek the delivery of synergies resulting from the strategic goals of friendly acquisitions (Weber and Dholakia, 2000). While hostile takeovers involve offers made directly to the target shareholders, friendly acquisitions are endorsed by the target organization (Muehlfeld, Sahib and van Witteloostuijn, 2007) and result in substantially different transaction processes (Nenad and Tatjana, 2014). The results (Lois *et al.*, 2021) usually enable friendly deals to outperform hostile takeovers (Healy, Palepu and Ruback, 1997).

Earlier research indicates that friendly deals tend to signal a quality acquirer and are more likely to succeed than hostile deals signalling disciplinary transactions with an impact on management and employee turnover, job losses and labour productivity (Krug, Wright and Kroll, 2014). The target employees can be sensitive to extensive changes (Guerrero, 2008) and usually prefer friendly acquisitions (Citera and Stuhlmacher, 2001), which tends to facilitate the integration of the acquired firm and knowledge exchange (Chowdhury and Maung, 2018).

The above discussion explains the preference of most acquirers for friendly acquisitions. Although the literature has taken account of the acquired firm context and signalling/reaction function in terms of between differences (friendly vs. hostile) (Gilbert and Lyn, 1990; Goergen and Renneboog, 2004), we argue that the differences of context and signalling/reaction function within friendly acquisitions should be explored further. Findings reported by Andrade, Mitchell and Stafford (2001) show that the percentage of hostile acquisitions fell from approximately 14% in the 1980s to only 4% a decade later. In a recent study, Testoni, Sakakibara and Chen (2022) assert that over the last three decades, most acquisitions have tended to be friendly transactions pursued by a single bidder. In an extensive meta-analysis, King *et al.* (2021) discuss a relationship between continuous measures employed for target results and performance, without identifying any study that takes into account either the impact of distinct categories of target firms on post-deal results or the moderating influence of the target knowledge on this relationship in the context of the acquirer's full or partial strategy. As such, it is important to grasp the nuances and examine the implications of the different types of friendly transactions, since it seems that not all friendly deals are alike.

Within heterogeneities: Not all friends are alike

The circumstances of the target entity can affect not only the process, but also the post-acquisition performance (Devers *et al.*, 2020) (Stahl *et al.*, 2011). Pritchett, Robinson and Clarkson (1997) classify the M&A deals based on the degree of management and employee receptiveness for the transaction and the level of risk for performance after completion. According to these authors, the attitude of the management team and employees of the target company towards the acquisition can range from being amicable to adversarial, thereby leading to distinct combinations in terms of the degree of resistance and levels of risk. In acquisitions involving target entities in financial difficulty, the resistance from management and employees is minimal but the involved risk is high. This tends to be the case because, although management and employees of the target firm facing a challenging financial situation may be more receptive to external help, the difficulties and risks associated with the necessary post-acquisition restructuring process are also quite high. In contrast, the acquisition of a well-performing entity can be an intense and antagonistic process that may trigger opposition and resistance from the target firm's management team and employees. Such resistance can be conducive to loss of talent and knowledge in the acquired firm (Krug, Wright and Kroll, 2014). This can pose a serious performance risk, despite all the potential that such an appealing target may entail. In comparison, cases involving target firms with a moderate financial situation at the time of the acquisition tend to present some alignment and cooperation between the transaction parties. As suggested by other scholars, the acquisition of a target firm with average performance can be constructive and respectful but the positive tone of the pre-deal phase is seldom sustained after completion due to the inefficiency of communication, misalignment of objectives and loss of autonomy (Angwin *et al.*, 2016). Hence, Pritchett *et al.* (1997) argue that although deals involving average targets may not be considered as risky as those involving rescue and appealing targets, and may present only an intermediate level of target management and employee resistance, their success depends greatly on the degree of cooperation and alignment between the parties.

These authors also suggest that the target firm's degree of receptiveness and cooperation in a friendly acquisition depends on the company's financial circumstances. For entities facing difficult financial situations (rescue targets), the management and employees of the target firm may be more likely to look for external help, but the necessary restructuring can be a source of anxiety and insecurity. The acquiring entity may be interested in the upside potential resulting from the future restructuring and combined synergies that render the target firm more valuable for the acquirer than for the existing owners. Based on value discrepancy theory, acquiring firms are prepared to bid for a target only if the existing uncertainty and information asymmetry allow them to believe in a more efficient operation generating a future value above the target's holding value (Fairburn and Kay, 1989; Gray and McDermott, 1989). In the case of rescue situations, the market value of the target firms tends to be relatively low, thereby representing a financial opportunity and motivating the acquiring firm to enact the transaction (Green, 1990; Seth, Song and Pettit, 2000). Rescue targets are therefore more likely to involve management teams and employees that support salvage (full or partial) transactions and present the potential for a turnaround that is attractive to the acquirer (Haleblian *et al.*, 2009). Although underperforming organizations are usually risky propositions, firms in difficulties that combine the commitment of the management and employees with a significant restructuring potential can bring substantial rewards for the acquirers, provided they are able to mitigate the existing risks (O'Kane and Cunningham, 2014).

In friendly deals involving entities with intermediate levels of financial results (average targets), in principle the transaction process tends to be constructive and positive, but this pre-deal tone is seldom sustained after completion and poses a risk (Pritchett, Robinson and Clarkson, 1997). Compared to a rescue target, an average target has lower potential in terms of financial upside and can expose the acquirer to some management and employee resistance. The M&A literature generally acknowledges that, on average, most acquisitions fail to deliver the initial set of objectives and expectations (Cartwright and Schoenberg, 2006). The most common acquisitions involve targets with average pre-acquisition financial situations (neither extremely weak nor very strong pre-deal results), which tend, on average, to underperform. Rescue targets thus present risks and possible rewards in friendly acquisitions that can potentially generate more value for acquirers than a friendly deal involving an average target with the inherent prospect of results below expectation. We advance the following hypothesis for the friendly transactions in the study:

H1a: Rescue friendly acquisitions exhibit higher performance than average friendly acquisitions.

