

# The Influence of a CSR Spread on Acquisition Outcomes from a Customer Perspective

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## **Abstract**

**Keywords:** mergers and acquisitions, corporate social responsibility, customer-based corporate reputation, stakeholder theory, cultural fit

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### **English:**

This study investigates the extent to which a spread in corporate social responsibility (CSR) between two acquisition partners can influence the outcome of CSR-motivated mergers and acquisitions (M&As). In line with the assumptions of stakeholder theory and signalling theory, we aimed to investigate whether all kinds of CSR investments result in favourable outcomes. To do so, we decided to focus on the outcomes for an acquisition's target with a high CSR performance. Customer-based corporate reputation was chosen as the main variable of analysis, as improved corporate reputation is one major potential outcome of CSR engagement. We chose a causal research method to investigate our research objective. We further tested for the moderating effects of familiarity, own CSR support and cultural background. Our findings demonstrated that acquisitions could result in negative customer reactions when the target has a high CSR score, and the acquirer performs poorly in terms of CSR. When the acquisition partners showed congruent CSR engagement, customer's evaluations of the target improved slightly. We did not detect moderating effects for CSR support and cultural background. Familiarity, however, seemed to have some impact on the outcomes of our analysis. These findings suggest that managers need to include the cultural fit, and specifically the CSR performance of both companies, in the due diligence process before an acquisition.

### **Portuguese:**

Este estudo investiga até que ponto uma dispersão na responsabilidade social corporativa (RSC) entre dois parceiros de aquisição pode influenciar o resultado de fusões e aquisições motivadas pela RSC (M&A). De acordo com as suposições da teoria das partes interessadas e da teoria da sinalização, nosso objetivo é investigar se todos os tipos de investimentos em RSC resultam em resultados favoráveis. Para isso, decidimos nos concentrar nos resultados para uma meta de aquisição com um alto desempenho em RSC.

A reputação corporativa baseada no cliente foi escolhida como a principal variável de análise, uma vez que a melhoria da reputação corporativa é um dos principais resultados potenciais do engajamento em RSE. Escolhemos um método de pesquisa causal para investigar nosso objetivo de pesquisa. Testamos ainda mais os efeitos moderadores da familiaridade, o suporte próprio de RSE e o histórico cultural. Nossas descobertas demonstraram que as aquisições poderiam resultar em reações negativas do cliente quando o alvo tem uma alta pontuação CSR, e o adquirente tem um desempenho ruim em termos de CSR. Quando os parceiros de aquisição mostraram um envolvimento congruente com a RSE, as avaliações do cliente sobre a meta melhoraram ligeiramente. Não detectamos efeitos moderadores para o suporte de RSE e o contexto cultural. A familiaridade, entretanto, parecia ter algum impacto sobre os resultados de nossa análise. Estas conclusões sugerem que os gerentes precisam incluir o ajuste cultural, e especificamente o desempenho de RSE de ambas as empresas, no processo de due diligence antes de uma aquisição.

## **Acknowledgement**

During the last two years of my master's degree, I learned a lot about different aspects of doing business. My interest grew specifically in corporate social responsibility, as it is closely linked to my desire to constructing my life in a sustainable manner. I want to work for a company with a strong value set in the future, and this study allowed me to learn more about the implications of representing strong CSR values. Years ago, I stumbled across the case of The Body Shop and L'Oréal, and the objective of L'Oréal to acquire The Body Shop never appeared authentic to me. In addition, I always wondered why a company with strong CSR values would merge with L'Oréal. Therefore, it was very interesting for me to see the difference between acquisitions that appear to have an authentic motivation in contrast to those that seem to be done for reasons of "greenwashing". I hope that my research findings will lead managers to challenge the authentic motivations of doing business with their business partners and increase the awareness for authentic CSR engagement.

I would like to thank the professors of Católica LSBE and FGV/EBAPE that supported me in this research by providing inspiration or feedback and being available whenever I had doubts.

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## List of Abbreviations

|      |                                     |
|------|-------------------------------------|
| CBR  | Customer-based Corporate Reputation |
| CR   | Corporate Reputation                |
| CSR  | Corporate Social Responsibility     |
| DACH | Germany, Austria, Switzerland       |
| ESG  | Environmental, Social, Governance   |
| LO   | L’Oréal                             |
| M&A  | Mergers and Acquisitions            |
| NA   | Natura Co.                          |
| TBS  | The Body Shop                       |

## 1. Introduction

Research on mergers and acquisitions (M&As) has been increasing significantly during the last decades due to its popularity as an external growth strategy (Mihaiu et al., 2021). Traditionally, M&As were carried out with the purpose to result in benefits for the acquiring company. Some of these benefits include economies of scale (Chatterjee, 1986; Smeets et al., 2016), improved operations (Lubatkin, 1983; Chatterjee, 1986), knowledge spillovers (Smeets et al., 2016; Renneboog & Vansteenkiste, 2019) or financial synergies (Lubatkin, 1983). Existing research on M&A has mainly focused on the success of M&A deals from a financial perspective (Clark & Mills, 2013). Nowadays, however, different stakeholder groups place more attention on a company's corporate social responsibility (CSR) performance. Thus, more and more firms attempt to increase their sustainability rating through green M&A deals (Aktas et al., 2011).

An increasing number of companies chooses to acquire targets with a higher CSR performance than themselves (Aktas et al., 2011; Bereskin et al., 2018), hoping for beneficial outcomes associated with a high CSR performance such as higher brand loyalty (Barney & Hansen, 1994; Fombrun et al., 2000), increased brand value (Ferrell et al., 2016) and better corporate reputation (CR) (Zhang & Yang, 2021; Yadav et al., 2018). Existing literature generally implies that acquiring a high-CSR target results in positive outcomes for the acquirer (Tampakoudis & Anagnostopoulou, 2020; Feng, 2021). The outcomes for the target are however rarely investigated. Concepts like the signaling theory indicate that companies send signals to their customers. If a company with a strong CSR-related value set collaborates with a low CSR company, for instance through an acquisition, this signal incongruence might negatively affect the high CSR target (Cording et al., 2014).

This signal incongruence especially occurs when there is a high difference between the CSR performance of the acquirer and the target before an acquisition. The CSR spread is introduced as a concept by Chen et al. (2019) as an approach in which this difference is calculated as a measure to identify the divergence in CSR performance. While the prevailing assumption in scientific literature claims that acquiring a high CSR company will result in favorable outcomes for the acquirer (Chen et al., 2019), Zhang et al. (2020) demonstrated that a high CSR spread might result in backfire effects for the outcome of the acquisition due to signal incongruence. Such backfire effects might include media disapproval which eventually has a negative effect on the corporate reputation of a firm (Vergne et al., 2018).

In this context, Strahilevitz (2003) identified that especially high-CSR targets might experience such a backlash in customer reactions to a friendly acquisition with a low-CSR bidder.

Consumers are one of the most important stakeholder groups of a company (He & Lai, 2014). Customer responses are however rarely investigated in the context of mergers and acquisitions. Research on consumer responses towards CSR has demonstrated that a high CSR performance typically translates into improved corporate reputation (Zhang & Yang, 2021; Yadav et al., 2018). Therefore, this variable might be heavily influenced by an acquisition with a high CSR spread. There is however no scientific evidence defending this assumption. With the purpose of filling this research gap, we therefore aim to investigate the following research question:

To what extent does the degree of CSR spread between the acquirer and the target in an acquisition influence the customer-based corporate reputation of the target company?

Based on this research question, the main objective of this study is to find out whether the acquirer's pre-acquisition CSR performance impacts the CR of a target with a high CSR score. More specifically, the fundamental objective is to find out 1) if acquisitions with a low CSR spread decrease the CR of the high-CSR target at all, 2) if acquisitions with a low CSR spread have any significant impact on the CR of the high-CSR target and 3) whether the impact high CSR spread is stronger than the one of a low CSR spread. Further, we investigate an individuals' familiarity with the target, their own support for CSR and their cultural background as potential moderators.

The findings will give an insight into the degree of influence that a CSR spread has on the outcomes of an acquisition from the perspective of the target company. From a theoretical perspective, this study intends to challenge current concepts like the stakeholder theory approach and the signaling theory. In addition, the results of this research will help managers of both the target and the acquiring company to evaluate whether they should undertake an acquisition or not. Managers of acquiring companies will understand better how their own firm's CSR performance might impact the outcome of a CSR-motivated acquisition.

To come to these results, chapter two will provide a general overview of the literature on the three concepts of M&As, CSR and CR. These findings will be used to develop the hypotheses, that will then lead us through our study.

In the same chapter, we introduce the concept of customer-based corporate reputation (CBR) by Walsh et al. (2009) which serves as the framework and scale for this study. Chapter three covers the methodology including the questionnaire design, variables, and a general overview of the dataset. In chapter four, an in-depth analysis of the dataset is conducted, focusing on the previously developed hypotheses. Chapter five presents the main findings of our study, and eventually the theoretical and managerial implications, as well as the limitations of this study.

## **2. Literature Review**

This section gives an overview of the three areas of interest that are covered in this study. Firstly, the current literature on mergers and acquisitions and the importance of cultural fit in M&As is summarized. Then, we provide insights on existing CSR research and introduce the concept of a CSR spread. Next, we present the CBR scale by Walsh et al. (2009) as the underlying theoretical framework. Finally, an introduction of the moderators is given.

### **2.1. Mergers and Acquisitions**

Since the 1970s, mergers and acquisitions have become an important area of research in scientific literature (Bauer & Matzler, 2014), as the business practice has become a popular strategy for external growth and development of companies (Mihaiu et al., 2021). Defined in a broad way, M&As are used to combine two or more organizations into one (Yamanoi & Sayama, 2012). More specifically, acquisitions are defined as the act of one company taking over another company's assets, liabilities, and management without combining the businesses physically (Gupta, 2012). In this context, the acquiring company is typically referred to as the acquirer or the bidder. The acquired company is called the target. To undertake an acquisition, the acquirer needs to take over more than 50% of the target (Jagersma, 2005). In a merger, on the other hand, two companies combine their businesses and eventually form into one entity based on their assets and liabilities (Fikru & Insall, 2016; Gupta, 2012).

