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## **Stakeholder Engagement and Organizational Experiential Learning:**

### **Evidence from M&A Activities**

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#### **Abstract**

Previous literature has shown that the relationship between accumulated experience and performance of a focal task is more complex than how it has been represented by the learning curve pattern. Experience in previous tasks can have a positive, negative or null effect on the performance of a focal task, depending on a number of conditions. The purpose of this paper is to advance the understanding of firm's experiential learning by focusing on one specific condition that can influence this process - the relationships the firm has established with its stakeholders. We argue that a firm's engagement with its stakeholders can have both positive and negative effects on its ability to extrapolate knowledge from previous experience and to apply it to a focal task. At the same time we propose that the sign and the magnitude of the effect may depend on the extent to which the focal task is novel compared to previously undertaken tasks. We test these arguments on a sample of corporate acquisitions from US listed firms. Consistent with the arguments developed, experience accumulated by stakeholder engaging firms are found to be useful (i.e. positively associated with focal task performance) when the focal task is familiar, and harmful when it is novel.

# **Stakeholder Engagement and Organizational Experiential Learning: Evidence from M&A**

## **Activities**

### **ABSTRACT**

Previous literature has shown that the relationship between accumulated experience and performance of a focal task is more complex than how it has been represented by the learning curve pattern. Experience in previous tasks can have a positive, negative or null effect on the performance of a focal task, depending on a number of conditions. The purpose of this paper is to advance the understanding of firm's experiential learning by focusing on one specific condition that can influence this process - the relationships the firm has established with its stakeholders. We argue that a firm's engagement with its stakeholders can have both positive and negative effects on its ability to extrapolate knowledge from previous experience and to apply it to a focal task. At the same time we propose that the sign and the magnitude of the effect may depend on the extent to which the focal task is novel compared to previously undertaken tasks. We test these arguments on a sample of corporate acquisitions from US listed firms. Consistent with the arguments developed, experience accumulated by stakeholder engaging firms are found to be useful (i.e. positively associated with focal task performance) when the focal task is familiar, and harmful when it is novel.

#### **Keywords:**

Stakeholder Engagement; Organizational Learning; M&A; Acquisitions.

## INTRODUCTION

Understanding how organizations learn from their previous experience has been one of the prominent problems in both the organizational literature (Cohen & Levintal, 1990; Levitt & March, 1988; Cyert & March, 1963) and strategy literature (Zollo & Winter, 2002; Teece, Pisano & Shuen, 1997). Moving from the insights provided by the learning curve approach, which suggests that learning occurs automatically from the accumulation of experience (i.e. the repetition of specific tasks), literature started analyzing the boundaries conditions for effective learning (i.e. the circumstances under which the accumulation of experience can lead to an increase in firm performance). Important contributions have been provided in understanding the organizational conditions under which firms are able to extrapolate knowledge from their experience (e.g. how heterogeneous such prior experience needs to be to enable effective learning; see Lant & Mezias, 1990, Levitt & March, 1988), and the conditions that allow the correct application of accumulated knowledge to the task at hand (Haleblian & Finkelstein, 1999).

Fewer efforts, however, have been devoted to analyzing the relational aspects of experiential learning, or to understand the extent to which the relationships a firm has built can influence (positively or negatively) its ability to learn. A few notable exceptions have analyzed the degree to which firms can learn from other parties' experience by studying vicarious learning (e.g. Baum, Li & Usher; 2000; Haunschild & Miner, 1997) and imitation behavior (e.g. Haunschild, 1993). However, most of these studies have focused on the effect that others' experience in a specific task (e.g. acquisitions undertaken by competitors) can have on a focal firm's behavior (e.g. premium prices in acquisitions) or outcomes (e.g. acquisition performance): less attention has been devoted to analyzing the effects that different actors' interpretations of same event have on a focal firm's experiential learning. In particular, organizational and strategic literatures have largely neglected the effect that the involvement of different categories of stakeholder may have on a firm's ability to learn

from experience, and to apply routines developed through the learning process to similar events. Almost no theoretical arguments have been proposed to guide research on how experience and relational dynamics with firms' stakeholders interact to shape their learning outcomes. To our knowledge, only one study (by Roome & Wijen, 2006) has combined insights from stakeholder based view with organizational learning literature. The authors develop a theoretical model of the effect of stakeholder power on firm's incremental learning in the environmental management context. Our study, instead, investigates how a firm's experience, the relational capital it has developed with its stakeholders, and their interaction, may affect the firm's performance in a specific task. Our purpose to contribute to advancing the understanding of a firm's experiential learning by focusing on one specific condition that can influence this process: the relationships it has established with its stakeholders.

Stakeholder engagement can be seen as a firm level set of behavioral practices aimed at exchanging knowledge with the different types of stakeholders so as to incorporate their demands in company's decisions. Instrumental stakeholder theory suggests that the development of long-term relationships with its stakeholders allows firms to create a nexus of knowledge-creating exchanges with interlocutors that will be more than what would be possible with interactions based on market transactions (Harrison et al., 2010; Jones, 1995). Firms may decide to adopt an arm-length approach to their stakeholders (i.e. transactions based on contracts and limited interactions) or an engagement approach (i.e. relationships based on fairness between stakeholders and firm, with a broad scope of interactions - see Bridoux & Stoelhorst, 2014). The decision to engage stakeholders, and so incorporate part of their knowledge into firms' activities, affects not only the organization's daily activities, but also knowledge accumulation on processes (Devinney, McGahan & Zollo, 2013; Harrison et al., 2010). This paper aims to analyze how its managers' strategies to engage a broader (or a narrower) set of stakeholders can impact the firm's ability to learn from its previous experience.

In order to study the interplay between stakeholder engagement and experience accumulation to foster organizational learning, we concentrate on corporate acquisitions, context that is particularly interesting for our inquiry for several reasons. First, since firms learn from the repetition of routines associated with specific and distinguishable events acquisitions represent situations that are identifiable both by firms and by researchers (Zollo, 2009). Second, acquisitions are complex events in which the capability to learn from previous successes or errors (and the ability to disentangle success from failures) can determine the difference between a successful and a poor acquirer (& Jemison, 1991). Finally, the role of stakeholders in the acquisition context is particularly relevant because of the high impact such deals often carry for the broad set of relationship in which the firm is embedded (Bettinazzi, 2014). The corporate development setting has received increasing attention from organizational learning scholars in the last decades, and several studies have tried to understand how firms learn to undertake acquisitions from their past experience. Some scholars (e.g. Barkema, Bell, & Pennings, 1996; Fowler & Schmidt, 1989) have found positive relationships between experience and performance: others, instead, have found non-significant relationships (e.g. Zollo & Singh, 2004) or U-shaped relationships (e.g. Haleblan & Finkelstein, 1999; Porrini, 2004). These non-homogeneous findings suggest that important contingencies are at play. The aim of this study is to shed light on one of these contingencies: the extent to which managers engage stakeholders in their firms' activities.

The remainder of the paper is structured as following. First we develop a theoretical explanation of the phenomena of learning from experience. Second, we develop a set of testable hypothesis which explicitly bridge firms' relational capital with experiential contingencies to explain acquisition performances. Third, we introduce our sample and explain the methods we use to test our hypothesis. Fourth, we present the results of our study, focusing specifically on the interactions between the different pieces of the puzzle. We conclude by discussing our results, pointing out our

paper's limitation and providing suggestions for further research.

## **THEORETICAL DEVELOPMENT**

### **Learning from experience**

Learning from experience can be defined as the appropriate transfer of the organization's prior experience from one event to a subsequent one (Barkema & Schijven, 2008). Early research on the topic suggests that organizational behavior is guided by routines that originate from accumulated experience (Nelson & Winter, 1982). Routines emerge from the repetition of a specific task: the more the task is repeated, the more opportunities there will be to refine the routine the more the organization can learn. These arguments on how learning occurs from the refinement of routines are similar to traditional claims about production curves that have been used for decades to explain how outcomes improve as a consequence of increased experience (Lieberman, 1987).