Evidence from previous studies seems to indicate that, in general, acquisitions tend to cause rumours, uncertainty and management turnover in target firms (Kramer, Dougherty and Pierce, 2004). Nevertheless, we have argued above that such effects can be diminished in the case of rescue acquisitions in which the target management and employees may perceive the acquisition as salvation from a difficult financial situation. In contrast, the management and employees of a target with solid financial results (appealing target) are usually less receptive to a friendly acquisition, which can lead not only to the loss of some people and knowledge, but also the erosion of results (Lubatkin, Schweiger and Weber, 1999). Despite the promising attributes and high gains that prompt the acquirer's interest, an appealing target presents performance risks due to management resistance in response to the anticipated loss of power and position (Hitt *et al.*, 1998). Nonetheless, the acquirer may be willing to face management and employee resistance and performance risks because the target profile and results can still lead to substantial post-deal rewards (Bebenroth and Kshetri, 2013). A firm with an intermediate level of performance (average target) presents some risks and, on average, is likely to underperform relative to expectations (Tuch and O'Sullivan, 2007). Thus, the higher risks of an appealing target are associated with higher results that, on balance, can generate even more value to the acquirer than a friendly deal involving an average target. As such, we present the following hypothesis regarding our sample of friendly acquisitions:

H1b: Appealing friendly acquisitions exhibit higher performance than average friendly acquisitions.

The moderating effect of the accumulated knowledge

The strategic position of an organization is a function of internal tangible and intangible resources (Ahammad *et al.*, 2017; Zollo and Winter, 2002), which represent sources of competitive advantage that influence performance (Chalençon *et al.*, 2017; Hall, 1992). The intangible resources include strategic assets such as know-how, knowledge and technologies (Bollinger and Smith, 2001; Teece, Pisano and Shuen, 1997). The knowledge-based view (Grant, 1996; Peteraf, 1993) considers the acquisition and transfer of knowledge as a priority for the development of unique capabilities (Kogut and Zander, 2003; Paruchuri, Nerkar and Hambrick, 2006). The M&A literature acknowledges the importance of resource complementarity (King *et al.*, 2004; Popli, Ladkani and Gaur, 2017) and knowledge integration (Saxton and Dollinger, 2004; Wójcik, 2015). Evidence from previous studies demonstrates that the transfer of knowledge influences the post-completion performance (Ahammad *et al.*, 2016a; Casal and Fontela, 2007), which seems to depend on the ability to create a sense of belonging and establish a productive community during the integration phase (Birkinshaw, Bresman and Nobel, 2010; Lakshman, 2011). The efficiency of individual participation and team interactions hinges on relational aspects involving individual behaviours, actions and emotions that support the transfer of knowledge and retention of people (Angwin, Paroutis and Connell, 2015).

The above hypotheses were developed based on the idea that not all friendly acquisitions are alike and that management's and employees' receptiveness towards the deal are likely to be influenced by the target financial situation, which may impact performance. We also argue that such a relationship is likely to be affected by the target situation in terms of accumulated knowledge (Cassia and Minola, 2012; López, Neves and Cunha, 2019). For rescue targets with knowledge, the acquirer may be able to extract and employ the knowledge to improve the financial performance in a more efficient manner than the target entity. This is especially true in instances of rescue targets that have been successful at exploring and creating knowledge but ineffective at exploiting and translating this knowledge into results (Lavie, Stettner and Tushman, 2010; Wu *et al.*, 2021). In line with value discrepancy theory, the above-argued effect for a rescue target can be magnified for a rescue target with accumulated knowledge since the acquirer may benefit not only from the imperfect information and uncertainty but also from the deployment of the extracted knowledge to increase results and generate even more value than the target firm (Green, 1990; Seth, Song and Pettit, 2000). We therefore postulate the following hypothesis for the friendly transactions in our sample:

H2a: The accumulated knowledge has a moderating effect on the relationship between rescue friendly acquisitions (vs. average friendly acquisitions) and post-acquisition performance, such that there is an improvement in the performance of rescue (relative to average) acquisitions with the increase in knowledge.

As argued above, appealing targets present attractive financial results but also risks associated with management and employee resistance. For appealing targets with knowledge, the risk level may increase with the compounded resistance resulting from the management and employee turnover and knowledge capabilities (Krug, Wright and Kroll, 2014). However, if the performance is already solid, results might be reinforced through the extraction and synergetic utilization of the knowledge. From an acquirer's perspective, the valuation discrepancy for an appealing target with knowledge may be even greater than the holding value for an appealing target without the same knowledge because the acquirer may be able to utilize the knowledge more efficiently than the target (Green, 1990; Seth, Song and Pettit, 2000).

M&A studies indicate that, on average, the most common targets presenting an intermediate level of pre-deal results not only tend to underperform relative to expectations after completion, but also are not exempt from risks (Tuch and O'Sullivan, 2007). The friendly acquisition of an appealing target with knowledge is likely to provide the acquirer with an opportunity to benefit from an even better performance after completion than the acquisition of an average target (that, on average, underperforms) with knowledge (at times, less visible and accessible) (Calipha *et al.*, 2018). Because of this, we test the following hypothesis for the entire sample of friendly acquisitions:

H2b: The accumulated knowledge has a moderating effect on the relationship between appealing friendly acquisitions (vs. average friendly acquisitions) and post-acquisition performance, such that there is an improvement in the performance of appealing (relative to average) acquisitions with the increase in knowledge.

Acquisition strategy and signalling

The M&A literature suggests that acquirers experiencing information asymmetry and uncertainty can adopt prudent positions while signalling concerns that may prompt a reaction from the target firm to increase their credibility and the buyer's confidence (Ragozzino and Reuer, 2007; Wu, Reuer and Ragozzino, 2013). This signalling is important to structure the transaction and facilitate the extraction of strategic assets such as the accumulated knowledge and innovation (Makri, Hitt and Lane, 2010; Reuer, Tong and Wu, 2012). Simultaneously, a target benefits from the acquirer's signalling to address reservations before finalizing a decision on the deal (Graebner, 2009; Graebner and Eisenhardt, 2004).