Due to the nature of this study, we will use the terms “acquisition” or “M&A” throughout this paper. Both terms are used interchangeably.

Generally, M&As are used to achieve long-term competitive advantage in a company's business environment (Ferreira et al., 2014). Yagil (1996) differentiates M&A activities into two categories: horizontal and vertical. Horizontal M&As mainly focus on diversifying the acquirer's business (Gaughan, 2002). The main objectives of this type of M&As are entering new markets (Renneboog & Vansteenkiste, 2019; Friedman et al., 2016; Ikhwan & Haeruddin, 2017), reducing competition (Renneboog & Vansteenkiste, 2019; Mihaiu et al., 2021), and expanding the product portfolio through patents, trade secrets and insights into research and development practices (Renneboog & Vansteenkiste, 2019; Smeets et al., 2016). On the contrary, companies that engage in vertical M&As operate in the same industry, with one company typically being the supplier of the other (Chemla & Chemla, 2003). In these cases, involved companies anticipate economies of scale or scope (Schmidt, 2015; Ikhwan & Haeruddin, 2017; Chatterjee, 1986; Lubatkin, 1983), higher transparency with regards to market foreclosure of suppliers and reduced operating costs (Renneboog & Vansteenkiste, 2019; Chemla & Chemla, 2003).

The desired objectives influence the level of integration at which a target is incorporated into the acquirer's organizational structure. Pablo (1994) divides the three levels of integration into non-integrated companies, partially integrated companies and totally integrated companies. Non-integrated companies remain independent after the acquisition, and the acquirer only undertakes minor changes in the target's technical and administrative landscape. In this case, the two companies only share financial risks, resources and standardized management systems and processes. In partially integrated companies, deeper changes in the value chain are implemented. In addition, more physical and knowledge-based resources are exchanged. Finally, totally integrated companies fully merge into the acquirer's organization. In this case, the two companies share all types of resources, and the target takes on all systems, procedures and processes of the acquirer (Pablo, 1994).

In the existing literature, four main schools of thought emerged in terms of mergers and acquisitions research (Bauer & Matzler, 2014). The most popular one is the financial economic school, which analyzes M&As based on stock market-based measures. This one focuses on the effects of this growth strategy with respect to the company's financial performance and wealth (Stahl & Voigt, 2008; Wilcox et al., 2001). In this type of research, event studies are used as a common tool to analyze the target's and the acquirer's share prices in a certain time frame around the day that the M&A activity was announced (Aktas et al., 2007).

Another popular way to measure the success of acquisitions in this school of M&A research is to estimate the value gap between the premium and the expected synergies between the two companies or to analyze the acquirer's total shareholder return. Finally, some scholars use the discounted cash flows of a company after an acquisition to calculate the incremental value effect and determine whether a deal was worth it (Clark & Mills, 2013).

Next to the financial economic school, some scholars belong to the strategic management school. This school deals with the effect of pre-merger relatedness of the involved companies, and how similar or complementary the performances of the companies are before the acquisition (Cartwright, 2006; Chatterjee, 2009). Thirdly, the organizational behaviour school investigates how M&As affect organizations, their organizational culture and their individuals (Birkinshaw et al., 2000). In addition, this school of thought analyzes the impact of organization-related variables on performance in the context of M&As. Such variables include acquisition experience, cultural fit and compatibility and post-merger issues like the degree of integration (Haleblian & Finkelstein, 1999; Haleblian et al., 2006). Finally, the last school of thought is referred to as the process school and is a combination of the two former ones. The focus here lies on the perception that the M&A process fosters the performance of such a transaction (Jemison & Sitkin, 1986).

One main point of interest in all these schools of research are the factors that lead to a successful M&A transaction. In fact, failure rates of mergers and acquisitions are extremely high. Over the last twenty years, scholars have continuously cited failure rates ranging from 40% to 90%, with some scholars even claiming a range of 70-90% (Martin, 2016; Christensen et al., 2011). Reasons for such a high failure rate are versatile, but a profuse amount of research has shown that the (organizational) cultural elements play an essential role in determining M&A success (Lodorfos & Boateng, 2006; Schraeder & Self, 2003; Nahavandi & Malekzadeh, 1988; Bereskin et al., 2018; Rottig, 2007). Therefore, this study dives deeper into the insights that were developed in the strategic management school to analyze the research question.

## **2.2. Organizational Culture and Cultural Fit in M&As**

The organizational or corporate culture of a company defines the organization and includes all its features and behaviors. Accordingly, all systems, policies, procedures and processes are part of the company's culture (Meek, 1988). In addition, corporate culture reflects the company's values, norms, beliefs and assumptions (O'Reilly & Chatman, 1996). Due to its nature, it is usually hard for managers to change any of these variables within their organization, as these variables define the company (Pacanowsky & O'Donnell-Trujillo, 1982). In the context of mergers and acquisition, this has shown to be an important finding. Several researchers have pointed out that the compatibility of the organizational cultures of the involved companies is an important determinant of acquisition success (Ackermann, 1984; Schwartz & Davis, 1981). A higher cultural fit was found to be a major source of improved post-acquisition performance (Stahl & Voigt, 2008).

Cultural fit derives from the construct of organizational fit and describes the compatibility of the cultures of the acquiring and the target organization (Jemison & Sitkin, 1986). Some factors that should be compatible are administrative practices, personal characteristics and cultural characteristics (Jemison & Sitkin, 1986). Scholars agree that cultural incompatibility is one of the main reasons for issues in the post-acquisition integration (Nahavandi & Malekzadeh, 1988).

The importance of cultural fit in an acquisition depends on the degree of integration of the target into the acquirer. Scholars commonly agree on four levels of cultural integration in mergers and acquisitions (Nahavandi & Malekzadeh, 1988; Elsass & Veiga, 1994). Firstly, separation describes a low level of cultural alignment, which is mostly used in mergers with non-integrated companies. In this case, the target continues to operate autonomously, and its strategic competences are normally maintained. Secondly, assimilation is the most popular way of cultural integration. It is used when the need for strategic interdependence is high and the target keeps a low level of autonomy after the acquisition. In this instance, the companies aim to unify their operations, structures and cultures (Nahavandi & Malekzadeh, 1988). In cases of integration, the objective is to establish a balance between the two businesses in a way that the organizational autonomy of the target remains with itself (Nahavandi & Malekzadeh, 1988). There is, however, an exchange of strategic competences, so that both companies can bring together the best of their business practices (Kimberly & Lamont, 2004).

This eventually requires some degree of change in both companies and usually happens at a slower pace over time. Finally, in a deculturation setting, the acquirer serves as a holding company. Strategic interdependence is low, which results in no intention to integrate the acquirer and the target (Nahavandi & Malekzadeh, 1988). In this case, the target company typically has no desire to maintain its own culture, leading eventually to deculturation (Elsass & Veiga, 1994).

Keeping these levels of integration in mind, it is important to note that the degree of integration heavily influences the importance of cultural fit. In the literature on corporate culture and how it impacts the success of mergers and acquisitions, the focus lies mainly on employees and executives of the companies (Yamanoi & Sayama, 2012). Customers are rarely the subject of research, although Gonzalez-Torres et al. (2020) point out that this group of stakeholders is an important element which is typically affected by mergers and acquisitions. While customers might not be heavily affected by the cultural fit of two companies in terms of procedures or processes, they are likely to recognize changes in the way a company acts as a corporate citizen. One decisive component of a company's performance as a corporate citizen in this context is its socially responsible behavior. In their study, Bereskin et al. (2018) use CSR as a proxy for cultural similarity. This study therefore adopts this proxy in order to find out more about the impact of cultural similarity in M&As from a consumer's perspective.

### **2.3. Corporate Social Responsibility and ESG**

Research on corporate social responsibility has become more and more important in the last decades. Especially when scholars started to research further than basic profit-generating measures, CSR studies became more popular (Kotler, 1972; Sweeney, 1972). The European Commission defines CSR as the „responsibility of enterprises for their impact on society” (European Commission, 2022). In addition, a definition that experienced high popularity among scholars was created by Carroll (1979) who included the economic, legal, ethical and discretionary expectations of society into the equation. This definition is commonly used due to its general and all-embracing nature. Generally said, the most common definitions of CSR include that all companies need to keep social interest in mind (Golob et al., 2008).

As a tool to codify the CSR performance of businesses, the Environmental, Social and Governance (ESG) framework as a common proxy has developed (Tampakoudis & Anagnostopoulou, 2020; Krishnamurti et al., 2020; Koh et al., 2022). The term was first introduced in a publication by the United Nations on responsible investment in 2006 and has since gained a lot of attention from researchers, investors and managers (Yoon et al., 2018; United Nations, 2006). It encompasses the ways in which companies and investors incorporate environmental, social and governance aspects into their businesses and is founded on legal rules, social preferences and institutional arrangements (Liang & Renneboog, 2017; Purvis et al., 2019).

More specifically, the environmental aspect includes the firm's capacities to use existing resources in a way that will allow future generations to have the same level of access to these resources as current generations do (Alba-Hidalgo et al., 2018). The social aspect consists of the organization's fair business practices in the context of labor, human capital and the communities in which it operates (Alhaddi, 2015). These two aspects are typically reflected in the concept of corporate social responsibility as well. Hence, these terms are often used interchangeably and the boundaries between these two concepts are relatively obscure (Garcia et al., 2017; Tampakoudis & Anagnostopoulou, 2020). The main difference between CSR and ESG is the specific inclusion of governance. Governance comprises all economic activities that allow the company to operate sustainably, such as a code of conduct (Koh et al., 2022; Alhaddi, 2015). Due to the proximity of both concepts and in accordance to the existing literature, this study treats CSR and ESG interchangeably as well.