Only recently research has started to question the universal positive effect of experience (i.e. the more a task is re-iterated the higher the performance of each iteration), by claiming that accumulated reiteration in one activity can also have no or even negative effects on the performance of marginal iterations (e.g. Gavetti & Levinthal, 2000; Fowler & Schmidt, 1989). In particular the negative (or null) effect of accumulated experience on the performance of a subsequent event is explained by two connected mechanisms. On the one hand, accumulated experience may be useless, or harmful, for future performances when correct experiential learning fails to occur –such as when wrong or marginal inferences are drawn from previous events (which we term 'failure of learning'). On the other hand, accumulated experience can lead to negative or null effects if the lessons learned from previous iterations are then applied in the wrong subsequent contexts (misapplication of experience).

The first type of failure of experiential learning - failure of learning - is associated with the

imperfect association between experience and organizational learning. Organizations may not always be able to infer the correct causal relationships between the inputs and outputs of a specific task (i.e. causal ambiguity), failing to understand which behaviors can lead to better performance and which are detrimental (Lippman & Rumelt, 1982). By increasing managers' difficulties in assessing the implications of their decisions (McEvily, Das & McCabe, 2000; Winter & Szulanski, 2001), causal ambiguity complicates firms' learning processes and so lessen the likelihood of valuable knowledge being created (McEvily et al., 2000; Huber, 1991). The difficulties associated with the process of making correct inferences from complex sets of events have been theoretically and empirically studied in various settings, such as acquisitions (e.g. Zollo & Singh, 2004, Zollo & Winter, 2002), product development (e.g. Tripsas & Gavetti, 2000), environmental change (Ouchi, 1980) and technological adaptation (Attewell, 1992). The fact that creating knowledge from complex events is particularly difficult does not necessarily mean that organizations do not make inferences from their experience (Tripsas & Gavetti, 2000). Firms will still accumulate knowledge even when they are not fully able to disentangle the causal relationships involved, but the knowledge may be sub-optimal.

The second type of failure of experiential learning derives from the misuse of the accumulated knowledge (i.e. misapplication of experience). When an organization learns from a specific event, it will not be able to assess the quality of that learning until these routines in which that learning is stored are re-enacted. At the same time, routines are programs of action which are enacted to perform firms' activities (Nelson & Winter, 1982). Even if the acquired capabilities associated with a particular task make the firm proficient in performing it, they may also lead it to overestimate the value of its existing routines and to promote their application in tasks in which their use is sub-optimal compared to the development and use of new routines (March, 1991). The organization literature offers ample evidence that the more experience organizational members have with using a particular strategic action, the more likely they will be to repeat it, even if it does not

really fit the context (Amburgey, Kelly, & Barnett, 1993; Gulati, 1995). Central to this problem is, therefore, the perception of appropriateness of a routine, more than its objective appropriateness. In this sense, an important antecedent to the magnitude and the sign of the effect of accumulated experience on a specific strategic task is the level of perceived similarity between the accumulated events in the firm's experience and the event at hand. The perceived similarity depends on how much experienced events and the one at hand are objectively similar, but it is the perception of that similarity – and thus of the appropriateness of one or other routine – that makes its application right or wrong. Therefore, the more an organization develops routines associated with a specific task (building on its experience) the more likely it is to apply them when it perceives them to be appropriate. But the level to which the use of these routines is correct depends on the objective similarity between past events and event at hand. In this sense, it is important to understand the sources of decision makers' possible misperceptions when assimilating experience with tasks at hand (Zollo & Winter, 2002).

Summarizing, experience accumulated in a specific task cannot be directly associated with increased performance of a focal task<sup>1</sup> for two reasons. First, the firm may be unable to learn from previous events, especially in situations of greater complexity. Second, the cognitive bias of individuals (e.g., managers) means it is more likely to use knowledge that has been accumulated from its previous experience, even when doing so would bring sub-optimal results. Specific organizational conditions (e.g. culture, firm structure, strategic choices; see Fiol & Lyles, 1985) or deliberate actions (e.g. codification of knowledge, exchange of experience; see Zollo & Winter, 2002; Cohen & Bacdayan, 1994), may create a bridge between accumulated experience and organizational learning by promoting greater understanding of the causal mechanisms that underlie the generation of positive and negative outcomes.

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<sup>1</sup> By 'focal task' we mean the activity that the firm is about to undertake, given that a similar task (or at least one that is perceived as similar) has been carried out in the past.

Below we discuss stakeholder engagement, which we identify as a specific strategic choice of firm managers, and consider how it can impact learning from experience. Specifically we claim that stakeholder engagement can act on the two mechanisms explained above (failure of learning and misapplication of experience), either augmenting or reducing their effects.

### **Stakeholder Engagement: an introduction**

The stakeholder based view sees an organization as a set of interdependent relationships between different stakeholders (Freeman et al., 2010; Rowley, 1997), who are the “individuals and constituencies that contribute, either voluntarily or involuntarily, to its wealth-creating capacity and activities, and who are therefore its potential beneficiaries and/or risk bearers”. This perspective differs from the traditional shareholder-based view that puts shareholders’ interest as priority and only considers the management of other stakeholders’ interests as means of reducing social pressures (Fama & Jensen, 1983). The identification of stakeholders used in this paper reflects the “narrow stakeholders” definition which includes those that are vital to the organization’s survival and success: local communities, suppliers, employees and customers (Freeman et al., 2010), and purposefully excludes shareholders.

Greenwood (2007) defines stakeholder engagement as the practices an organization undertakes to involve stakeholders in a positive manner in its activities. In this sense, the extent to which the firm devotes efforts to engage its stakeholders represents a strategic choice for managers about their firms’ activities (Sachs & Ruhli, 2011). Early research on stakeholder engagement has focused mainly on the ‘bright’ side of stakeholder engagement, looking at the positive effects that it can bring to the firm. Stakeholder engagement benefits have been described in terms of better access to resources (Kassinis & Vafeas, 2006), the development of dynamic capabilities (Aragón-Correa & Sharma, 2003) and improved reputation and legitimacy (Cennamo et al., 2012). Equally important,

scholars have seen stakeholder engagement practices as sources of opportunities, information and knowledge that can contribute to the value creation process (Sachs & Ruhli, 2011), depending on how the relationship is managed.

Less attention has been devoted to the drawbacks of stakeholder engagement. A recent paper by Bridoux & Stoelhorst (2014) has explicitly questioned the belief that stakeholder engagement can be considered a panacea for all firms. Firms can manage the different categories of stakeholders through an arm-length approach or a collaborative behavior, but both conducts can bring positive or negative effects to the firm depending on the characteristics of the stakeholder (Bridoux and Stoelhorst, 2014). Instead, Hall & Vredenburg (2005) suggest that, since stakeholder interests are likely to diverge (Margolis & Walsh, 2003), efforts to include them all in firms' activities may lead to increased levels of uncertainty and managerial confusion. Moreover, Cennamo, Berrone & Gomes-Mejia (2009) submit that stakeholder engagement can be a source of disadvantages for the firm because of the power it confers on the firm's managers. The authors suggest that social capital, which originates from fair management of stakeholder relationships, may encourage managers to behave in opportunistic ways that could be detrimental to firm activities. In the next section we emphasize this dualistic view of stakeholder engagement (that it entails both positive and negative effects) to delineate its impact on the process of learning from experience, and develop testable hypotheses accordingly.