As an illustration, the signalling associated with a partial acquisition indicates the acquirer's willingness to cooperate to benefit from joint contributions after completion (Bergh *et al.*, 2014; Fuentelsaz, Garrido and González, 2020), which facilitates the engagement of resources and transfer of knowledge (Chhabra, Popli and Li, 2021; Szucs, 2014). In fact, target firms perceive partial acquisitions as inclusive and integrative processes (Goergen, Manjon and Renneboog, 2008; Wu, Reuer and Ragozzino, 2013) and as a result are more receptive to transferring the knowledge to the acquirers (Aalbers, McCarthy and Heimeriks, 2021; Graebner, 2009). The implementation of a partial strategy considering the target reaction allows the acquirer to signal the intention to collaborate, which is especially important for transactions involving target firms with high levels of accumulated knowledge (Ross, 1977; Spence, 1973; Wang and Larimo, 2020). As such, the proactive integration of the target's perspective leads the acquirer to adopt a partial ownership strategy (implemented in collaboration) for targets with high knowledge. It is understood by both parties that this ownership strategy is to be retained after the completion of the friendly deal.

We are therefore interested in studying the influence of the accumulated knowledge on the relationship between the target financial situation and the post-deal performance, which may require the ability to extract the target knowledge and may benefit from the signalling associated with a partial acquisition. We assert that the partial acquisition of any type of target entity may be more appropriate to signal a collaborative approach because part of the acquired firm ownership (and possibly management) structure is preserved to retain the people and knowledge of the acquired company (Abell, Felin and Foss, 2008; Paruchuri, Nerkar and Hambrick, 2006). In contrast, even in deals officially declared to be friendly, full acquisitions may be perceived by the target firm as being less cooperative as the deals change the existing ownership structure and are more likely to result in changes in the target management (Dang and Henry, 2016; Yoon, Peillex and Buckley, 2021).

From the perspective of the target firm, the managers and employees of an appealing target do not tend to perceive their future as being at risk because the acquirer or a competitor is likely to value the achievements and be interested in securing their contribution. In contrast, the managers of a rescue target may be more inclined to recognize the unsustainability of the situation and eager to resolve the firm's underperformance. Hence, they may tend to be more receptive and willing to collaborate with the acquirer to address the difficulties, preserve jobs and protect the various stakeholders' interests. The management team and employees of an average target, on the other hand, may see no need for the acquisition because the firm performance is average (though not particularly strong), and they may therefore tend to resist the acquisition to protect their positions. However, a partial acquisition strategy is likely to minimize the uncertainty of the average target management because it signals the acquirer's interest in maintaining the target managers and promoting collaborations after completion.

Overall, partial acquisitions signal the intention to collaborate. This not only encourages the proactive integration of the target perspective and favours knowledge extraction, but also provides assurance and addresses the uncertainty of average target managers. For the partial acquisition of average targets with knowledge, we argue that the involved signalling facilitates knowledge retention and management support in a process leading to financial results that can exceed the performance of rescue and appealing targets. We thus assess the following hypothesis for partial acquisitions:

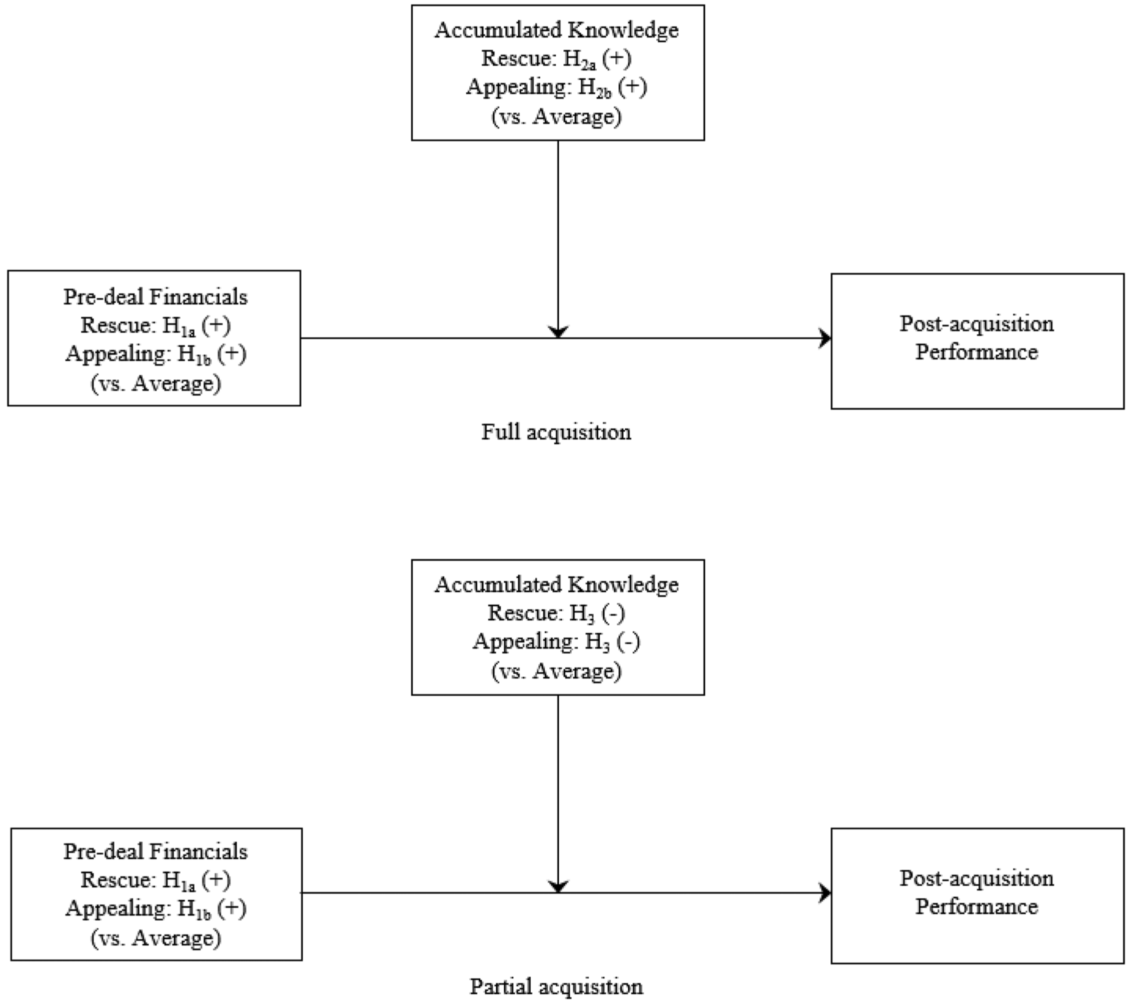

Figure 1. Conceptual model

H3: Due to the signalling effect in the context of partial acquisitions, the accumulated knowledge has a moderating effect on the relationship between average friendly acquisitions (vs. other friendly acquisitions) and post-acquisition performance, such that there is an improvement in the performance of average (relative to other) acquisitions with the increase in knowledge.