With the increase in research on the topic of sustainability and investments in CSR, two schools of thought have emerged. These two literature streams debate on whether CSR investment eventually leads to value creation or value destruction (Cho et al., 2020; Shi et al., 2020). The first and more prominent one bases its arguments on the stakeholder theory developed by R. Edward Freeman (1984). This approach argues that firms should operate in a way that considers the interests of all stakeholder groups. In a continuation of his study, Freeman et al. (2004) further explain that the firm builds stronger relationships with its stakeholders if it satisfies their needs. In return, the stakeholders are more willing to attribute some of their resources towards the firm, which will potentially result in increased shareholder value (Freeman et al., 2004; Lee, 2008). Based on this explanation, CSR investments therefore result in positive outcomes for a company in the long-run.

The second stream of literature focuses on the shareholder theory. This theory was developed by Milton Friedman (1970) and states that the main goal of an organization is to increase the wealth of its shareholders. He claims that shareholders will experience losses if resources are attributed to other stakeholder groups (Friedman, 1970; Deng et al., 2013). Following this argumentation, investments in CSR are a waste of resources, as they typically do not increase shareholder wealth (Cho et al., 2020; Bhandari & Javakhadze, 2017).

Considering these two opposing views of the effects of CSR investment on value creation or destruction, the further research is based on the assumptions of Freeman's stakeholder theory. This decision is ascribable to the fact that the majority of literature on this topic provides evidence in favor of this approach (Tampakoudis et al., 2021; Cho et al., 2020).

According to the stakeholder theory, CSR investment results in several benefits for the company which vary between different stakeholder groups. In terms of employees, socially responsible companies experience higher employee loyalty and employee retention, especially of high-quality employees (Greening & Turban, 2000; Preston & O'Bannon, 1997). In a financial context, CSR investment can lead to better relations with financiers (Pava & Krausz, 1996; Spicer, 1978), which translates into easier access to external financing (Lins et al, 2017, Garcia-Sanchez et al., 2019). Furthermore, independent of a specific stakeholder group, firms that engage in CSR proved to boost their legitimacy (Wang & Qian, 2011), improve their financial performance (Brower et al., 2017; Flammer, 2015), and improve their firm value (Godfrey et al., 2009; Mervelskemper & Streit, 2017). Finally, CSR investment can result in better firm reputation (Aguilera-Caracuel & Guerrero-Villegas, 2018; Martinez-Ferrero et al., 2016).

While the effect of CSR investment on these stakeholders benefits the company's profitability and sustainable growth in the long term (Freeman, 1984; Porter & Kramer, 2006), there is one crucial stakeholder group for every business that were not considered yet. Consumers are the largest and most important stakeholder group for any company (He & Lai, 2012), thus it is essential to assess their responses to CSR investments. The consumer landscape has changed significantly in the last decades, with more and more consumers placing a higher focus on healthy and sustainable consumption (Deloitte, 2022). Furthermore, ethical consumerism has risen as a form of consumer behavior that tends to prefer cause-related products and demands companies to perform their operations in a socially responsible way (Mirvis, 2008).

These changes result in expectations of sustainable methods that consumers develop towards companies. Consequently, these expectations are also reflected in the media and other stakeholder groups (Dawkins & Lewis, 2003).

Despite the importance of this stakeholder group, there is still only limited research available on consumer attitudes and behavior in the context of CSR (Koh et al., 2022). The existing literature, however, states that a company's engagement in CSR generates higher customer loyalty (Sen & Bhattacharya, 2001; Fombrun et al., 2000) and more support by the customers (Krishnamurti et al., 2020). In addition, it can improve the customers' perception of the company and influence their level of trust, engagement, contentment, and attachment (Servera-Frances & Piqueras-Tomas, 2019). Finally, the degree of CSR engagement of a company affects the purchase intention among specific customer segments (Sen & Bhattacharya, 2001).

In general, companies increase their CSR performance through various initiatives. Cause-related or social marketing campaigns, charitable donations and community volunteering programs are popular ways to demonstrate a desire to act more socially responsible (Kotler & Lee, 2005). Another popular tactic to try enhancing a company's CSR performance is to acquire another firm with superior ESG practices (Aktas et al., 2011; Bereskin et al., 2018; Deng et al., 2013). The effect of CSR on the outcomes of mergers and acquisitions still lacks research (Gonzalez-Torres et al., 2020), but more and more scholars are working to fill this gap (Feng, 2021; Deng et al., 2013; Aktas et al., 2011). Existing literature has demonstrated that the main objectives of CSR-motivated acquisitions are linked to value creation. Acquirers can improve their brand image (Qiao & Wu, 2019), reduce corporate risks (Fombrun et al., 2000), learn from the targets's CSR practices (Aktas et al., 2011; Saxton & Dollinger, 2004), and increase their brand reputation (Fombrun et al., 2000).

These findings however might not be true for every M&A scenario. In their research, Chen et al. (2019) identified one element that significantly influences the outcome of an acquisition. The acquirer's returns and the acquisition outcomes hinge heavily on the difference between the target's and the bidder's CSR performance. The authors introduced the concept of CSR spread. This approach deducts the acquirer's CSR score from the target's score before the acquisition. The resulting difference then serves as an indicator on how different the target and the acquirer are in terms of CSR performance.

Taking this difference into consideration, Chen et al. (2019) found out that a high CSR spread resulted in a positive market performance change and increased CSR ratings after the acquisition. Other studies concluded similar results, and further investigated that a low CSR spread does not significantly influence the post-acquisition performance of the acquirer (Liang & Renneboog, 2017; Feng, 2021).

These findings are highly relevant in M&A research, as they provide a limitation on the effects of a CSR spread on the acquisition outcome. Traditionally, M&A literature focused on outcomes with respect to the acquirer. However, especially in non-integrated acquisitions where the target remains an autonomous entity and the organizational cultures of the companies remain separated, it is necessary to consider the effects on the target too. As current research fails to take this into consideration, we build this study around the effects of a huge CSR spread on the target. Furthermore, we decide to focus on marketing variables in our analysis, rather than financial ones. Corporate reputation is often cited as one of the main outcomes of CSR and CSR-motivated M&As. For this reason, we use CR as a variable to measure the outcome of a high CSR spread on the target company.

#### **2.4. Corporate Reputation**

The topic of corporate reputation has been studied in several different disciplines in the last decades and has increased its importance especially in business-related research (Fombrun, 2018; Walsh & Beatty, 2007). Besides extensive research, scholars have yet to find a uniform definition of the concept. In general, many scholars define corporate reputation as a reflection of the perception that stakeholders have of a company based on the signals that the company sends to them (Lai et al., 2010; Fombrun & Shanley, 1990; Walsh & Beatty, 2007). The most popular definition was provided by Charles Fombrun and claims that corporate reputation “is a perceptual representation of a firm’s past actions and future prospects that describes the firm’s overall appeal to all of its key constituents when compared with other leading competitors” (Fombrun, 2008, p.144). This definition includes the aspect of time and encompasses all stakeholder groups. Literature has shown that reputation typically arises based on past interactions with the company (Wiedmann et al., 2013) and is therefore considered a progressive concept. While this aspect of Fombrun’s (2018) definition is still widely agreed on, some scholars question the inclusion of all stakeholder groups.

In fact, Wartick (2002) points out that different stakeholder groups might develop different levels of reputation towards a company. Accordingly, there is a need in research to differentiate the corporate reputation of a company among each stakeholder group (Walker, 2010). Due to this limitation, this study focuses on customers as one of a company's most important stakeholder groups (He & Lai, 2014). Because Walsh and Beatty (2007) focused their research on customers, their definition of customer-based corporate reputation is taken on as the underlying rationale for this research. According to the authors, customer-based reputation is "The customer's overall evaluation of a firm based on his or her reactions to the firm's goods, services, communication activities, interactions with the firm and/or its representatives or constituencies (such as employees, management, or other customers) and/or known corporate activities" (Walsh & Beatty, 2007, p.129)

The signaling theory is one concept that is commonly used in CR literature. According to this approach, reputation signals the quality of a company's products to the consumers (Fombrun & Shanley, 1990). Based on this implication, several studies have shown that a good reputation translates to a positive image of the company, and therefore results in higher customer loyalty (Walsh et al., 2014), higher brand trust (Keh & Xie, 2009; Doney & Cannon, 1997) and eventually a higher willingness to pay by the customers (Homburg et al., 2005; Deephouse, 2000). Overall, scholars agree that companies with a good reputation are more likely to attract customers and gain a competitive advantage (Gotsi & Wilson, 2001; Deephouse, 2000; Fombrun, 2018).

There are many different ways to increase corporate reputation. Investing in socially responsible activities is one of them (Shi et al., 2020; Zhang & Yang, 2021). According to Romenti (2010), a company's reputation indicates whether the firm is legitimised as a good citizen in society. This legitimization stems from the credibility, reliability and trustworthiness that the company gains from the different stakeholder groups. In fact, previous research has demonstrated that especially in the context of CSR, these variables are important in consumer evaluations. Customers proved to be especially suspicious of companies' CSR engagement if these firms have a poor reputation, a poor CSR record or are operating in controversial industries (Bhattacharya & Sen, 2004; Bae & Cameron, 2006; Strahilevitz, 2003). In these cases, firms were lacking the trustworthiness and credibility of authentic interest in CSR-related practices. Strahilevitz (2003) found out that customers perceived the CSR efforts of priorly unethical companies as selfish motives, rather than authentic interest.

When CSR efforts were undertaken by a previously ethical firm, however, they did not have a strong effect on the company. Sen and Bhattacharya (2001) support this assumption in their research. The authors found out that reactions towards negative information were stronger than those to positive information.