### **Experiential learning and stakeholder engagement – the positive side**

As we noted in the previous section, stakeholder engagement, is a strategic choice in the hand of the managers. In this view, managers can be identified as playing a prominent role as the center of the nexus of relationships among different stakeholders, and make choices as to how to manage these relationships (Bridoux & Stoelhorst, 2014; Jones, 1995). In the context of experiential learning, this

implies that managers are the collectors of the stakeholders' different readings and preferences with respect to specific events. Clearly, when a firm chooses to base its strategy on encompassing the different stakeholders perspectives, its managers will have access to a wider range of information and interpretations of the same experience than a firm that adopt an arm-length approach to their stakeholder relationships. This means that these latter managers will be less likely to put together different - and maybe contradictory - interpretations about such specific events than will managers of 'stakeholder-engaging' firms.

The evolutionary perspective has placed a strong emphasis on firm's bottom-up sources of learning (Nelson & Winter, 1982). In this view, individuals and groups generate ideas about how to improve existing processes based on their sensing and search capacities. Similarly, the innovation literature suggest that, since learning is a social construction process (Brown & Duguid, 1991), the degree to which the firm is exposed to external sources of information - such as partners, suppliers or customers - and the extent to which it puts in practice participative activities with external actors, are determining factors of its ability to learn (Levinthal & March, 1993). In this light, part of the literature seems to converge on the fact that the quality of a firm's experiential learning depends on the extent to which it can encompass a variety of views into the process. In our framework: managers who engage stakeholders in discussions about firm actions will be more likely to overcome the problems associated to the complexity of making inferences from complex causal chains.

At the same time, the extent to which a firm decides to encompass a broad variety of stakeholders into its decision making process can influence its application of previously learned lessons. Several studies over recent decades have looked at the conditions that may increase or mitigate the risk of misperceptions of similarity between past and focal events. In particular, research in the organizational learning field has focused on individual conditions, in terms of overconfidence of the decision makers (Levitt & March, 1988). For example, it has been argued that the extent to

which managers adopt a participative and open style can mitigate their tendency to over-estimate firms' competence levels (Keck & Tushman, 1993). This stream of research also indicates that listening to heterogeneous sets of voices promotes a healthy skepticism in managers (Keck & Tushman, 1993), which can mitigate the probability of 'confidence traps' and the consequent conviction that routines developed from their experience can be applicable to every situation. Related research on group composition emphasizes that encompassing different perspectives can lead to higher quality decision making, despite possible lower efficiency levels (Hambrick, Cho & Chen., 1996).

To summarize, when firms adopt an engaging approach with the different categories of their stakeholders they will be less subject to the misinterpretation of events associated with causal ambiguity (because they can benefit from different viewpoints), and less likely to incur generalization problems associated with misperceptions of similarity, or with overconfidence in the routines they have developed. Thus we can expect that:

Hp1a - The greater the level of stakeholder engagement, the more positive (less negative) will be the effect of a *firm's prior experience* on its performance of a focal tasks

### **Experiential learning and stakeholder engagement – the negative side**

Different arguments can be proposed that suggest, instead, that stakeholder engagement will have negative effects on firms' capabilities to learn from previous experience. The first argument regards the negative influence that the heterogeneity of different stakeholders' positions may have on managers' capabilities to learn from experience. As previously suggested, the most obvious consequence of stakeholder engagement in firm strategies is the access to a variety of voices from different stakeholder categories. Even within a specific stakeholder category, heterogeneous views may emerge with respect to one specific event (Cohen, March & Olsen 1976; Cyert & March, 1963).

While some compatibility of stakeholders' objectives is seen as a promising basis for agreement on firm actions (Phillips, Lawrence & Hardy, 2000), in practice, stakeholders often have divergent interests and objectives (Heugens, 2003). When their views clash, problems arise that may not be solved unambiguously. If stakeholders disagree about what the organization's objectives and priorities should be, decisions about which type of learning to encourage and what new knowledge to implement are likely to reflect the relative power of the stakeholders. Szulanski (1996) proposes a similar view, and claims that causal ambiguity deriving from multiple perspectives is likely to impede the internal diffusion and creation of capabilities

There is another important point associated with learning in a collective context. When an event occurs, different learning processes associated with understanding the causal relationships involved are likely to emerge. These differentiated learning processes will refer to different stakeholders' preferences of the diverse outcomes (Grandori, 2013), as well as to different understandings of the causal relationships between behaviors and outcomes. In fact, it is simplistic to consider that different individuals (be they managers or stakeholders) will all learn at the same pace and in the same direction (Dodgson, 1993). Even assuming they possess the same cognitive capabilities, their access to information will likely be heterogeneous, resulting in differentiated standpoints, which may well be contradictory. Behavioral theorists suggest that, when organizations fail to disentangle the interactions in interpretation of multiple simultaneous learners, the possibilities of the firm learning from an event depend on degree of the misalignment between the actors' different interpretations of the event, which in turn is augmented by the event's complexity. In this sense, the heterogeneity of actors' experiences of one specific event suggests an interesting paradox. On the one hand, heterogeneity enables firms to explore a wider variety of views, which, in theory, gives it more scope to identify the causal patterns required for learning. On the other hand, this heterogeneity itself may be overwhelming for bounded rational actors (such as managers), because of

the causal ambiguity it presents (Barkema & Schijven, 2008). While our previous hypothesis suggested that engaging stakeholders brings added value that exceeds the negative effects arising from their conflicts of interest, the opposite can also be true - negative effects can undermine effectiveness of organizational learning (Clegg, 1989).

As far as the second failure of experiential learning (i.e. misapplication of acquired knowledge) is concerned, stakeholder engagement can enhance the likelihood of such misapplication for two reasons (among others). The first argument relates to a genuine misinterpretation due to difficulties in aligning the diverse interpretations of the focal task from the different stakeholders. Stakeholders are likely to shape their own opinions of the firm's choices in terms of new ventures, direction of development, structural changes etc. (Shrivastava, 1983), which will likely be based on their own preferences, together with their expectations about the outcomes of the firm's actions (Rowley, 1997). When firm's goals become more ambiguous, and stakeholders' objectives are confounded with those of the firm (which may happen if managers take stakeholder interests into account), conflicts and decision advocacy are likely to emerge (Levitt & March, 1988). These conflicts may involve some stakeholders opposing the firm's choice of optimal strategy for tackling the focal task, and divert managers towards using sub-optimal routines instead (Levitt & March, 1988). So when firm managers try to take the different views of the stakeholders into account they risk facing an increased level of ambiguity in the choice of how to handle a specific activity: this, in turn, may persuade them to deploy their existing routines even if they are not appropriate to the task at hand (Szulanski, 1996).

The second argument supporting the claim that stakeholder engagement can actually lead to the misuse of experience relates to the managerial overconfidence that can emerge from relationships with stakeholders (Bridoux & Stoelhorst, 2014; Cennamo et al., 2009). Previous studies suggest that when managers gain credibility with stakeholders, they are more likely to have positive perceptions

of managers' capabilities to judge problems and to attribute merit to them, and attribute failure attributed to external factors and contingencies (Cennamo et al., 2009). Managers favored by stakeholders face "only limited barriers in exercising discretion because, by force of personal reputation" (p. 388), they will be able to act, "where many others might not even get the opportunity" (Hambrick & Finkelstein, 1987, p. 388). The fact that managers face only limited barriers to their choices (because of the support of stakeholders) will be likely to foster managers' overconfidence in their previously developed competencies. Considerable experience with prior instances of similar tasks, when associated with higher levels of support from different actors related to the firm (i.e. the stakeholders), can make managers feel more confident about their ability to make the best choices regarding the next task that they plan, which, in turn can encourage them to use existing routines to perform new focal tasks even if they are not optimal for their performance. These considerations lead to the following testable proposition, which reverses the previous hypothesis:

Hp1b - The greater the level of stakeholder engagement, the less positive (more negative) will be the effect of a *firm's prior experience* on its performance of a focal task

### **The moderating effect of the novelty of the focal task**

The two previous hypotheses describe contrasting scenarios: some arguments suggest that stakeholder engagement can have a positive impact on a firm's learning from experience - others suggest an opposite effect. We aim to resolve this contradiction empirically. However, it may be the case that the effect previously identified may depend on contingencies associated with the context in which learning occurs, and/or the conditions under which the knowledge previously accumulated is used. In particular, we focus on one of the characteristics of the focal task: the extent to which it is objectively similar to activities the firm has carried out in previous instances. We noted above that the perceived similarity between what has been done in the past and the focal task influences the

choice of adopting (or not) the routines previously developed (i.e. making use of past experience or not). However, as Haleblian & Finkelstein (1999) thoughtfully explain, it is objective similarity that determines the success of the choice to use previously developed routines for the task at hand. Intuitively, one can expect that the greater the similarity between past and focal tasks, the greater the expected success in transferring prior knowledge across tasks (Tversky, 1977). Moreover, as Finkelstein & Haleblian (2002) showed empirically, the negative effect of transferring previously learned lessons to situations to which they do not fit properly is smaller if the later instances are more similar to the earlier. It has been argued that when learning needs to be distant, and radically new capabilities need to be developed, firms tend to fall into competency traps, as competencies developed in the past become “core rigidities” (Leonard-Barton, 1992). In line with such research, we can therefore expect that:

Hp 2 – The more novel the focal task is, the less positive (more negative) will be the effect of a *firm's prior experience* on its performance of that task

More interesting, in our view, is the relationship between the levels of the firm's experience, its engagement with its stakeholders, and the novelty of the focal task. Although part of the literature suggests that the engagement of stakeholders can provide the firm with knowledge and information about novel activities (e.g. Sharma & Vredenburg, 1998), empirical validation is still inconclusive. Indeed, several researches have questioned the value of the capability of undertaking explorative actions for firms whose strategies are based on encompassing stakeholder needs. Previous studies in the innovation literature have suggested, for instance, that a firm's knowledge of customers' needs makes it more likely to develop capabilities to develop products/services that appeal to its existing customers, rather than to new sets of customers (Christensen, 1997). Similarly, marketing literature has pointed out that customer-led firms (i.e. which base their strategies on encompassing their

customers' needs) will be less likely to innovate radically in their products, or in their business models (Narver, Slater & MacLachlan, 2004; Slater & Narver, 1998). Similarly, Voss, Sirdeshmukh & Voss (2008) found a negative relationship between product exploration and customer relationships, together with a positive relationship between human resources slack (a measure of the investment in human resource development) and product exploitation (i.e. the capability to exploit existing products rather than creating new ones). In corporate development literature, Bettinazzi (2014) found that the engagement of stakeholders can only enhance the performance of corporate acquisitions in cases of related acquisitions. He suggests that the knowledge held by an acquiring firm's stakeholders can only be valuable in the acquisition process when the two businesses are not too dissimilar – when the acquisition is in a distant businesses sector, the usefulness of their knowledge is limited.

Evidence from these studies suggests that stakeholders' contributions in terms of knowledge provided to the firm are narrow. Encompassing their interests and viewpoints can facilitate or hamper the learning process, but the context in which the knowledge developed is applied influences its usefulness. However, where the stakeholders' knowledge is likely to be narrow, their interpretations of the phenomena will be less likely to foster broad generalization from previous events. In particular, we suggest that stakeholder engagement can foster a 'narrow way' of learning, which is very much contextualized to the activities that have been carried out in the past. Thus, when routines accumulated through this 'narrow way' of learning are applied to contexts that are similar, the interpretations and knowledge sourced from stakeholders can positively impact the firms capability to undertake the focal task. But when these routines are used in contexts that are distant from the settings in which they were developed, their effects are likely to be negative, because they are less applicable to such contexts. The effect, we suggest, will be larger in firms which have wider sets of experiences. In such cases, managers may indeed believe they have learned how to perform a

specific task successfully (i.e. superstitious learning; see Zollo, 2009; Levitt & March, 1988), but the lessons learned may well be less applicable to the context at hand. Considering these arguments, we propose a three-way interaction effect between level of experience, extent of stakeholder engagement and novelty of the focal task - that is:

Hp 3 – The novelty of the focal task, the level of stakeholder engagement, and the level of experience interact to affect the performance of a focal task in such a way that experience will have the strongest negative (weakest positive) effect on the task performance when stakeholder engagement and focal task novelty are both high.

### **The context of the study**

To explore the issues presented above empirically, we focus on the study of corporate acquisitions.

Experiential learning in the acquisition context has been the subject of interest in many prior studies, and has received increasing research attention over the last few years. Most early studies supported a positive relationship between an acquirer's experience and its acquisition performance (e.g., Fowler and Schmidt, 1989). More recently, Haleblan & Finkelstein (1999) have questioned the 'always positive' outcome of past experience, finding a U-shaped relationship between acquisition experience and performance. With respect to the negative side of learning, a few studies have focused on the impact of experience accumulation on managers' undue self-confidence in their abilities to acquire, or on the organizational inertia to developing acquisition capabilities (Heimericks et al., 2012; Zollo, 2009). For these reasons, we test our hypotheses in the context of corporate acquisitions, although we believe that similar conditions can be found in other settings. In the following section we describe the research design and methods used to test our hypotheses in this setting.

## RESEARCH DESIGN AND METHODS

### Sample

The hypotheses developed above were tested by investigating acquisitions undertaken by large US listed firms in the period 2002-2010, which we identified using the Zephyr-Bureau Van Dijk database. From the entire universe of acquisitions in that database, we identified those for which we could have access to assessments of acquisitions (in terms of performances and quantity), together with assessments of stakeholder engagement (sourced from the Asset4 database). Since small financial participations were not of interest for this study, we excluded acquisitions in which the acquirer purchased less than 50% of the target's shares, and those in which it controlled less than 60% of target's shares after the deal closed. We then excluded deals characterized by pure financial reasons by eliminating all acquisitions by banks or funds in unrelated sectors<sup>2</sup>. Finally we excluded all acquisitions undertaken by firms that had no previous acquisition experience, which left us with a final sample of 1,719 acquisitions. The reason for excluding firms with no experience is that some of the variables that are used (e.g., Novelty of the focal deal, Heterogeneity of experience) would be meaningless if applied to firms with no experience.

### Variables

#### Dependent variable

The dependent variable hypothesized in this study is the performance of the focal task: since we test our hypotheses in the corporate acquisition context, we adopt the performance of the focal acquisition as our measure of this variable. One option for measuring acquisition performance could have been to use an accounting based operationalization - several authors (e.g. Heimericks et al. 2012) have used the variation in the acquirer's Return on Assets (ROA) as a measure of

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<sup>2</sup> We are aware of the possibility of having excluded, in this way, acquisitions undertaken by financial institutions of service firms. However we adopted a conservative approach, assuming that financial acquirers in non-related sectors are mainly motivated by financial investment reasons, more than industrial motives.

performance. However, accounting based measures may suffer of problems associated with the manipulations of accounting returns or differences in firms' accounting policies. We therefore decided to opt, instead, for financial measures: a choice that is becoming increasingly common in strategy literature (e.g. Zollo & Reuer, 2010; Finkelstein & Haleblan, 2002). Stock-price based measures are considered to be more informative than accounting returns for analyzing acquisition performance, since they provide indications of both market expectations and realized performances (over the long term horizon), while accounting returns only reflect the latter.