Figure 1 illustrates the conceptual research model to be empirically tested. Following an approach similar to that of Cassiman and Golovko (2011), Gomes *et al.* (2018) and Vendrell-Herrero, Darko and Vaillant (2022), we used subsamples (partial and full acquisitions) to test the moderating influence of the target accumulated knowledge on the relationship between the target financial situation and post-deal performance.

Methodology

Data

The analysis is limited to the period between 2010 and 2020 to ensure the examination of recent transactions. The friendly acquisitions were completed between 2011 and 2018, which allows us to assess the performance evolution between pre- (T – 1) and post- (T + 2) acquisition. Without industry or country restrictions, the transactions relate to public deals involving listed acquirers and targets to ensure the availability of information in the Zephyr and Orbis databases.

Table 1. Dataset descriptive statistics (n = 668)

	Partial acquisition		Full acquisition		**Total**	
Rescue	129	19.3%	153	22.9%	**282**	**42.2%**
Average	120	18.0%	130	19.5%	**250**	**37.4%**
Appealing	77	11.5%	59	8.8%	**136**	**20.4%**
	326	48.8%	342	51.2%	**668**	**100.0%**

Table 2. Means, standard deviations, correlations and significance levels (n = 668)

	M	SD	1	2	3	4	5	6	7
ROA change (×100%)	−0.22	0.71	1.00						
Rescue	0.42	0.49	0.01	1.00					
Appealing	0.20	0.40	0.05	−0.43***	1.00				
Target knowledge ($bn)	0.19	0.54	−0.03	0.09**	0.08**	1.00			
Target revenue ($bn)	0.82	1.91	0.01	0.06*	−0.07**	0.55***	1.00		
Cross-border	0.15	0.36	0.00	−0.07**	0.06**	0.10***	0.01	1.00	
Acquirer strategy (F/P)	0.51	0.50	0.16***	0.05*	−0.08**	0.18***	0.17***	−0.01**	1.00

*p < 0.1; **p < 0.05; ***p < 0.01.

Regarding the acquired stake level, the transactions resulted in either a majority (>50%) or full equity participation in the target organization. The unit of analysis for the research is the friendly acquisition.

After the exclusion of outliers (n = 172), we identified 1463 deals that resulted in 668 acquisitions with full availability of data (without missing values) for all the variables and suitable for the analysis (Conyon *et al.*, 2001; Sudarsanam and Mahate, 2006). We conducted t-tests comparing variables for the 668 selected deals with the 795 excluded cases and the results indicate that the two datasets are not statistically different, which reveals that there are no reservations regarding sample bias. Based on the criteria employed for the characterization of the target financial situation, the acquisitions (all friendly) involved rescue (42.2%), average (37.4%) and appealing (20.4%) target firms with a similar split between partial (48.8%) and full (51.2%) transactions (Table 1). The dataset includes 566 domestic and 102 cross-border deals.

The variables present low correlation values (Table 2), which indicates that there are no noteworthy collinearity reservations. We employed linear regression analysis to measure the degree of association between the target financial situation and performance after completion.

Measures

Independent variable

Pre-acquisition financial situation of the target. The target financial situation depends on the accounting results of the target (King *et al.*, 2021; Pritchett, Robinson and Clarkson, 1997). From a financial perspective, researchers have employed numerous indicators and ratios to assess the performance and gauge the circumstances of an organization (Chalençon, 2017; Deac, 2018; Gaughan, 2018). The most common measures include the cash-flow margin, debt-to-equity gearing and net asset turnover (Avci Ozturk and Ozcelik, 2015; Dossi and Patelli, 2010).

The cash-flow margin indicates the ability to convert sales into cash, which is an essential profitability indicator employed to measure the efficiency of the firm not only in facing its expenses and cost obligations, but also in releasing cash and remunerating the shareholders. The entities in the dataset with the highest levels of cash-flow margins are considered the best-performing businesses. In terms of capital structure, the debt-to-equity ratio (i.e., the gearing ratio) expresses the business exposure to lenders relative to the shareholders' equity participation. The higher the gearing ratio, the more the company is at risk of default in the fulfilment of its obligation, which can lead to financial distress and bankruptcy. As a complement, the net asset turnover ratio reveals the business's efficiency in utilizing its assets to generate sales and results. Although the net asset turnover ratio varies with the industry, a low ratio indicates that the business can be employing too many assets for the revenues obtained. For our dataset, the target entities with either a high gearing ratio or low asset turnover are considered the poorest-performing firms.

Based on Pritchett, Robinson and Clarkson (1997), the financial situation was classified as rescue, average or appealing, depending on the target circumstances. According to the criteria adopted for the study, the top-performing targets were identified based on cash-flow margins exceeding 20%, while the bottom performers were selected based on either a debt-to-equity gearing above 100% or a net asset turnover below 1 upon completion (year T). As such, the bottom performances were identified as rescue targets and the top performances as appealing targets, while intermediate levels of financial results were classified as average targets. This categorization of the target financial situation can be perceived as an underlying indication of the potential performance after completion from the perspective of the acquiring entity. For the analysis, the target financial situation is a multi-categorical independent variable coded 1 for rescue targets, 2 for appealing targets and 0 for average targets.

Moderating variable

Accumulated knowledge. We used the accounting book value of the target intangible assets related to patents, intellectual property, trademarks, copyrights and goodwill as a proxy for the accumulated knowledge in the acquired organization (Lamotte *et al.*, 2021; Pfarrer, Pollock and Rindova, 2010). As a valuable intangible asset, the target knowledge can be captured or eroded during the acquisition and thus can interact with the target financial situation to influence the post-deal results (Giovanni and Chiara, 2012; Hall, 1992).