In their research, Zhang et al. (2020) slightly expanded this area of research on the context of mergers and acquisitions. According to signaling theory, the congruency of signals is essential to effectively communicate with stakeholders (Connelly et al, 2011). Subsequently, M&As should be executed in a way that match with the own company's signals. In the case of a high-CSR target, the acquirer should therefore send similar signals. If the CSR-related signals are too incongruent, stakeholders of the target company might therefore question the authentic motivation of the target in the first place (Cording et al., 2014; Stern et al., 2014). This is especially true when the acquisition partner performs opportunistic actions against the initial values of the target. In these cases, the high spread in CSR can result in a backfire effect for the target, eventually overruling the moral capital and the benefits of CSR engagement (De Roeck et al., 2016; Vergne et al., 2018). These backfire effects typically stem from the lack of authenticity and can negatively impact the CR of a company (Cording et al., 2014).

In this research, these findings are adapted to an M&A context in which the acquisition was initiated to improve the acquirer's CSR score and correspondingly its corporate reputation. Since the previous information focuses on the outcomes for the acquirer, this study aims to fill the research gap and investigate the effects of such an acquisition on the brand reputation of the target. Based on the literature, acquisitions with a high CSR spread are expected to result in a backfire effect, as they lack authenticity. On the contrary, acquisitions with a low CSR spread are not likely to change the CBR of the target significantly. Furthermore, acquisitions with a high CSR spread are expected to cause stronger consumer reactions than acquisitions with a low CSR spread. Therefore, the first set of hypotheses is formed as follows:

*H1a: Engaging in an acquisition with a high CSR spread will result in a loss of customer-based corporate reputation for a target with a high CSR score.*

*H1b: Engaging in an acquisition with a low CSR spread does not negatively affect the customer-based corporate reputation for a target with a high CSR score.*

*H1c: An acquisition with a high CSR spread is more likely to result in a change of the customer-based corporate reputation than an acquisition with a low CSR spread*

To analyze these assumptions, we use the customer-based corporate reputation framework that was developed by Walsh and Beatty (2007). There are several popular frameworks to measure corporate reputation, such as the U.S-based Forbes' Fortune America's Most Admired Companies (FMAC) or Germany's Manager Magazine. These evaluations were however continuously criticized for only representing a specific pool of stakeholders, dominated by senior managers, directors and financial analysts (Walker, 2010). Thus, they are not representative of the opinions of corporate reputation among a company's customer.

For this reason, Walsh and Beatty (2007) developed a scale to measure corporate reputation specifically among customers. This scale uses five different sub-scales to analyze the corporate reputation of a company. The authors divide the dimensions of corporate reputation by customer orientation, good employer, reliable and financially strong company, product and service quality, and social and environmental responsibility (Walsh & Beatty, 2007). The initial scale included 28 items. In 2009, the authors shortened the scale to 15 elements to take up less space as a research instrument (Walsh et al., 2009). The shortened scale can be found as table 01.

Table 01: CBR-Short Scale as developed by Walsh et al (2009)

**Factor 01: Customer Orientation**

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Has employees who treat customers courteously  
Has employees who are concerned about customer needs  
Is concerned about its customers

**Factor 02: Good Employer**

---

Looks like a good company to work for  
Seems to treat its people well  
Seems to have excellent leadership

**Factor 03: Reliable and Financially Strong Company**

---

Tends to outperform competitors  
Seems to recognize and take advantage of market opportunities  
Looks like it has strong prospects for future growth

**Factor 04: Product and Service Quality**

---

Is a strong, reliable company  
Develops innovative services  
Offers high-quality products and services

**Factor 05: Social and Environmental Responsibility**

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Seems to make an effort to create new jobs  
Seems to be environmentally responsible  
Would reduce its profits to ensure a clean environment

## 2.5. Moderators

As discussed, corporate reputation is different among specific stakeholder groups. However, even when focusing on customers, there might be some moderators that influence the outcome of the survey. Therefore, this study includes three moderators to further understand the effects of different degrees of CSR spread on corporate reputation in M&As.

### *Participant's familiarity with the company*

To build an opinion of a company, consumers typically refer to a multitude of different sources of information ranging from own experience, friends, and family to media and government (Braga et al., 2018; Fombrun & Shanley, 1990). Due to the nature of information collection, consumers typically have different information available about a company compared to other stakeholder groups. This information asymmetry requires consumers to take the signals that the company sends to them and base their judgements of the company on this specific information (Fombrun & Shanley, 1990). Especially in the case of high-CSR companies, the halo effect may fill out the missing information in favor of the firm. Consumers then use their positive opinion of a company and reflect it on other areas in a heuristic way (Alvarado-Herrera et al., 2015; Nisbett & Wilson, 1977). We therefore assume that participants with a higher level of information about the target, therefore a higher familiarity, show different results than those with a low level of information. This assumption thus translates into the following hypothesis:

*H2: Participants with a high familiarity with the target are likely to show different responses to customer-based corporate reputation after an acquisition depending on the degree of CSR spread compared to participants with a weaker familiarity with the target.*

### *Participant's own support for CSR*

In their study, Sen and Bhattacharya (2001) identified that personal support for CSR has a significant effect on the purchase intentions towards CSR-related companies among consumers. Other authors have supported these findings and linked the consumer's willingness to pay for CSR to that consumer's attitudes and beliefs towards CSR (Han et al., 2010).

These findings are commonly explained by the theory of planned behavior which deals with human behavior in a specific context (Ajzen, 1991). According to this theory, individuals will execute a specific type of behavior based on the expected positive outcome of such a demeanor. Considering a CSR context, customers with a high support for CSR thus usually expect a positive outcome following CSR engagement. This support for CSR can be intrinsic, extrinsic, or based on the individual's perception of the ease or difficulty on executing socially responsible behavior (Kim & Han, 2010). Therefore, we expect customers with a high personal support for CSR to also pay more attention to CSR practices among companies. Based on this information, the following hypothesis is developed:

*H3: Participants with a stronger support for CSR are more likely to show different responses to customer-based corporate reputation after an acquisition depending on the degree of CSR spread compared to participants with a weaker support for CSR.*

#### *Cultural Background*

There are many different definitions of culture, but the most popular one was provided by Hofstede. He defined it as “the collective programming of the mind that distinguishes the members of one group or category of people from another” (Hofstede, 2001, p.9). It is therefore a strong indicator of the values that people carry within themselves. Following, scholars have found out that cultural and national values are reflected in the understanding a person has of corporate social responsibility (Maignan, 2001). Hsu and Bui (2022) support this finding by identifying differences in relevance of CSR types in different Asian cultures. In the context of corporate reputation, another study identified more positive corporate reputation among survey participants filling out the questionnaire in Hindi, compared to English-speaking ones (Yadav et al., 2018). Accordingly, research proved that an individual's cultural background influences his perception of CSR and his support. Based on these findings, the final hypothesis is developed based on two cultural groups that are available within the scope of this study:

*H4: Participants from the DACH region are likely to respond differently to customer-based corporate reputation after an acquisition depending on the degree of CSR spread compared to participants from Brazil.*

### **3. Methodology**

With the aim of analyzing the six hypotheses, this study was conducted using a causal research method. The analysis of the first set of hypotheses (*H1a-c*) requires the inclusion of a treatment because it examines the effect of two different levels of CSR spread. We therefore choose a between subjects' experimental design since this method is the most suitable one in terms of analyzing different conditions. All participants were assigned randomly. We further included some questions that would help us to analyze our moderators. We chose an experimental design as it would allow us to reach many participants in a time- and cost-efficient way.

#### **3.1. Experimental Design**

The survey was created using Qualtrics, a web-based software for survey creation. In this application, it is possible to integrate treatments and adjust the survey to the needs of the experiment. This allowed us to show the first half of the survey to all participants, while randomly assigning participants to two different treatment groups in the second half of the survey. The survey was distributed via an anonymous link and shared in several social networks, including Instagram and Facebook. All questions were available in English, German and Portuguese to ensure accessibility for participants of different cultural backgrounds. Before the distribution of the survey, it was thoroughly pretested over the course of one week. In total, 18 people pretested the survey, with an even distribution of six German-natives, six English-natives and six Portuguese-natives. According to their feedback, some information included in the survey was adjusted in accordance with the specific language's requirements. Through this, we aimed to ensure better understanding of the instructions and information provided.

#### **3.2. Case Example**

We based our experiment on a real-life business case. In 2006, the British cosmetics company The Body Shop (TBS) was acquired by the French personal care giant L'Oréal (LO). Before the acquisition, TBS was known for its strong CSR-related value set. The company encouraged in different socially responsible initiatives, such as fair-trade programs, women empowerment, and funding of their suppliers' communities.

On top of that, TBS epitomized the engagement against animal testing methods in the cosmetics industry (Loreal Finance, 2013; Forbes, 2017). At that time, animal testing was still a common practice, and LO was known to use these methods regularly to test their products (Hope, 2017). This acquisition therefore demonstrates a substantial CSR spread and serves as our treatment. Following the acquisition, environmental activists called TBS's customers to boycott the company, and the firm eventually experienced continuous loss of market share (Hope, 2017). With this acquisition, LO aimed to increase their sustainability rating (The Guardian, 2006).

After continuous decrease in performance, L'Oréal sold The Body Shop to the Brazilian cosmetics company Natura Co. (NA) in 2017. This second acquisition of TBS serves as our control condition, as the CSR spread in this case is relatively small. Natura Co. reflects the ethical orientation of TBS and only owns other brands with a focus on corporate social responsibility (The Body Shop, 2022). For this reason, the acquisition through NA is suitable as our control scenario.