We focused on the acquiring firm's Cumulative Abnormal Returns (CAR) over the 36 months after the acquisition. The CAR has been one of the most frequently used classes of measures to assess acquisition performance in strategic management (Zollo, 2009; Cording, Christmann & King, 2008; Hayward & Hambrick, 1997), and can be measured on a short term horizon (e.g. 5 days after the announcement) or over longer terms (e.g. 12, 24 or 36 months after the closing of the deal). For the purpose of this analysis, a short term focus was not ideal, as it mainly provides an assessment of investor's expectations of the acquisition's potential outcomes, rather than its realized performances (Oler Harrison & Allen, 2007). In contrast, long term based financial measures provide specific indications of post-acquisition performances, including both price 'shocks' and long term effects on acquirers' performance (Fama & French, 1992). CAR is calculated as the sum of abnormal returns over time - these represent the extra returns a firm obtains compared to a standard equivalent (normal) return (Brown & Warner, 1985). The financial literature has tackled the problem of identifying normal returns in several ways. One option is to use the returns of the focal firm as a benchmark, calculated over a defined period before the acquisition took place. However, this solution may suffer for biases due to market fluctuations when using long term horizons. The second option is to identify a benchmark which is based on other firms' returns. Most simple models use average market returns, such as S&P 500 index, as a baseline (Brown & Warner, 1985). More

complex approaches compare the focal firm's returns with variations in stock values of selected portfolios, clustering the stock market into reference groups and using the average returns of a group of like firms as the 'normal' return (Lyon, Barber & Tsai, 1999). Studying acquisition performances, Rau & Vermaelen (1998) showed that the estimation of normal returns using benchmark portfolios is superior to using estimated returns constructed on market standards and risks.

Therefore, we computed the performance of the focal acquisition as the difference between the acquiring firm's monthly stock return and the monthly return of an ad hoc portfolio to which the firm has been assigned over the 36 months after the deal was completed (Ikenberry, Lakonishok, & Vermaelen, 1995; Loughran & Vjih, 1997). Specifically, we associated to each acquisition-firm observation in the sample, a portfolio within the same sector of 20 firms that have not gone through an acquisition in the focal period. The criteria for selecting these 20 firms was based on market-to-book ratio values and size (calculated in terms of total firm assets), as reported in the quarter before the acquisition took place (see Fama & French, 1992). We did not employ portfolio rebalancing strategies, as they might create abnormal downward biases (Loughran & Vjih, 1997).

In order to assign each acquiring firm to its benchmark portfolio, we used a k-nearest (20-nearest) neighbor's propensity score matching methodology<sup>3</sup>, with replacements (Rosenbaum & Rubin, 1985). This method computes the abnormal return for month  $i$  as the difference between the acquiring firm's stock return and the return of the matched portfolio of non-acquiring firms - i.e.:

$$CAR_j = \sum_{i=1}^{36} \left( Return_j - \frac{\sum_{r=1}^{20} Return_r}{20} \right)_i$$

where  $CAR_j$  is the cumulative abnormal returns over 36 months of the focal firm  $j$ ;  $Return_j$  is the stock market return of the focal firm  $j$ ;  $Return_r$  is the stock market return for month  $i$  of firm  $r$  that is included in the reference portfolio of firm  $j$ ; and  $i$  is the number of months since the acquisition (including the month of the acquisition). We sourced stock market and accounting data from

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<sup>3</sup> The procedure includes controls for multiple identical propensity scores.

Datastream and CRSP databases.

### **Independent variables**

To determine each firm's level of prior acquisition experience at the time of the focal acquisition, we counted the number of their prior acquisitions. Acquisition experience was the total number of majority and full acquisitions the acquiring firm completed between 1999 and the year of the focal acquisition (Nadolska & Barkema, 2007; Haleblian et al., 2006). In recent decades there has been a general trend towards preferring measures of experience based on longer (e.g. Nadolska & Barkema, 2007; Zollo & Singh, 2004) over shorter time periods (e.g. Porrini, 2004; Haunschild, 1993). However, both types of measures have their own sets of issues. Whereas measures based on short time horizons may underestimate firms' ability to remember past events, those that use longer time periods may overestimate this ability. Still, we felt it more advisable to use longer time horizons, since they allowed the researcher to shape the form of the experience–performance relationship function more directly (Barkema & Schijven, 2008). To check the robustness of our measures we performed the same analysis looking at the acquisitions undertaken in the 4 years preceding the focal acquisitions (see Porrini, 2004). Results were mostly overlapping, although the distribution of the experience variable suffered from higher levels skewness<sup>4</sup>.

The second independent variable represents the attitude of the acquiring firm towards engaging its different sets of stakeholders. The most commonly used source of data for measuring stakeholder engagement is the Kinder, Lynderburg & Domini (KLD) database, which has been used in several in strategy and stakeholder researches (e.g. Graves & Waddock, 1994; Greening & Turban, 2000). However the indicators this source provides are gross-grained and only partially

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<sup>4</sup> We used a log-transformation to reduce the effect of the distribution skewness on the model.

connected to stakeholder engagement<sup>5</sup>. So we relied on Thomson Reuters' Asset4 database to calculate this construct, as it offers a more detailed analysis of firms' behaviors in terms of the extent to which they put into practice activities aimed to acknowledge the preferences of different categories of stakeholders, and implement them in their activities. It has collected data and scores on several firm dimensions on nearly 3500 firms since 2002 and includes more than 900 raw items per firm, obtained from different, publically available sources such as annual reports and sustainability reports, websites of non-governmental organizations and news agencies.

To measure the acquiring firm's stakeholder engagement, we focused on specific items included in the Asset4 database, associated with different categories of stakeholders. Specifically we assessed employee engagement as the sum of four dummy (0,1) items included in the macro-category "Employment quality", which monitored: if the firm ensured good employee relations of if it had a policy for maintaining long term employment growth and stability; if it described the implementation of an employment quality policy; if it monitored or measured employees' interests; and if it set specific employment quality objectives to be achieved. The measure we constructed ranged from zero to four for each year, and we then calculated the average of all years (since 2002) preceding the focal acquisition. (We obtained similar results when using more conservative measures based on Asset4's more comprehensive "Employment quality" measure, of 39 items.)

Similarly, to measure the extent to which the firm engages its suppliers in its business activities, we constructed a measure based on 4 Asset4 dummies (0,1), that assessed the firm's commitment to treating suppliers as key business partners (e.g. presence of a policy) and the presence of managerial practices to interact with suppliers. This resulted on a single construct ranging from zero (low) to four (high) to measure firms' orientation towards their suppliers. Once again, we used the average of all years preceding that of the focal acquisition.

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<sup>5</sup> KLD focuses on 104 indicators divided in firms' strengths and points of concern in the areas of: Community relations, Corporate governance, Diversity, Employees relations, Environmental Sustainability, Human rights and Product responsibility

We assessed customer engagement by calculating the average in the available years preceding the focal acquisition of the Asset4 macro-variable “Customer Loyalty”, which reflects the company’s capacity to grow and maintain a loyal client base through communication, reputation and satisfaction programs, together with initiatives to avoid anti-competitive behaviors. The measure is constructed by Asset4 analysts: it ranges from 0 to 100 and is based of 46 raw items.

Finally, to assess a firm’s engagement with its local community stakeholders, we used Asset4’s ‘Local Communities’ macro-variable, which reflects a company’s capacity to put in practice activities designed to maintain positive relationships with its local communities by operating and developing communication tools so as to interact with them. The micro-variable is constructed by Asset4 analysts based on 126 raw items, and again ranges from 0 to 100.

We constructed an aggregate Stakeholder engagement measure based on the assessment of the firm’s engagement with these four stakeholder categories. Where a firm’s assessment was below the median for its engagement with a specific category of stakeholders it was assigned a 0; otherwise 1. We then took the sum of these four dummy values as our Stakeholder engagement measure. So, if a firm scored poorly (compared to other firms) in its engagement with its employees, but better than the median in engaging its suppliers, customers and local communities, its final Stakeholder engagement score would be three. To check the robustness of this measure we re-performed the analyses using the mean of each stakeholder category instead of the median but the results were almost identical.