Understanding the knowledge moderation in the context of a partial acquisition strategy affords us a more nuanced appreciation of the signalling effect generated by partial ownership (Basdeo *et al.*, 2006; Riley, 2001). A partial acquisition leading to a majority stake (>50% equity) can affect the impact of the target financial and knowledge contexts on performance differently (Devers *et al.*, 2020; Goergen, Manjon and Renneboog, 2008). Based on a data subset obtained through a filtering process (Cassiman and Golovko, 2011; Gomes *et al.*, 2018; Vendrell-Herrero, Darko and Vaillant, 2022), the research model led to an evaluation of the moderating effect of the target knowledge from a partial equity perspective (Sigera and Cahoon, 2018; Zou and Ghauri, 2008).

Control variables

We included control variables related not only to the cross-border nature of the deal and completion year, but also to the size, industry and geographical region of the target in light of the study's focus on the effect of the acquired firm profile on the transaction outcome (Bebenroth and Kshetri, 2013; Shen *et al.*, 2021). For this purpose, the 34 countries of the targets were clustered into six groups based on their geographical regions and a similar approach was adopted for the 28 primary sectors to create eight industry groups for the targets. In a process not sensitive to the choice of the omitted control element, the industry and regional groups plus the completion year were split into several elements coded as indicators (0 or 1), which permitted us to exclude one element as a control indicator per variable. In addition, a variable was coded 1 for international deals and 0 for domestic transactions to control for the cross-border nature of the acquisitions. To assess the stability of the results, we tested additional configurations of the dummy and control variables and found no significant changes.

Dependent variable

Acquisition performance. The financial evolution from before to after completion was employed to assess the impact of the target financial situation. According to Porrini (2004), the financial value generated or destroyed by an acquisition can be evaluated based on the relative difference of the joint ROA (return on assets) from the pre-deal (T – 1) to the post-deal (T + 2) situation (Andrade, Mitchell and Stafford, 2001). The joint ROA change reflects the performance evolution and can be assessed based on the combined ROA before and after completion (T). As a commonly used ratio not exposed to the external volatility of the financing sources (i.e., debt and equity), ROA indicates the net profits generated by the assets

Table 3. Regression results

		Full sample		Partial acquisition		Full acquisition	
		Baseline	Knowledge	Baseline	Knowledge	Baseline	Knowledge
(c1)	(c2)	(c3)	(c4)	(c5)	(c6)	(c7)	(c8)
Constant	Coeff. β_0	–0.369***	–0.401***	–0.764***	–0.765***	–0.001	–0.056
	(SE)	(0.118)	(0.112)	(0.192)	(0.186)	(0.148)	(0.127)
Rescue	Coeff. β_1	0.146**	0.156**	0.192*	0.170*	0.099	0.120*
	(SE)	(0.063)	(0.064)	(0.100)	(0.103)	(0.079)	(0.073)
Appealing	Coeff. β_2	0.246***	0.252***	0.326***	0.297***	0.174*	0.193*
	(SE)	(0.079)	(0.068)	(0.120)	(0.095)	(0.105)	(0.101)
Knowledge	Coeff. β_3	–0.126**	–0.229***	–0.108	0.285	–0.114*	–0.268***
	(SE)	(0.063)	(0.078)	(0.142)	(0.237)	(0.065)	(0.079)
Rescue × Knowledge	Coeff. β_4		0.083		–0.508**		0.162*
	(SE)		(0.086)		(0.247)		(0.084)
Appealing × Knowledge	Coeff. β_5		0.155*		–0.288		0.188**
	(SE)		(0.088)		(0.268)		(0.092)
Control size	Coeff. β_6	0.016	0.021	0.026	0.032	–0.001	0.007
	(SE)	(0.017)	(0.017)	(0.036)	(0.026)	(0.018)	(0.021)
Industry dummies		Yes	Yes	Yes	Yes	Yes	Yes
Country dummies		Yes	Yes	Yes	Yes	Yes	Yes
Year dummies		Yes	Yes	Yes	Yes	Yes	Yes
Cross-border dummy		Yes	Yes	Yes	Yes	Yes	Yes
Number observations		668	668	326	326	342	342
R-square		0.086	0.087	0.134	0.138	0.096	0.100

*p < 0.1; **p < 0.05; ***p < 0.01.

employed in the business and is thus a measure of the management effectiveness (Borodin *et al.*, 2020; King *et al.*, 2021). The joint ROA change is calculated through $ROA_{change} = (ROA_{t+2} - ROA_{t-1})/(ROA_{t-1})$.

Empirical model

To assess our hypotheses, the regression analysis in Equation (1) was tested. In this equation, subscript i identifies the acquisition, the vectors of coefficients φ_t, φ_s, φ_c and φ_b relate to the completion year, target sector, target country and cross-border nature, respectively, while ε_i is an error term:

$$\begin{aligned} Performance_i &= \beta_0 + \beta_1 Rescue_i + \beta_2 Appealing_i \\ &+ \beta_3 Knowledge_i + \beta_4 Rescue_i * Knowledge_i \\ &+ \beta_5 Appealing_i * Knowledge_i + \beta_6 Size_i + \varphi_t \\ &+ \varphi_s + \varphi_c + \varphi_b + \varepsilon_i \end{aligned} \tag{1}$$

The coefficients in Table 3 indicate the sign and significance of the relationships and are the basis for evaluating the support for the hypotheses. Table 3 also reports the marginal effect of each parameter on the dependent variable. The research model allows for the effect resulting from two interactive variables with coefficients β_4 and β_5 that can be interpreted with the support of the graphics below. Moreover, the research tests the model described by the above equation for subsamples relative to partial or full ownership level, which affords a more insightful appreciation of the moderation effect resulting from the target knowledge in the context of the target financial situation. Table 3 indicates the coefficient βs and marginal effects for not only the full dataset (columns 3 and 4), but also the data subsets of partial (columns 5 and 6) and full acquisitions (columns 7 and 8).

Results

Table 1 reveals an almost equal number of majority stake (48.8%) and full equity (51.2%) acquisitions. The acquisitions in the dataset (n = 668) experienced an average 22% (Table 3, column 2) fall in the combined ROA from a pre- to a post-deal situation. Upon completion, the target accumulated knowledge (using the target intangible assets as a proxy) presented an average of \$190 million and the mean for the target revenues was \$820 million per year (Table 2, column 2). The results reveal value destruction associated with the acquisitions ($M = -0.22, SD = 0.71$). The collinearity statistics for the variance inflation factor and tolerance tests indicate that there are no multicollinearity reservations for the variables used in the study and that the regression coefficients (Table 3) are therefore reliable and significant.