Due to the nature of these two acquisitions and their differences in CSR spread, we chose to select this business example as the foundation of our survey. Instead of keeping the survey case hypothetical, we chose to use an example from a real business setting to be able to include familiarity with the target as one moderator. Furthermore, previous research related to this case mainly focused the interaction between The Body Shop and L'Oréal. Only in 2017, TBS was acquired by Natura. Therefore, it is time to investigate this case by adding one more acquisition partner. Through this, the impact of L'Oréal on TBSs corporate reputation also becomes more evident as we can compare it to the impact of Natura.

### **3.3. Variables**

Our questionnaire was designed in a way that would allow us to generate data for the analysis of our hypotheses. We did not ask any irrelevant questions to keep the experiment as short as possible. All questions are thus directly linked to specific variables and, correspondingly, specific hypotheses. Due to the nature of a causal research method, we have one dependent variable and at least one independent variable per hypothesis. Appendix 01 includes the full questionnaire with the designated questions and appendix 02 provides an overview of all variables.

In the experiment, all participants received the same information. Firstly, we introduced the study's objective, duration, and instructions. Further, we ensured anonymous and responsible treatment of all generated data. Then, we provided detailed information on The Body Shop's engagement in CSR initiatives. Further, some additional information regarding TBSs market performance so the participants could create a picture of the company in their mind, even if they were not familiar with the firm. According to this picture, we then asked the participant to indicate his familiarity with the company and his perception of the firm's corporate social responsibility efforts. Finally, to gather data of the customer-based corporate reputation before the manipulation, we used the 15 elements of the validated, shortened CBR scale by Walsh et al. (2009).

Following the first part of the experiment, we then randomly divided the participants into two groups. One group received information about Natura Co (control) and the other about L'Oréal (treatment). Based on this information, the participants were then asked to state their perception of their respective acquirer's CSR performance. Like in the first part, we then asked the participants to fill out the shortened CBR scale by Walsh et al. (2009) to investigate how their answers changed compared to before the manipulation. Finally, we asked some questions about sociodemographic characteristics of the participants and their own evaluation of personal support for corporate social responsibility.

For *H1a*, *H1b*, and *H1c*, we have the same conditions. We determine the difference between the customer-based corporate reputation (*diff\_CBR\_total*) score before (*pre\_CBR\_total*) and after the acquisition (*post\_CBR\_total*) as the dependent variable. This variable includes the results of the dimensions of the CBR framework before and after the acquisition. It therefore consists of the values for the participants' customer orientation (*pre\_CBR\_CO*; *post\_CBR\_CO*), performance as an employer (*pre\_CBR\_PE*; *post\_CBR\_PE*), reliability and financial stability (*pre\_CBR\_RFS*; *post\_CBR\_RFS*), quality of its products and services (*pre\_CBR\_QPS*; *post\_CBR\_QPS*), and finally on its environmental and social performance (*pre\_CBR\_ESP*; *post\_CBR\_ESP*). These values derive from *Q3* to *Q7* for all variables before the acquisition and *Q10* to *Q14* for all variables after the acquisition. We furthermore include one dummy variable (*Treatment*) that states whether a participant was part of the control (*Treatment* = 0) or part of the treatment group (*Treatment* = 1). We draw this information from *Confirm L* and *ConfirmNco*.

To guarantee that the different treatment groups noticed a spread in CSR, we included the variable CSR spread (*spr\_CSR*). To calculate this variable, we need the participants' evaluation of the socially responsible behavior of TBS and the acquirer. We obtain these values from *Q2* for TBS (*TBS\_CSR*) and *Q8* for L'Oréal and *Q9* for Natura (*ACQ\_CSR*).

*H2*, *H3* and *H4* test our moderators. Consequently, we assume the same variables and regression structure as for *H1a*, *H1b*, and *H1c*. We only add one more variable to the regressions testing *H2*, *H3* and *H4*. To test *H2*, we include the results of *Q1* to determine the level of familiarity (*fam\_TBS*) of the participant with The Body Shop. For this variable, participants with a score of *fam\_TBS* = 4 or *fam\_TBS* = 5 were considered to have a high familiarity with the company, while a score of *fam\_TBS* = 1 or *fam\_TBS* = 2 rates as low familiarity. For *H3*, we use the variable that represents the participants' support for CSR (*sup\_CSR*). These values can be derived from *Q19*. Again, high personal support for CSR is defined as a value of *sup\_CSR* = 4 or *sup\_CSR* = 5 and low CSR support as *sup\_CSR* = 1 or *sup\_CSR* = 2. Finally, to investigate the impact of cultural background we use the results of *Q17* to develop the variable *country*.

### 3.4. Statistical Methods

To conduct our analysis, we used the license-free software RStudio. Student's t-tests within the full dataset were conducted to analyze our hypotheses in a first step. These will help to identify whether there are significant differences between the control and the treatment group with regards to how their customer-based corporate reputation changes after the acquisition. We used a right sided t-test to test *H1a*, a left sided t-test to analyze *H1b* and a two-sided t-test for *H1c*. All t-tests for the second set of hypotheses (*H2-H4*) were conducted as two-sided t-tests.

Furthermore, we ran a simple linear regression model to analyze *H1a-c* and multiple linear regression models to analyze moderating effects according to *H2*, *H3* and *H4*. In our regression models, the dependent variable is always *diff\_CBR\_total*, therefore the difference between *post\_CBR\_total* and *pre\_CBR\_total*. This variable is a numerical variable, therefore simple and multiple linear regression models are most suitable for our analysis. As our main independent variable, we use Treatment as a dummy variable. To test hypotheses *H2*, *H3* and *H4*, we include the variables *fam\_TBS*, *sub\_CSR* and *country* into the respective equations. All moderator variables are categorical.

### 3.5. Data Description

Our dataset consists of 183 observations and 22 variables. Appendix 02 gives an overview of all variables and how they were generated. Because some variables such as *diff\_CSR\_total* or *spr\_CSR* were calculated based on other variables, we decided to delete all elements that were included in other variables for reasons of clarity. Therefore, we ended up with nine variables in total. The final set of variables can be found in appendix 03.

After preparing our dataset, we ran descriptive statistics to get an overview of our population. There are no missing values in the data, as incomplete survey results were excluded from the data set in the first place. In the following, we are going to introduce the full dataset, as well as the differences in characteristics between the treatment and the control group. All sociodemographic characteristics can be found in table 02.

#### *Full Dataset*

Within our full dataset, most participants are female (76%). Further, more than half of the participants (76.5%) are between the age of 16 and 35 years old. A degree from a secondary school, undergraduate or graduate degree are most common (82.9%) among our sample. Finally, the sample is relatively evenly distributed among Brazilians and Europeans. 43.2 % of our sample grew up in the DACH region, 52% in Brazil and 4.8% in other European countries. Almost half of the sample, 49.8%, stated that they were either relatively familiar or very familiar with the company. Finally, support for CSR among our participants is relatively high. 58.5% specified that they would consider themselves as either relatively socially responsible or very socially responsible.

#### *Control group*

97 participants were randomly assigned to the control group. These participants received information on The Body Shop's acquisition with Natura Co. In this sample, 70.1% are females and 28.9% are males. Just like in the full dataset, the biggest age groups are 16 – 25-year-old and 26 – 35-year-old participants. More than half (51.6%) of the participants in this subsample have an undergraduate degree as their highest level of education. Again, a secondary school degree (26.8%) and a graduate degree (16.5%) are the next most common ones. We can further see that approximately half (50.5%) of the control group grew up in Brazil and 43.3% grew up in the DACH region.

Most participants (50.6%) claim to be relatively or very familiar with TBS. Only 29.9% state to be relatively unfamiliar with the company and the remaining 19.6% claim to be moderately familiar with the firm. Finally, in this sample, 60.8% claim to be either very or extremely socially responsible.

Furthermore, our analysis showed that the perceived CSR spread is relatively small with a mean value of 0.3. This indicates that participants indeed perceive the two acquisition partners to be very similar in terms of CSR efforts. Correspondingly, we can confirm that the control group perceived the low CSR spread as such and the results will be representative for this scenario.

Table 02: Characteristics of respondents by group

|                                      | Control<br>(n = 97) | Treatment<br>(n = 86) | Total<br>(n = 183) |
|--------------------------------------|---------------------|-----------------------|--------------------|
| <b>Sociodemographics</b>             |                     |                       |                    |
| <i>Gender, No (%)</i>                |                     |                       |                    |
| Male                                 | 28.9                | 18.6                  | 24                 |
| Female                               | 70.1                | 81.4                  | 76                 |
| Non-binary                           | 0                   | 0                     | 0                  |
| Prefer not to say                    | 0                   | 0                     | 0                  |
| <i>Age, No (%)</i>                   |                     |                       |                    |
| 16 - 25 years old                    | 42.3                | 34.9                  | 38.8               |
| 26 - 35 years old                    | 38.1                | 37.2                  | 37.7               |
| 36 - 45 years old                    | 7.2                 | 8.1                   | 7.7                |
| 46 - 55 years old                    | 8.2                 | 15.1                  | 11.5               |
| 56 years old or older                | 4.1                 | 4.7                   | 4.4                |
| <i>Education, No (%)</i>             |                     |                       |                    |
| Primary School                       | 1                   | 3.5                   | 2.2                |
| Secondary School                     | 26.8                | 25.6                  | 26.2               |
| Undergraduate Degree / Bachelor      | 51.6                | 46.5                  | 49.2               |
| Graduate Degree / Master             | 16.5                | 18.6                  | 17.5               |
| Post-Graduate Degree / PhD or higher | 4.1                 | 5.8                   | 4.9                |
| Prefer not to say                    | 0                   | 0                     | 0                  |
| <i>Country, No (%)</i>               |                     |                       |                    |
| Brazil                               | 50.5                | 53.5                  | 52                 |
| DACH                                 | 43.3                | 43                    | 43.2               |
| Other                                | 6.2                 | 3.5                   | 4.8                |
| <i>Familiarity, No (%)</i>           |                     |                       |                    |
| Not familiar at all                  | 0                   | 0                     | 0                  |
| Relatively unfamiliar                | 29.9                | 25.6                  | 27.9               |
| Moderately familiar                  | 19.6                | 25.6                  | 22.4               |
| Relatively familiar                  | 15.5                | 17.4                  | 16.4               |
| Very familiar                        | 35.1                | 31.4                  | 33.3               |
| <i>Personal Support for CSR</i>      |                     |                       |                    |
| Not at all                           | 0                   | 1.2                   | 0.5                |
| Slightly                             | 9.3                 | 9.3                   | 9.3                |
| Moderately                           | 29.9                | 33.7                  | 31.7               |
| Very                                 | 47.4                | 41.9                  | 44.8               |
| Extremely                            | 13.4                | 14                    | 13.7               |