To calculate the Novelty of the focal acquisition vis-à-vis the focal firm’s past acquisitions, we adapted the measure proposed by Reuer, Park & Zollo,. (2002) in the joint venture context. The operationalization is based on data from the Occupational Employment Survey (OES) data (2002-2010) from the US Bureau of Labor Statistics. We used OES data to obtain the distribution of employment across 23 occupational divisions (e.g., Management, Production or Sales and related)

for all industries at the 4-digit NAICS level. We characterized each industry's skill requirements in order to build our novelty of the focal acquisition measure, to assess the difference between and acquirer's business and that of its target (i.e. distance to core business), and to construct an aggregate measure of the heterogeneity of the acquiring firm's experience (i.e. acquisition experience heterogeneity)

We calculated the Novelty of the focal acquisition in terms of the average distance (in terms of skill requirements) between the focal acquisition and those previous acquisitions in the acquirers' experience set. The extent to which the focal target operates in a business that has different skill requirements compared to the previous firms acquired by the acquirer, may imply higher level of complexity in terms of usability and transferability of previous experience to the new acquisition. We calculate the novelty of the focal acquisition as the following:

$$Novelty\ of\ the\ Focal\ Acquisition = \frac{1}{N} \sum_{j=1}^N \sqrt{\sum_{i=1}^{23} \frac{(E_{if} - E_{ij})^2}{\sigma_i^2}}$$

where  $j$  is the identification of a firm that was acquired prior to the focal acquisition;  $E_{if}$  is the percentage of employees in the occupational division  $i$  for the industry in which the focal target operates;  $E_{ij}$  is the percentage of employees in the occupational division  $i$  for the industry in which the  $j$  firm operated; and  $\sigma_i^2$  is the sample variance of employment percentages in occupational division  $i$  across all industries.

### **Control variables**

We included several control variables were included in the models to account for the complexity of acquisitions, and the factors that can influence their performances. The first is the Distance to core business - i.e., the dissimilarity between the acquirers' and targets' sectors. Using data on the distribution of employment in the two firms' industries, we calculated this variable by the following:

$$Distance\ to\ core\ business = \sqrt{\sum_{i=1}^{23} \frac{(E_{ia} - E_{it})^2}{\sigma_i^2}}$$

where  $E_{ia}$  is the percentage of employees in occupational division  $i$  for the acquirer's sector;  $E_{it}$  is the percentage of employees in occupational division  $i$  for the target's industry and  $\sigma_i^2$  is the variance of employment percentages in occupational division  $i$  across all industries of sample firms, which we use to weight the squared difference term.

Second, we controlled for acquisition experience heterogeneity - the diversity in the different acquisitions the acquiring firm had undertaken before the focal deal. The measure adopted here, which is adapted from one proposed by Reuer et al. (2002), provides a proxy of the variation in skill requirements among all the industries in which the firm has made previous acquisitions:

$$Acquisition\ experience\ heterogeneity = \sum_{i=1}^{23} \frac{\theta_i^2}{\sigma_i^2}$$

where  $\theta_i^2$  is the sample variance in employment percentage in occupational division  $i$  across all the industries of those firms acquired by the acquirer in the years preceding the focal acquisition; and  $\sigma_i^2$  is the variance of employment percentages in occupational division  $i$  across the industries of all sample firms.

Third, we included as a control the *acquiring firm's previous performance*, measured as its ROA in the year prior to the acquisition. This performance can be positively related to acquisition success, as acquirers that record higher returns have been shown to be better at selecting their targets, and to exploit the potential of their acquisitions' more carefully (Haleblian & Finkelstein, 1999).

Fourth, we controlled for the financial size of the acquiring firm. Large acquirers can face more modest variations in performances, especially when acquiring smaller firms. We measured this variable as firm's total assets the year before the acquisition (Datta, 1991).

Fifth, we included as a control the organizational size of the acquiring firm, measured as

firm's number of employees. Larger organizations may face greater inertial problems during the integration phase, than smaller acquirers (Haleblian et al., 2006), complicating integration processes. In both size measures (financial and organizational), the logarithmic transformation was used to address significant positive skewness of the variables'.

Sixth, we controlled for the acquirer's *resource slack* using the liquidity ratio. Hitt, Hoskisson & Ireland (1990) suggest that acquirers with greater resource slack require less debt to finance their acquisitions.

The seventh variable we included as a control is the relative target size, calculated as the target's operating revenues (sales) before the acquisition over the acquirer's total assets. Although this is clearly not a perfect measure of size difference, it can provide a meaningful proxy of size similarity.

Eighth, we included whether the acquiring firm held a minority interest in the target firm before the final acquisition in the model (dummy variable).

Since cross-border acquisitions can entail greater complexity than domestic deals, we also controlled for this factor in our model (through a 0-1 variable).

## **Regression model**

The complete model specification to test the hypotheses was:

*Performance of focal acquisition*

$$\begin{aligned}
 &= \alpha + \beta_1 \text{Stakeholder Engagement} + \beta_2 \text{Acquisition Experience} \\
 &+ \beta_3 \text{Novelty of the focal acquisition} + \beta_4 \text{Acquisition Experience} \\
 &* \text{Stake. Engagement} + \beta_5 \text{Acquisition Experience} \\
 &* \text{Novelty of the focal acquisition} + \beta_6 \text{Stake. Engagement} \\
 &* \text{Novelty of the focal acquisition} + \beta_7 \text{Stake. Engagement} \\
 &* \text{Novelty of the focal acquisition} * \text{Acquisition Experience} + \text{Controls} + \varepsilon
 \end{aligned}$$

We tested the first hypotheses (Hp 1a and 1b) through inferences on  $\beta_4$ , Hp2 was tested through inferences on  $\beta_5$ , and Hp 3 by looking at  $\beta_7$ , and performed the estimations using ordinary least square (OLS) with sector and year fixed-effects regression models. We used robust Huber-White standard errors in all models, and addressed potential multicollinearity problems due to the use of interaction terms by standardizing the independent variables (Aiken & West, 1991).

## RESULTS

Table 1 shows the descriptive statistics and correlations. In general, the correlations suggest that the data did not suffer from excessive levels of multicollinearity.

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Insert Table 1 about here  
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Some bivariate correlations among independent and control variables were found statistically significant, which might suggest such problems, but values below 0.70 are considered acceptable in cases of large observation numbers ( $N > 1000$ ) (Hair et al., 1995). The correlation between the two size measures were above this threshold: but we regarded this as expectable because of the overlap of the two measures. We anyway tested for multicollinearity problems by analyzing the Variance Inflation Factors (VIF): VIF values over 10 are considered to indicate multicollinearity between variables (Hair et al., 1995). The maximum VIF associated with our regression models was 4.92, providing further confirmation that they did not suffer from multicollinearity problems. Table 2 presents the OLS robust regression models used to test our hypotheses.

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Insert Table 2 about here  
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Model 0 is the baseline model, which includes control variables only. Model 1 adds the direct

effects of the theorized variables: acquisition experience, stakeholder engagement, and the novelty of the focal acquisition (the latter was included as a control). Model 2 includes the interaction term between stakeholder engagement and acquisition experience, to test Hypotheses 1a and 1b. Finally, Model 3 represents the full model, adding the triple interaction effect between novelty of the focal acquisition, stakeholder engagement and acquisition experience, together with the other two interaction terms (i.e. Focal acquisition novelty x Stakeholder Engagement and Focal acquisition novelty x Acquisition Experience). All models are significant at the 0.001 level. Hierarchical F-tests revealed that the direct effect model improves on the explanatory power of the baseline specifications (i.e.  $F=4.94$ ,  $p<0.01$ ) for Model 1 vs. Model 0), and similar tests reveal that the interaction term significantly adds to the explanatory power of the model (i.e.,  $F=13.28$ ,  $p<0.001$  for Model 2 vs. Model 1). Finally the inclusion of the triple interaction effect in Model 3 increases the explanatory power ( $F=4.70$ ,  $p<0.01$ ) significantly. Further indications of the models' descriptive power comes from the fact that the  $R^2$  coefficient increase when the explanatory variables and the interaction terms are included.