The first hypotheses (H1a and H1b) address the differences in performance depending on the target financial situation before the transaction. Following the theoretical argumentation, it is expected that rescue (H1a) and appealing (H1b) acquisitions will have better performances than average acquisitions. Table 3 indicates that rescue and appealing targets yield higher changes in the ROA than average acquisitions. For the full dataset (Table 3, column 3), the β_1 coefficient in the baseline regression (without knowledge moderation) reveals that the ROA change is 14.6% (p-value < 0.05) greater for rescue targets than for average targets, and β_2 reveals that the ROA change is 24.6% (p-value < 0.01) greater for appealing targets than for average targets. Hence, H1a and H1b are supported by the results. We ran an analysis of variance to test the three groups at once and the results are qualitatively the same as our results for the baseline model.

For the full sample, the knowledge direct effect on the baseline performance (Table 3, column 3) is -0.126 (β_3). For the entire dataset (Table 3, column 4), the knowledge moderation effect on performance has a direct effect of -0.229 (β_3, p-value < 0.01) and a moderation effect of either 0.083 (β_4, not significant) for rescue targets or 0.155 (β_5, p-value < 0.1) for appealing targets. The β_1 coefficient for rescue targets increases to 0.156 (p-value < 0.05) and β_2 increases to 0.252 (p-value < 0.01) for appealing targets, which increases the overall knowledge moderation effect for the rescue and appealing targets relative to average targets. This conclusion is achieved by adding up the coefficient βs (Table 3, column 4) of the regression Equation (1) for the rescue and appealing targets (relative to the average targets). Compared with the baseline case, these results indicate that for the entire dataset there is an incremental moderating effect of the knowledge for rescue and appealing targets (relative to average targets) on the relationship between the target financial situation and the performance after completion. The knowledge moderation effect on the relationship between the target financial situation and post-deal performance for the full sample is illustrated in Figure 2, where the post-acquisition performance is higher for rescue and appealing targets than for average targets. Moreover, the performance decreases with increasing levels of knowledge in a process amplified for average targets relative to not only rescue targets, but also even more for appealing targets. Therefore, H2a is not supported but the value goes in the expected direction and H2b is partially supported.

The dataset was split into subsets of full and partial acquisitions to achieve a more insightful understanding of the moderating influence of knowledge. This analysis is focused on partial acquisitions to study the associated signalling effect, but for completeness the regression results for the full acquisitions are presented in Table 3 (columns 7 and 8), which reinforces the entire dataset results and highlights the contrasting differences of the partial deals. H3 assesses the performance differences resulting from the influence of knowledge for rescue and appealing targets (relative to average targets) in partial acquisitions. It is expected that in relation to rescue and appealing targets, the target knowledge will moderate the relationship between the average targets and performance differently due to the signalling resulting from a partial deal (H3). Compared with the baseline performance, the moderation of increasing levels of knowledge in the partial acquisition of rescue and appealing targets is expected to generate decreasing performances (relative to average targets). In other words, H3 relates to partial acquisitions and predicts that (compared with the baseline results) the accumulated knowledge has a detrimental moderating effect on the performance of rescue and appealing targets relative to average targets.

The β_1 in column 5 of Table 3 (baseline for partial ownership) indicates that rescue targets produce 19.2% (p-value < 0.1) higher ROA changes than average targets, and β_2 (same column) reveals that the ROA is 32.6% (p-value < 0.01) higher in appealing targets than in average targets. For rescue targets with knowledge in partial acquisitions (Table 3, column 6), the β_1 coefficient has a value of 0.170 (p-value < 0.1) for the knowledge interaction model, which is a reduction of the β_1 coefficient of 0.192 (p-value < 0.1) (Table 3, column 5) in the baseline model. Apart from the β_1 decrease, coefficient β_4 (Table 3, column 6) for the knowledge interaction with rescue targets presents

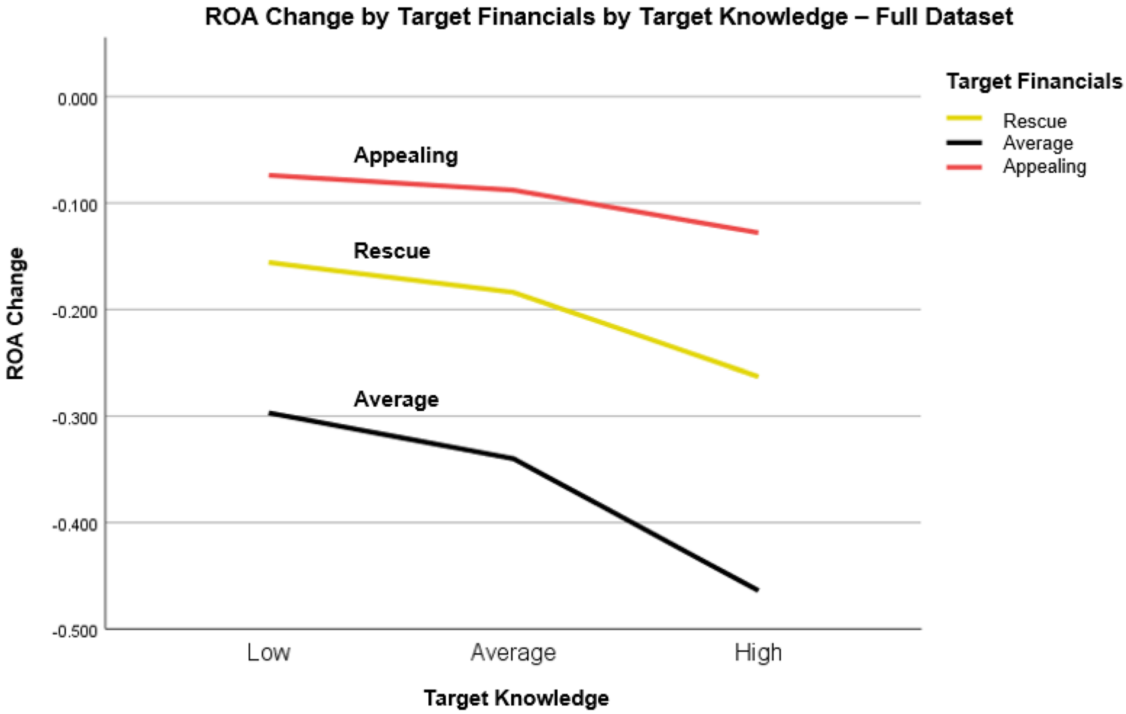

Figure 2. Full dataset [Colour figure can be viewed at wileyonlinelibrary.com]