### *Treatment Group*

The treatment group consists of 86 participants. Participants in this group encountered a huge CSR spread between L'Oréal and The Body Shop. In this sample, 81.4% are women and 18.6% are men. The distributions in all variables are similar to the ones in the control group. In terms of age, the most common age groups again are the two youngest age ranges (16-25 years; 34.9% and 26-35 years; 37.2%). One difference between the treatment and the control group is that the treatment group has a larger portion (15.1%) of participants aged between 46 and 55 years. In this sample, 40 participants (46.5%) graduated with a bachelor's degree, 22 (25.6%) with a secondary education degree and 16 participants (18.6%) with a master's degree. In this sample, 53.5% of the participants grew up in Brazil and 43% grew up in DACH countries. 3.5% grew up outside of our geographical interest area. The familiarity with TBS resembles the control group, with almost half of the sample (48.8%) being relatively or very familiar with the company. Finally, most participants in this sample consider themselves to be very (41.9%) or extremely (14%) socially responsible. Like in the control group, the portion of people who do not support CSR engagement is low (10.5%).

Our analysis however, demonstrated a big difference in the variable *spr\_CSR* among the control and the treatment group. In comparison to NA, which has a slightly positive CSR spread with TBS, the results of the treatment group indicate a big negative CSR spread of -1.3 points on average for this manipulation. These findings confirm that the participants recognize the CSR spread as such. Therefore, we can confirm that the treatment group's results will be able to serve as indicators for such a scenario in a real-world business setting.

## **4. Analysis of the Results**

After the overview of the descriptive statistics, we will deep dive into hypothesis testing. Due to the nature of this study, we conducted t-tests and multiple linear regression analyses to analyze the hypotheses. The null hypotheses for the t-tests can be found in appendix 04. Prior to conducting any of these statistical methods, however, we tested our dataset for the five assumptions that are essential in multiple linear regression analysis.

The testing of our dataset has shown that three assumptions are met, while two require some adaptation. Our dataset shows linearity in its parameters, there is no perfect collinearity among the independent variables as can be seen in Table 03, and our error has an expected value of zero. These assumptions are therefore fulfilled. In addition, our data is distributed normally with some outliers to both sides. This can be observed in appendix 05. Our model however fails to deliver a random sample and suffers from heteroskedasticity. The analysis shows that our sample is non-random. As can be seen in appendix 06, the betas and regression lines of both samples are slightly different. This makes sense due to the nature of convenience sampling and the corresponding selection bias (Etikan et al, 2015). Therefore, we cannot generalize our results from this analysis to the whole population. Furthermore, in order to correct for heteroskedasticity, we included the statement  $\text{coeftest}(x, \text{vcovHC}(x))$  in our data analysis prior to running the stargazer statement. This helps us to build a more robust model and increase the quality of our study.

Table 03: Pearson Correlation Matrix

| Variables      | Treatment | fam_TBS | age   | gender | country | education | sup_CSR | diff_CBR_total | spr_CSR |
|----------------|-----------|---------|-------|--------|---------|-----------|---------|----------------|---------|
| Treatment      |           |         |       |        |         |           |         |                |         |
| fam_TBS        | -.004     |         |       |        |         |           |         |                |         |
| age            | .103      | -.137   |       |        |         |           |         |                |         |
| gender         | .105      | .214    | .001  |        |         |           |         |                |         |
| country        | -.032     | .152    | .087  | -.156  |         |           |         |                |         |
| education      | .0106     | .113    | -.066 | -.036  | -.040   |           |         |                |         |
| sup_CSR        | -.039     | .072    | .271  | .111   | .157    | -.063     |         |                |         |
| diff_CBR_total | -.449     | -.018   | .013  | -.106  | .053    | -.030     | .140    |                |         |
| spr_CSR        | -.656     | -.023   | -.063 | -.104  | .063    | -.035     | .112    | .544           |         |

#### 4.1. Analysis of H1a – H1c

*H1a: Engaging in an acquisition with a high CSR spread will result in a loss of customer-based corporate reputation for a target with a high CSR score.*

*H1b: Engaging in an acquisition with a low CSR spread does not negatively affect the customer-based corporate reputation for a target with a high CSR score.*

*H1c: An acquisition with a high CSR spread is more likely to result in a change of the customer-based corporate reputation than an acquisition with a low CSR spread.*

After having conducted the appropriate t-tests on the first set of hypotheses, table 04 and table 05 show that the null hypotheses can be rejected in every case. All p-values are below the threshold of  $p > 0.05$ . Furthermore, we can see that our 95% confidence interval never includes any zero. In the case of *H1a*, the right-sided t-test showed that the change in customer-based corporate reputation after the acquisition among the treatment sample is on average lower than 0. This result indicates a negative reaction towards a high CSR spread. In terms of *H1b*, the rejection of the null hypothesis indicates that the low CSR spread results in a slightly positive effect on CBR of the target company. This can also be derived from the mean t-value. Finally, *H1c* shows that there is a statistically significant difference between the results customer-based corporate reputation results in the control and in the treatment sample.

Table 04: Results of the One-Sided T-Tests for H1a and H1b

|     | t       | df | p         | Mean Difference | 95% Confidence Interval<br>for Mean Difference |        |
|-----|---------|----|-----------|-----------------|--|--------|
|     |         |    |           |                 | Lower  | Upper  |
| H1a | -6.3421 | 85 | 1.051e-08 | -.3504          | -.4602   | -.2405 |
| H1b | 2.4748  | 96 | .01509    | .0928           | .0183  | .1672  |

Table 05: Results of the Two-Sided T-Test for H1c

|           | t      | df     | p        | Mean Difference | 95% Confidence Interval<br>for Mean Difference |       |
|-----------|--------|--------|----------|-----------------|--|-------|
|           |        |        |          |                 | Lower  | Upper |
| Control   | 6.6374 | 152.65 | 5.25e-10 | .0928           | .3113  | .5751 |
| Treatment |        |        |          | -.3504          |  |       |

We then conducted our single regression analysis. To analyze *H1a – H1c*, we ran a model that included only the variable *Treatment*. After adding different sociodemographic variables (*gender, age, education*) into the model, our betas showed highest significance when keeping the model as short as possible. We therefore decided to run the regression as a simple linear regression with *diff\_CBR\_total* as the dependent and *Treatment* as the independent variable. The equation of the model is the following:

$$(1) \quad diff_{CBR_{total}} = \beta_0 + \beta_1 * treatment + \epsilon$$

The results for the model can be found as model 1 in table 06. The constant describes the mean difference in customer-based corporate reputation score for the control group. We can therefore infer that the mean value at which the CBR changed after the with a low CSR spread is  $\beta = 0.093$  units ( $p < 0.05$ ). This finding supports our *H1b*, as we can see that the difference of the CBR before and after the acquisition of TBS improved to some degree. Furthermore, we can support *H1a* by looking at the explanatory variable *treatment1*. The value of our beta is  $\beta = -0.443$  ( $p < 0.01$ ) at the 1% significance level. Accordingly, we can conclude that the difference in CBR in the treatment group was  $\beta = 0.443$  units ( $p < 0.01$ ) lower compared to the control group. The corresponding mean value of the difference in CBR in the treatment group is therefore  $\beta = -0.35$  ( $p < 0.05$ ). This finding supports *H1a* and proves that the treatment has indeed resulted in a loss of CBR of TBS. Therefore, our result indicates that a high CSR spread negatively influences the customer's opinion of a company. Furthermore, comparing the mean difference in CBR among the control ( $\beta = 0.093$ ;  $p < 0.05$ ) and the treatment group ( $\beta = -0.35$ ;  $p < 0.05$ ), it is evident to see that the effect of a high CSR spread is much stronger than the effect of a low CSR spread. This allows us to support *H1c*, too. Concluding, our analysis showed that our first three hypotheses are valid for our sample.

Table 06: Simple Linear Regression Results (Hypotheses H1a – H1c)

| diff_CBR_total' as dependent variable |          |
|---------------------------------------|----------|
| Variables                             | 1        |
| constant (intercept)                  | .093**   |
| treatment1                            | -.443*** |

notes: n= 183. The coefficients are unstandardized Betas;

\* $p < 0.1$ ; \*\*  $p < 0.05$ ; \*\*\*  $p < 0.01$

## 4.2. Analysis of the Moderators (H2 – H4)

*H2: Participants with a high familiarity with the target are likely to show different responses to customer-based corporate reputation after an acquisition with a huge CSR spread compared to participants with a weaker familiarity with the target.*

*H3: Participants with a stronger support for CSR are more likely to show different responses to customer-based corporate reputation after an acquisition with a huge CSR spread compared to participants with a weaker support for CSR.*

*H4: Participants from the DACH region are likely to respond differently to customer-based corporate reputation after an acquisition with a huge CSR spread compared to participants from Brazil.*

Again, we conducted t-tests to test our hypotheses *H2 – H4* before running multiple linear regression analyses. The p-values of the t-tests indicate that we can reject the null hypothesis for *H2*, but not for *H3* and *H4*, as can be seen in table 07. For those two hypotheses, the p-value is higher than  $p < 0.05$ . Thus, we cannot claim that there is a statistically significant difference between participants with different levels of CSR support or participants from different cultural backgrounds. *H2*, however, has a p-value of 0.000 ( $<0.05$ ). In addition, we can see that 0 is not included in the 95% confidence interval. Thus, we cannot support the null hypothesis for *H2*, and we suppose that there is a statistically significant difference in the results for participants with different levels of familiarity with The Body Shop.