Some control variables were significant across all the models. The existence of a previous minority share in the target firm showed a negative and moderately significant influence on the acquisition performance in all models, indicating that “having a step” into the target firm might be counterproductive for acquirers. In some models the size of the acquirer was significantly and positively related to the acquisition performance. The distance between acquirer and target activities (i.e. distance to core business) in the baseline model was positive but not significant. Further analyses (not reported here) show a U-shaped relationship between distance and acquisition performance.

Regarding the formal test of the hypotheses advanced earlier, our results from Model 1 showed a positive and significant ( $0.0262$ ,  $p<0.05$ ) effect of experience on focal acquisition

performance, which partly bears out our expectations (although not hypothesized) that, in general, experience can have a positive effect on acquisition performance, but that contingencies will determine the sign and the magnitude of this effect in specific cases. We also found evidence of the positive effect of Stakeholder engagement (0.027  $p < 0.1$ ) on acquisition performance, suggesting that adopting the strategy of including its stakeholders' interests can, in general, be a positive predictor of a firm's ability to perform complex tasks. At the same time, Novelty of the focal acquisition was negatively associated with acquisition performance, providing initial confirmation of the difficulties associated with acquiring in previously unexplored businesses. The inclusion of the interaction term (Stakeholder engagement X Acquisition experience) in Model 2 provided a first indication of the effect of experience, when accumulated in a stakeholder engagement context, on the focal task. Results show a negative and highly significant effect of the interaction term (-0.0356,  $p < 0.001$ ). In the acquisition context, it seems, therefore, that experience is more beneficial to firms that are less active in encompassing the interests of their different stakeholders in their managerial decisions, as the performance implications of acquisition experience are worse when the firm actively engages its stakeholders. Figure 1 shows that when firms engage in direct collaborative relationships with their stakeholders, the experience they accumulate has a less positive influence (to the point being harmful) on the focal task than when they adopt an arms-length approach to their stakeholder relationships. This considered results provide support for the negative side of the interaction between experiential learning and stakeholder engagement. Thus, of my first couple of opposite hypothesis, Hp1a and Hp1b, we found support for the latter and we refute the former.

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Insert Figure 1 Here

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Model 3 allows for the formal testing of Hypotheses 2 and 3. First, results indicate a negative effect of the interaction between novelty of the focal acquisition and acquisition experience on the

focal acquisition performance (-0.0219,  $p < 0.1$ ). These results support Hp 2: that, all else being equal, experience is less beneficial to the performance of a focal activity when that activity is more novel (results are depicted in Figure 2). This confirms evidence from previous studies of the negative effect of experience in cases of novel events.

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Insert Figure 2 Here  
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Finally we focus our analysis on the 3-way interaction effect between stakeholder engagement, acquisition experience and the novelty of the focal acquisition. The estimated parameter of the 3-way interaction is negative and significant (-0.0229,  $p < 0.05$ ), suggesting that when firms undertake a novel task (such as an acquisition in a field characterized by a new set of competences and skills) the beneficial effect of experience will be more likely to disappear when the managers chose to manage the relationship with the heterogeneous groups of stakeholders in participative and proactive ways. These results provides support to Hp3. In other words, results suggest that, in general, if the inclusion of stakeholders' interests can have a negative effect on a firm's ability to use its previous experience for a specific activity, the effect is stronger when this activity is more novel. Thus, we can speculate that the experience accumulated when interacting with stakeholders can be more valuable when the focal activity is similar to previous instances of the same activity. Figure 3 shows that the extent to which the effect of experience accumulation in collaboration with stakeholders (more specifically, when acquiring firms adopt an engaging approach to manage various categories of stakeholders) is positive or negative depends on the Novelty of the focal activity (i.e. acquisition) in terms of skill requirements.

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Insert Figure 3 Here  
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## DISCUSSION AND CONCLUSION

The questions that motivated the present study can be framed in terms of understanding experiential learning in a multi-actor setting: how does stakeholder engagement strategies affect a firm's ability to learn from its experience? What boundary conditions limit the use of the knowledge it has accumulated in a context of multi-stakeholder relationships? A key contribution of this study lies in developing and testing a theory of learning in a multiple stakeholder context. Our findings show that stakeholder engagement strategies have dual effects on a firm's ability to learn from its previous experience and to make use of the knowledge it has accumulated. When the focal task is close enough to the experiences it has undertaken in the past, fairness-based relationships with stakeholder can leverage the effect of accumulated experience positively on the performance of the focal task. Conversely, when the focal task is distant from its previous events, firms that encompass stakeholders' preferences benefit less from previous experience - and can even risk harming its performance. These results lead us to speculate on the fact that stakeholder engagement can provide a deeper but narrower understanding of certain events (in our case acquisitions). In this sense, stakeholder engagement can foster the creation of experience that is only of limited use: it can be particularly beneficial in case of exploitative actions, but for explorative activities it may represent a useless burden. In essence, this study shows the importance of understanding the effectiveness of experiential learning in relationship to other strategic decisions (such as the choice to adopt an engagement approach to stakeholder management), and to the knowledge requirements of the task. The same level of experience with a task can be beneficial, neutral, or even detrimental depending, on the organizational context in which the experience has been accumulated, and on the familiarity of the focal task.

These results also contribute to the ongoing discussion about the relative benefits or drawbacks of stakeholder engagement strategies. Although management literature has generally seen

stakeholder engagement as “a panacea for a variety of ills and a means of accessing untapped opportunity” (Hall & Vredenburg, 2005: p.11), we can more likely expect the benefits of these strategies to be idiosyncratic and context-dependent. In essence, our study shows the importance of understanding the contexts in which stakeholder engagement strategies can be helpful and those in which it is worth avoiding them. Specifically, our results suggest stakeholder engagement can lead to positive outcomes when used in narrow environments, but are less useful for understanding complex and novel contexts. This aligns with Bettinazzi’s (2014) findings about the limited usability of stakeholder knowledge: when the context is familiar to the firm (and its stakeholders), engagement strategies can foster successful firm performances, but when the context is strange, the engagement of stakeholders can be useless or even harmful.

Another area where our study contributes is, clearly, to the literature on corporate acquisitions. By acknowledging heterogeneity in firms’ stakeholder engagement methods (managing the relationship in a participative style or via an arm length approach), as well as between the different contexts in which these strategies can be applied, can explain why the results of some studies into experiential learning in the acquisition literature are so mixed. In particular, our findings show that the conditions under which a firm’s experience base is created and applied matter above and beyond the mere number of previous acquisitions it has made. More broadly, the use of a participative style of management in learning, and its boundary conditions, may be a novel explanation for the high failure rate of such business activities.

Like any empirical study, ours has a number of limitations that future work could address. First, it has focused on the context of acquisitions by large US listed firms: future research should probe the applicability of our findings to different size or regional contexts. For example, it would be of interest to understand if smaller firms need to rely more on stakeholders’ knowledge to foster performances.

A second limitation concerns the need to triangulate and validate the results by using different measures of the dependent and independent variables. In particular, the stakeholder engagement measures we use in our study depend on external sources of information. To counter some of these limitations, future scholars might want to consider building a research design that measures the level of stakeholder engagement directly using surveys or interviews, which was not possible in our methodology.