a value of -0.508 (p-value < 0.05) in partial acquisitions. For the partial acquisition of appealing targets with knowledge (Table 3, column 6), coefficient β_2 presents a value of 0.297 (p-value $<$ 0.01) in the knowledge interaction model, which is a reduction from the β_2 coefficient of 0.326 (p-value < 0.01) in the baseline performance (Table 3, column 5). Moreover, the β_5 coefficient relative to the knowledge and appealing target interaction in partial acquisitions has a value of -0.288, while the knowledge direct effect in partial acquisitions (β_3) is 0.285 (not significant, but in the expected direction) (Table 3, column 6). These β_3, β_4 and β_5 results expose that for partial ownership there is a change of sign (relative to the full dataset) in the direct effect and interaction of knowledge with the rescue and appealing targets. The knowledge moderating influence (β_4 and β_5) and the direct knowledge effect (β_3) change signs from the entire dataset to partial acquisitions, which is complemented by the fall of the rescue and appealing coefficients (β_1 and β_2) in the knowledge-moderated model for partial acquisitions relative to the partial baseline case.

Overall, the rescue and appealing targets moderated by knowledge show lower performances in the case of partial acquisitions than in the partial baseline performance. This effect means that with the knowledge moderation in partial deals, average targets perform relatively better than the other targets, as can be seen in Figure 3, which reveals the contrasting slope of average targets versus rescue and appealing targets for increasing levels of knowledge. The analysis of the empirical data therefore provides support for H3.

Discussion

This study builds the central argument that not all friendly acquisitions are equally friendly by drawing from the financial and strategic management literatures. Specifically, it is based on the finance literature on acquisitions (Dullard and Hawtrey, 2012) and value-discrepancy theory (Seth, Song and Pettit, 2000), complemented by the strategic management literature on the knowledge-based view of the firm (Penrose, 2009) and signalling theory (Wu, Reuer and Ragozzino, 2013). Our research thus adopts a multidisciplinary approach combining the acquirer and acquired firm perspectives to demonstrate that the effectiveness of the

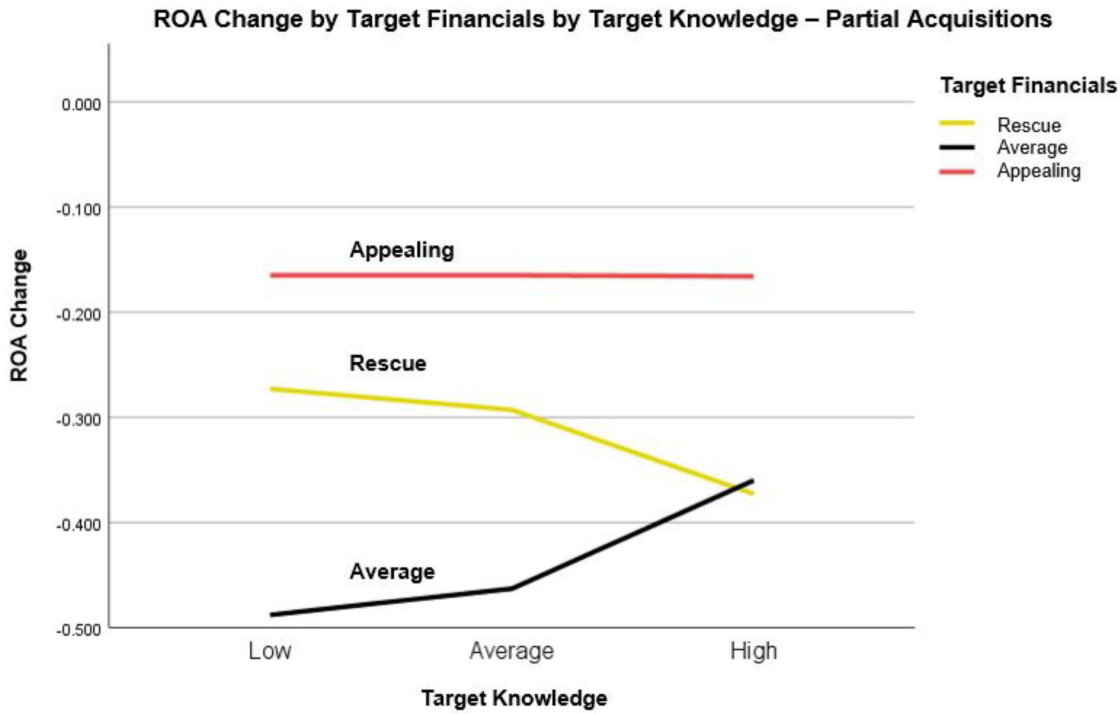

Figure 3. Partial acquisitions [Colour figure can be viewed at wileyonlinelibrary.com]

acquisition strategy depends largely on the target firm context, as reflected in the financial situation and knowledge level. The study finds that the acquisition of rescue and appealing targets tends to outperform average targets, which is more noticeable for the acquisition of targets with accumulated knowledge. However, the signalling associated with partial acquisitions is more efficient for the extraction of high knowledge and mitigation of management uncertainty in the case of an average target with relatively low risks. The target financial and knowledge context affects the circumstances surrounding the acquisition process and has implications for the post-deal performance. This supports the view that not all friendly deals are equal.