Table 07: T-Test results of *H2 – H4*

|                    | t       | df     | p         | Mean Difference | 95% Confidence Interval<br>for Mean Difference |        |
|--------------------|---------|--------|-----------|-----------------|--|--------|
|                    |         |        |           |                 | Lower  | Upper  |
| High Familiarity   | 4.9636  | 26.054 | 3.679e-05 | 2.3769          | 1.5543   | 3.7511 |
| Low Familiarity    |         |        |           | -.2758          |  |        |
| Strong CSR Support | 1.2153  | 1.3409 | .3961     | 2.3182          | -6.5732  | 9.2763 |
| Weak CSR Support   |         |        |           | .9667           |  |        |
| DACH               | -1.1398 | 79.671 | .2578     | -.4072          | -.3465   | .0941  |
| Brazil             |         |        |           | -.2811          |  |        |

These results are also reflected in the results of the multiple linear regressions. In table 2, the results of the regressions for *H2* (model 2), *H3* (model 3), and *H4* (model 4) can be found. The equations of the multiple regression models look as follows:

$$(2) \quad diff_{CBR_{total}} = \beta_0 + \beta_1 * treatment + \beta_2 * fam\_TBS + \epsilon$$

$$(3) \quad diff_{CBR_{total}} = \beta_0 + \beta_1 * treatment + \beta_2 * sup\_CSR + \epsilon$$

$$(4) \quad diff_{CBR_{total}} = \beta_0 + \beta_1 * treatment + \beta_2 * country + \epsilon$$

In table 08, we can see that only model 2 and model 3 include some significant values. Therefore, we cannot draw inferences from our dataset on the moderating role of the participant's cultural background (*country*). We can, however, investigate the effect of familiarity with The Body Shop and of the participant's support for CSR on the outcome of the regression for participants of the treatment group.

Table 08: Multiple Linear Regression Model Results (Hypotheses H2 – H4)

| 'diff_CBR_total' as dependent variable |         |         |       |
|--|---------|---------|-------|
| Variables                              | 2       | 3       | 4     |
| constant (intercept)                   | .023    | .391    | .121  |
| Treatment1                             | -.299** | -.457** | -.528 |
| fam_TBS3                               | .033    |         |       |
| fam_TBS4                               | .155    |         |       |
| fam_TBS5                               | .112    |         |       |
| Treatment1:fam_TBS3                    | -.070   |         |       |
| Treatment1:fam_TBS4                    | -.110   |         |       |
| Treatment1:fam_TBS5                    | -.345** |         |       |
| sup_CSR2                               |         | -.472   |       |
| sup_CSR3                               |         | -.296   |       |
| sup_CSR4                               |         | -.308   |       |
| sup_CSR5                               |         | -.144   |       |
| Treatment1:sup_CSR2                    |         | .230    |       |
| Treatment1:sup_CSR3                    |         | -.131   |       |
| Treatment1:sup_CSR4                    |         | .077    |       |
| country65                              |         |         | -.073 |
| Treatment1:country65                   |         |         | .200  |

notes: n= 183. The coefficients are unstandardized Betas; \*p < 0.1; \*\* p < 0.05; \*\*\* p < 0.01

In model 2, the data of the control group failed to provide any significant insights in terms of the moderating effect of familiarity with the target. In the treatment group, however, we can see that the treatment effect on the dependent variable *diff\_CBR\_total* decreased. This is true for all participants of the treatment group that are relatively unfamiliar with TBS (*fam\_TBS* = 2). For this group of participants, the mean difference between the control and treatment group for *diff\_CBR\_total* was only -0.299 (p < 0.05). Accordingly, the difference in responses between the treatment and control group is smaller when we include this moderator. In addition, model 2 shows that a high familiarity (*fam\_TBS* = 5) with TBS has a significantly stronger effect on the participants' reaction to an acquisition with a high CSR spread than low familiarity (*fam\_TBS* = 2). This can be stated at the 5% significance level.

Therefore, we can conclude that the significant values in our model indicate a difference between high and low familiarity with the target brand. These findings can however only be applied to the treatment group and to the specific degrees of familiarity.

Model 3 only contains only one significant variable. Again, the intercept is not significant, thus we cannot make any statements about the effect of participants' support for CSR on their reaction to a low CSR spread. We can, however, see that there is a significant difference between the control and the treatment group. Participants from the treatment group with a relatively low support for CSR ( $sup\_CSR = 2$ ) had a very strong negative reaction to the acquisition compared to the control group. The difference between those two groups is, on average, -0.457 units at the 5% significance level. We can however not state whether there are significant differences in the different levels of CSR support. Therefore,  $H3$  is not supported, and we fail to detect a moderating effect of personal support for CSR.

Due to number of insignificant betas in our multiple linear regression models it is not possible to make any statements about the moderating role the familiarity with the target in the control group, the participant's personal support for CSR, or the participant's cultural background. The final summary of hypotheses results can be found in table 09.

Table 09: Hypotheses Results Summary

| <b>Results Summary</b> |  |                  |
|------------------------|--|------------------|
| H1a                    | Engaging in an acquisition with a high CSR spread will result in a loss of customer-based corporate reputation for a target with a high CSR score.   | Accepted         |
| H1b                    | Engaging in an acquisition with a low CSR spread does not negatively affect the customer-based corporate reputation for a target with a high CSR score.  | Accepted         |
| H1c                    | An acquisition with a high CSR spread is more likely to result in a change of the customer-based corporate reputation than an acquisition with a low CSR spread.   | Accepted         |
| H2                     | Participants with a high familiarity with the target are likely to show different responses to customer-based corporate reputation after an acquisition with a huge CSR spread compared to participants with a weaker familiarity with the target. | Partly Accepted* |
| H3                     | Participants with a stronger support for CSR are more likely to show different responses to customer-based corporate reputation after an acquisition with a huge CSR spread compared to participants with a weaker support for CSR.                | Rejected**       |
| H4                     | Participants from the DACH region are likely to respond differently to customer-based corporate reputation after an acquisition with a huge CSR spread compared to participants from Brazil.   | Rejected**       |

\* At least one variable within this component shows a significant result; Results can only be applied to the treatment group

\*\* Not sufficient significance in our betas, thus we cannot accept this hypotheses

## 5. Main Findings and Discussion

The goal of this research was to measure the extent to which a high CSR spread influences the outcome of an acquisition in terms of customer-based corporate reputation. The specific focus of this research lay on the changes in CBR of the target, as current literature fails to address this entity adequately in M&A research. We chose a causal research method to tackle this question and used the customer-based corporate reputation framework by Walsh et al. (2009) to measure the different impacts of a high- and a low-CSR spread acquisition on a company's CR. The chosen method of data collection was an online survey with a convenience sample. To build our questionnaire and investigate key research interests, we developed two sets of hypotheses. The first set of hypotheses (H1a – H1c) focused on the core research objective. These assumptions dealt with the extent to which the level of CSR spread influences the outcomes on customer-based corporate reputation for a target in an acquisition. The second set of hypotheses (H2 – H4) introduced moderator variables. We included familiarity with the target, the participant's personal support for CSR and the participant's cultural background as moderating variables to further understand the relationship between our dependent (*diff\_CBR\_total*) and independent (*Treatment*) variable.

During our analysis, we found a significant relationship between our dependent and independent variable. The results of model 1 in table 06 demonstrated that all three hypotheses of the first set can be supported for our sample. Due to the missing randomness of our data, however, we cannot apply these results to the whole population that we aimed to investigate. Our study demonstrated that a high CSR spread results in negative reactions by consumers in terms of CR. Furthermore, we saw that CBR improved slightly after an acquisition with a low CSR spread. Finally, we could see that the effect of a vast difference between the CSR scores of two acquisitions partners had a stronger effect than a small difference. These results are consistent with the findings that Zhang et al. (2020) and Strahilevitz (2003) presented in their studies.

In terms of moderating effects, we cannot make any statements on the influence of the cultural background of the participants or their personal support for CSR. In their study on the impact of the customer's personal support for CSR, Sen and Bhattacharya (2001) focused on willingness to pay as the investigated variable.

For this reason, their findings might not apply to the context of customer-based corporate reputation, and we could not identify an effect of this factor on the difference in CBR scores before and after the acquisition. Furthermore, scholars such as Hsu and Bui (2022) studied the relevance of different CSR subcategories, rather than the relevance of CSR in decision-making or even reputation building. Although Yadav et al. (2018) identified a significant effect of culture on corporate reputation, those scholars focused on reputation based on employee perceptions. Thus, their results might be relevant to some degree in reputation research, but do not necessarily apply to CR from a customer perspective.

Despite the insignificance of those two moderators, we observed a significant difference between the participants with a relatively low familiarity with the target brand and those with a high familiarity. Typically, the reaction to a high CSR spread was stronger among participants with a high familiarity compared to those with a low one. We therefore partly support *H2*. We cannot fully support this hypothesis as (1) we do not have significant results for the control group and (2) the results for a moderate and a relatively high familiarity in the treatment group did not show significant results.

### **5.1. Theoretical Implications**

This study aimed at closing the research gap of the effects of an acquisition with a high CSR spread on a high CSR target. Most existing literature claims that acquiring a high CSR target will result in favorable outcomes for the acquiring company (Chen et al., 2019, Liang & Renneboog, 2017). Only few authors focused on the effect of the differences in CSR performance between the acquisition partners on the outcome of an acquisition (Strahilevitz, 2003; Zhang et al., 2020). Even those studies, however, failed to consider the effects on target firms.