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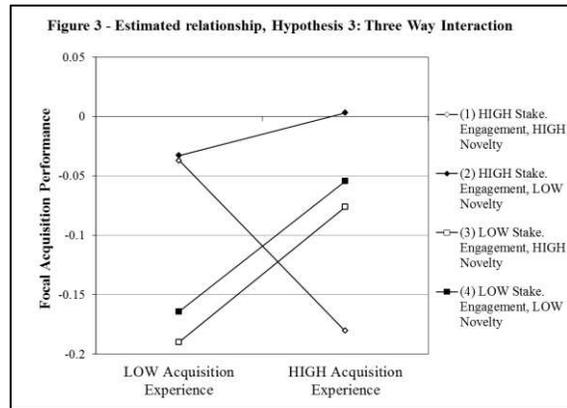
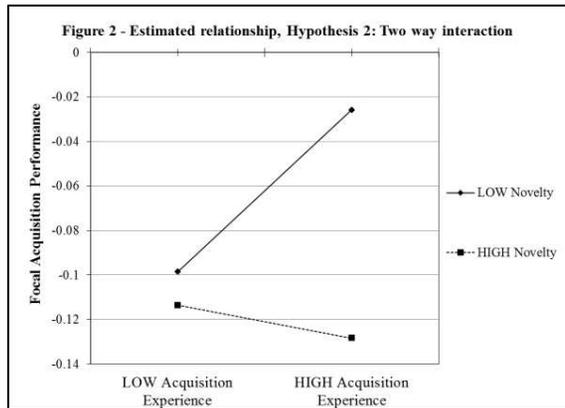
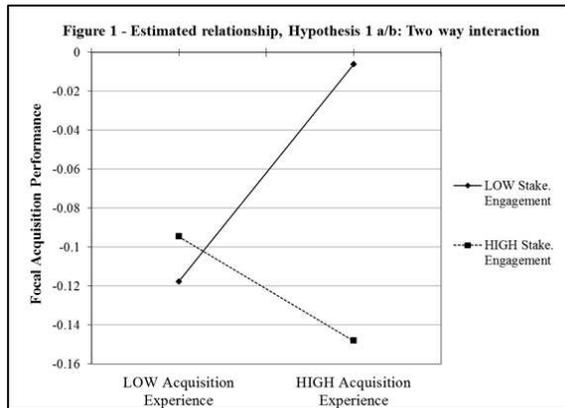
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**TABLE 1**  
**Descriptive statistics and correlations**

Variables	Mean	s.d.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
1 Perf. of the focal acquisition	-0.019	0.461													
2 Acquisition Experience <sup>b</sup>	0	1	0.059*												
3 Stakeholder Engagement <sup>b</sup>	0	1	0.050*	-0.033											
4 Novelty of focal acquisit. <sup>b</sup>	0	1	-0.050*	-0.160**	0.067**										
5 Distance to core business	3,303	3,589	-0.026	-0.097**	0.106***	0.691***									
6 Experience heterogeneity	0.651	0.372	-0.022	-0.049*	0.144***	0.506***	0.332***								
7 Fin. size of the acq. <sup>a</sup>	9.392	1,526	0.056*	0.004	0.524***	0.055*	0.072***	0.087***							
8 Resource slack of the acq.	0.957	2086	0.075**	-0.046	0.005	-0.051*	0.042	-0.041	-0.067**						
9 Previous Minority interest	0.039	0.194	-0.037	-0.073**	0.050*	-0.016	-0.032	-0.013	0.050*	-0.037					
10 Full acquisition	0.975	0.155	-0.014	0.047*	0.014	-0.001	0.011	0.001	-0.043	-0.043	-0.191**				
11 Performance of the acq.	0.073	0.084	0.051*	0.098***	0.151***	-0.040	-0.032	0.041	-0.055*	0.038	-0.028	0.060*			
12 Org. size of the acq. <sup>a</sup>	3.197	1.347	0.003	0.062*	0.503***	0.075**	0.066**	0.152***	0.730***	-0.313**	0.055*	-0.021	0.065**		
13 Relative target size	-0.052	0.655	0.028	-0.068**	-0.066**	-0.064**	-0.088**	-0.081**	-0.103**	-0.006	-0.010	0.021	-0.060*	-0.065*	
14 Cross-border	0.289	0.453	-0.039	-0.097**	-0.013	-0.004	-0.014	-0.017	0.021	-0.011	0.113***	-0.154**	0.003	0.070**	-0.066*

\*  $p < 0.05$ ; \*\*  $p < 0.01$ ; \*\*\*  $p < 0.001$  <sup>a</sup> Logarithm <sup>b</sup> Standardized

**TABLE 2**  
**Results of OLS Regression Models (Dep. Var. Cumulative Abnormal Return 36-months)**

Variable	Hp	Model 0	Model 1	Model 2	Model 3
Acquisition Experience <sup>b</sup>			0.0262* (0.0103)	0.0150 (0.0101)	0.0145 (0.0106)
Stakeholder Engagement <sup>b</sup>			0.0266† (0.0136)	0.0290* (0.0137)	0.0297* (0.0138)
Novelty of focal acquisition <sup>b</sup>			-0.0290† (0.0168)	-0.0326† (0.0168)	-0.0294† (0.0168)
Stake. Engagement x Experience	1a/b			-0.0356*** (0.0098)	-0.0413*** (0.0099)
Novelty x Experience	2				-0.0219† (0.0115)
Stake. Engagement x Novelty					-0.0175† (0.0096)
Stake. Engag.t x Novelty x Experience	3				-0.0229* (0.0103)
Distance to core business		-0.0013 (0.0031)	0.0038 (0.0043)	0.0047 (0.0043)	0.0040 (0.0042)
Experience heterogeneity		0.0037 (0.0350)	0.0317 (0.0399)	0.0360 (0.0401)	0.0312 (0.0402)
Financial size of the acq. <sup>a</sup>		0.0134 (0.0159)	0.0121 (0.0176)	0.0277 (0.0185)	0.0299 (0.0187)
Resource slack of the acq		0.0084+ (0.0047)	0.0061 (0.0043)	0.0066 (0.0042)	0.0067 (0.0041)
Previous Minority interest		-0.1295* (0.0616)	-0.1230* (0.0621)	-0.1283* (0.0622)	-0.1257* (0.0617)
Full acquisition		-0.0770 (0.0952)	-0.0861 (0.0948)	-0.0892 (0.0940)	-0.0877 (0.0935)
Performance of the acq.		0.1856 (0.1376)	0.0895 (0.1387)	0.1108 (0.1387)	0.1150 (0.1382)
Organizational size of the acq. <sup>a</sup>		0.0009 (0.0184)	-0.0112 (0.0190)	-0.0193 (0.0193)	-0.0223 (0.0194)
Relative target size		0.0202 (0.0159)	0.0236 (0.0162)	0.0249 (0.0164)	0.0256 (0.0162)
Cross-border		-0.0124 (0.0251)	-0.0021 (0.0254)	-0.0044 (0.0253)	-0.0051 (0.0253)
Intercept		-0.0171 (0.1442)	0.0232 (0.1634)	-0.0783 (0.1653)	-0.0916 (0.1654)
Year Fixed Effects		YES	YES	YES	YES
Industry Fixed Effects		YES	YES	YES	YES
R-squared		0.0922	0.0992	0.1042	0.1077
Model F		5.73***	4.94**	13.28***	4.70**
n		1,719	1,719	1,719	1,719

Notes. †  $p < 0.1$  \*  $p < 0.05$ ; \*\*  $p < 0.01$ ; \*\*\*  $p < 0.001$  <sup>a</sup>Logarithm <sup>b</sup> Standardized  
Standard errors appear in parentheses.