Theoretical implications

The literature reveals that most acquisitions are conducted in a friendly manner (Weber and Dholakia, 2000). In fact, the finance literature indicates that synergy gains, transaction costs, bid premiums, payment method, management ownership, earnings adjustments and completion likelihood (among other aspects) support the preference for friendly acquisitions (Jamison and Hauge, 2016). Researchers have sought to determine the differences between hostile and friendly acquisitions (Lois *et al.*, 2021) without studying the differences within friendly acquisitions. This is an important gap because research indicates that most friendly transactions fail to perform in accordance with the goals hoped for (Sinkovics, Zagelmeyer and Kusstatscher, 2011; Tuch and O'Sullivan, 2007). In addition, the literature points out that friendly acquisitions vary one from another and thus are not a uniform phenomenon (Ghauri and Buckley, 2003; Lubatkin, 1983).

This study advances the literature on acquisitions by identifying different types of friendly acquisitions and demonstrates empirically that not all friendly deals are alike. Based on financials, target firms may be underperforming (rescue), may have an intermediate performance (average), or may present a solid performance (appealing) before completion. With our construction and analysis of a unique dataset comprising 668 friendly acquisitions, we identify differences in the impact of the target financial situation on performance. In general, appealing and rescue targets lead to stronger performances than do average targets, which reveals that not all friendly acquisitions are equal. Although King *et al.* (2021) describe the relationship between the continuous measures employed for the pre-deal target results and the accounting performance after completion, our multidisciplinary study of friendly transactions demonstrates that there is variance within target categories in friendly deals, and therefore not all friendly acquisitions are alike. The study of distinct performance effects between different kinds of acquisitions has not previously been reported in the literature, and the present study is thus a first contribution (Muehlfeld, Sahib and van Witteloostuijn, 2007).

M&A research tends to be compartmentalized, which prevents the multidisciplinary approach necessary to achieve an in-depth understanding of the process complexities (Gomes *et al.*, 2013). As a second contribution, the multidisciplinary approach of this study allows us to recognize the differences within friendly acquisitions by drawing upon the M&A, finance and strategic management literatures to identify some of the complexities of a multidimensional phenomenon and thereby advance the body of knowledge. Our findings indicate that future research combining the acquirer strategy (partial or full) and target context (financial and knowledge base) in the context of the M&A, finance and strategy literatures will be better positioned to understand the nuances and anticipate the degree of success associated with the acquisition strategy. Since not all friendly acquisitions are equal, investigating the variations within friendly deals may benefit from the use of primary data to study the underlying individual behaviours and team interactions, which can open a new stream of academic conversations.

A third contribution of our study relates to the integration of the acquirer and acquired firm perspectives by taking into account the circumstances resulting from the target financial and knowledge context to assess the effectiveness of the acquirer's strategy (Rao-Nicholson, Salaber and Cao, 2016). The increased performances of appealing and rescue targets relative to average targets are reinforced by the knowledge moderation. Although target knowledge can increase the management resistance (Pritchett, Robinson and Clarkson, 1997), rescue and appealing targets with knowledge have a turnaround potential and inherent capabilities that allow them to exceed the performance, on average, of targets with a more common and intermediate profile. This tends to be in line with the generally acknowledged and disappointing findings reported in the literature (Cartwright and Schoenberg, 2006; Tuch and O'Sullivan, 2007). However, the knowledge moderation in partial acquisitions can be detrimental to the performance of rescue and appealing targets (relative to average targets) because target managers are not as anxious or uncertain about their personal circumstances and are therefore relatively less responsive to the signalling effect of a partial deal. These findings indicate that acquirers interested in extracting the knowledge of an average target may consider the signalling of collaborations through partial deals.

Managerial implications

It might be tempting to fully acquire a target firm with the objective of benefiting the most from future results. However, this sort of approach is likely to overlook the impact of factors that can have a decisive influence on performance after completion. Regarding the level of equity participation, an appealing target with strong financial results could be targeted for full acquisition to maximize the post-deal results from an inherently solid entity. A rescue target experiencing financial difficulties might have the potential for a restructuring and turnaround process. To salvage a rescue entity with a turnaround potential, the acquirer could consider a full acquisition to swiftly resolve the situation and integrate the organization. In general, the existence of accumulated knowledge makes the full acquisition of appealing and rescue targets even more compelling.

In the case of average targets with intermediate performance levels (i.e., being neither industry leaders nor struggling operators), the management of the acquiring firm should take into account the anxiety in a target organization that may prompt resistance to the change process. In particular, the acquiring firm may be motivated by the target accumulated knowledge, which can be eroded during the post-merger integration process through the loss of people and lack of collaboration. While appealing and rescue targets are not as sensitive to the retention of knowledge due to the inherent business capabilities and recognized salvage need, an average firm should be engaged in the transaction process to obtain the collaboration of its managers and employees, thereby retaining the accumulated knowledge. For this reason, the acquirer should signal the intention to involve the target people in future operations, especially in the case of transactions involving high levels of knowledge possessed by the target firm. To signal the intention to collaborate in the interest of retaining people and knowledge after completion, the management of the acquiring entity should consider the partial acquisition of average targets with accumulated knowledge.

Limitations and directions for further research

This research adopted a set of variables and thresholds to characterize the entities and assess results. However, the use of different variables (explanatory, moderating, mediating and performance) and conceptual models in future studies may provide additional insights and a more comprehensive view of the factors and interactions that affect the post-deal performance of friendly acquisitions. Specifically, it might be worth considering a unified target performance measure to increase the significance and robustness of results and continue studying the curvilinear effect on performance. It may also be valuable to examine the influence of the relative size and negotiation power of the involved organizations on results after completion. The size of the acquiring and target entities can affect management reactions, organizational capabilities, resource retention and knowledge transfer in different ways (Junni, Sarala and Tarba, 2018). Moreover, it might be worth assessing the effect of the cross-border nature of an acquisition on the post-deal performance. Unlike a domestic acquisition, an international transaction involves different cultures, settings, practices, values and behaviours that may influence results (Lee, 2018).

Our study's dependent variable (joint ROA variation) captures the combined influence of multiple factors on the evolution of performance, such as the delivery of synergies, efficiency of the integration, sharing of resources and transfer of knowledge. As such, it may be relevant to study the specific impact of the integration phase of a friendly acquisition on performance, namely the influence of speed and degree of integration, as well as the acquirer's absorptive capacity. Finally, it is worth noting that the congruence between the acquirer and target motives is an important factor underlying the categorization of the target firms, which is an aspect that relates to the important contribution of this study on the combination of the buyer and seller perspectives and that may be addressed in future studies.

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