For this reason, we focused our study on the effect of a huge CSR spread in an acquisition on the customer-based corporate reputation of the target company. Our analysis showed a significant difference between the differences in CBR among the control and the treatment group. Participants that faced a high CSR spread between the acquisition partners were more likely to show negative reaction to this acquisition in terms of corporate reputation.

Participants in the control group, on the other hand, showed a slight improvement of CBR after a low CSR acquisition. Furthermore, we could see that the reactions to a high CSR spread were stronger than those to a low CSR spread. These results seem to be congruent with signaling theory. Participants are more likely to react positively to changes in a company's practices when those changes align with the firm's previous signals. In the case of a high CSR spread, participants could not recognize authentic motivation and therefore reacted negatively. These results are only valid, however, for acquisitions with a high CSR target and can therefore not be generalized on M&As in general.

The results of our study however do not correspond with the assumptions of Freeman's stakeholder theory. While we can agree that investment in CSR through M&As with a low CSR spread can increase stakeholder value, our research demonstrated that a high CSR spread can decrease it. Therefore, our findings constitute a limitation to this approach and ask for more concrete specifications in terms of the extent to which CSR investment can provide value.

Based on these findings, our study adds valuable insights into the role of CSR spreads in M&A research. We demonstrated the importance of considering the difference in CSR performances between two acquisition partners and how a huge spread between those two parties might result in backfire effects. Our research therefore creates a base for future studies in the M&A context with high CSR targets. Specifically, our findings path the way to further investigating the effects of acquisitions on targets, rather than just on acquirers.

## **5.2. Managerial Implications**

This study demonstrated the importance of thorough due diligence in mergers and acquisitions. Despite the prevalent assumption that acquiring a high CSR target will result in favorable outcomes of the acquisition, the results of this study indicate the importance of considering the difference of CSR performance between two acquisition partners. We observed that acquisitions with a high CSR spread result in a significant loss of CBR, while acquisitions with a low CSR spread resulted in a slight improvement of CR among customers. For managers, this finding implies that prior to an acquisition, the bidder should evaluate its own CSR performance and that of its potential target. In the case of a low CSR acquirer, the acquisition might result in a backfire effect, and thus harm the long-term outcome of the M&A.

We therefore conclude that managers from low CSR companies should not arbitrarily acquire high CSR companies. Instead, it is important to demonstrate the authentic motivation behind an acquisition and the alignment of values. If this is not given, consumers tend to show negative reactions to an acquisition with a high CSR spread. This effect could be observed in the treatment group. Among these participants, the CSR spread was substantial, and our results indicate that the CBR of the target seemed to deteriorate. In the control group, however, participants displayed a slight improvement in CBR. Managers need to consider these findings in their evaluations and include the analysis of cultural fit in terms of CSR in their due diligence processes.

Furthermore, we found out that the level of familiarity impacts the outcomes of customer-based corporate reputation among high CSR acquisitions. Therefore, managers, especially of high CSR targets, need to consider the effects of the acquisitions on their loyal clients, as well as on potential new customers. Existing customers are more likely to show stronger negative reactions to a high CSR spread. Therefore, M&A analysis should contain the potential negative effects of high CSR acquisitions with respect to certain customer groups.

Overall, our study showed that M&As not only impact the acquirer, but also influence the corporate reputation of the target company. Customers might change their perceptions of a high CSR company after it is acquired by a low CSR bidder. Managers of the target company thus need to ensure the alignment of values and the preservation of authenticity. Otherwise, customers might show negative reactions, which might eventually lead to an overall decrease in business performance. In the case of The Body Shop, the company has increasingly lost market share after the acquisition by L'Oréal (Hope, 2017). Whether this is directly connected to a loss of corporate reputation among the customers cannot be inferred from this study. Our results, however, indicate that the high CSR spread might be one contributor to this decline. Accordingly, companies should be rigorous in choosing their acquisition partners and ensure the alignment and authenticity of CSR motives to achieve a favorable outcome of an acquisition.

### **5.3. Limitations and Future Research**

During our analysis, we identified some limitations that need to be acknowledged on account of this study's comprehensiveness. The first limitations are directly related to the questionnaire design. The CBR framework that we used as the validated scale to study customer-based corporate reputation in our questionnaire was initially developed specifically for service firms. The Body Shop, however, provides services, as well as products. The scale therefore might fail to recognize the product-related factors that influence CBR (Walsh et al., 2009). Furthermore, the design of the scale requires excessive knowledge of the investigated company. Especially participants with low familiarity of TBS experienced confusion during the pre-testing period as they lacked knowledge in certain areas. The material we provided mainly included information about the companies' CSR engagement. This limitation of available information aimed to represent the information asymmetry that is prevalent in the real world. We assumed that the halo bias might hold in our study, as participants were asked to fill out unknown information based on their personal perception of The Body Shop. While we did not specifically test for the impact of this effect, existing literature indicates that this cognitive bias might play a significant role in shaping corporate reputation among customers. Therefore, future research is necessary to investigate the role of the halo bias in estimating the customer responses to high CSR acquisitions.

An additional limitation derives from the structure of our sample. Due to the data collection method, we cannot apply our results to the whole population outside of our experimental setting. Convenience sampling is a very time- and cost-effective approach and was the most suitable one with regards to the scope of our study. The results derived from a convenience sample, however, are only valid for the investigated population, thus cannot be generalized (Stratton, 2021). This is also true because our data suffers from a selection bias as a natural side-effect of convenience sampling (Baxter et al., 2015). These implications were also supported when we tested our sample for the fitness of a multiple linear regression model. Our data was not random; thus, we cannot generalize our results on a broader target population outside of our dataset. For this reason, future studies with a bigger scope and more availability of time and financial resources should try to justify our results and use advanced sampling techniques to apply the results to the designated target population in the real world.

Our results also cannot be applied to all types of M&As. In this study, we specifically investigated the effects of the level of CSR spread in non-integrated companies where the organizational cultures remained separated. Therefore, results might differ for different dimensions of integration in terms of operations and organizational culture.

Finally, future research needs to investigate the effect of authenticity on customer reactions. We assumed that lack of authentic motivation was the main driver of the outcome of this analysis. We did, however, not provide any scientific evidence for this assumption. Thus, this assumption, as well as other potential drivers of our outcome, should be tested in the future. In this context, it is also essential to investigate the consequences of a loss in CR. Future research should aim to identify how diminishing corporate reputation impacts the long-term performance of a company. We can therefore conclude that our study demonstrated the effect of a high CSR spread on CBR, but the underlying reason for this effect, as well as the long-term consequences of this effect still need to be investigated in the future.

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## Appendices

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## Appendix 01 – Questionnaire of the Experiment

### Introduction – Treatment and Control

Dear participant,

thank you for taking part in this study for my master thesis at Católica LSBE, Portugal and FGV/EBAPE, Brazil.

I am investigating the effects of acquisitions on the target brand's reputation with a focus on consumer perceptions. This survey should take around 10 minutes. I would kindly ask you to read all information provided to you carefully. You will not be able to go back to previous pages.

This survey is completely anonymous, and it will not be possible to trace back your answers. All data will be kept confidential and used for research purpose only.

If you have any questions or doubts about this survey, feel free to reach out to me via [juliajostes@outlook.com](mailto:juliajostes@outlook.com).

Julia Jostes

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### Text TBS – Treatment and Control

#### *THE BODY SHOP*

*The Body Shop* is a high-quality skin and body care retailer that is dedicated to changing the way things worked in the cosmetics industry in a more sustainable way.

In 2005, some of the most important aspects of *The Body Shop* included:

- **Fighting the use of animals in testing cosmetic products and ingredients** and never testing any of its products on living creatures
- **Active engagement in Greenpeace Campaigns** since 1985
- A **fair-trade initiative called "Trade Not Aid"** that aimed at establishing sustainable development programs in the communities of *The Body Shop* suppliers
- A **fund called "The Body Shop Foundation"** that supported small organizations that were focusing on projects in the areas of human rights and ecological protection
- Employees are encouraged to **participate in volunteering programs** and are regularly **trained on the values** of the company and the background of those values.

In addition to being one of the first players in the cosmetics industry to implement many of these socially responsible practices, the company performed well in the global market. Profits were growing continuously and in 2005, the company was operating in 52 markets with 2,045 stores worldwide.

*Confirm TBS – Treatment and Control*

I confirm that i have read and understood the information provided above.

Yes (1)

---

Impression of The Body Shop – Treatment and Control

*Q1 – Treatment and Control*

How familiar are you with the brand *The Body Shop*?

- Not familiar at all (1)
- Relatively unfamiliar (2)
- Moderately familiar (3)
- Relatively familiar (4)
- Very familiar (5)

*Q2 – Treatment and Control*

How socially responsible would you rate *The Body Shop* in terms of...

|                           | not sustainable at all (1) | slightly unsustainable (2) | i don't know (3)      | slightly sustainable (4) | very sustainable (5)  |
|---------------------------|----------------------------|----------------------------|-----------------------|--------------------------|-----------------------|
| environmental factors (1) | <input type="radio"/>      | <input type="radio"/>      | <input type="radio"/> | <input type="radio"/>    | <input type="radio"/> |
| social factors (2)        | <input type="radio"/>      | <input type="radio"/>      | <input type="radio"/> | <input type="radio"/>    | <input type="radio"/> |
| governance factors (3)    | <input type="radio"/>      | <input type="radio"/>      | <input type="radio"/> | <input type="radio"/>    | <input type="radio"/> |

---

Customer-based Corporate Reputation Pre-Acquisition – Treatment and Control

*Instruction Pre-Acquisition – Treatment and Control*

In this section, I will give you some statements concerning *The Body Shop*. While some statements can be evaluated based on the information you just read, there are others that might not be easy to assess from that information.

In those cases, I would ask you to evaluate those statements based on your **impression** of *The Body Shop*. Even if you are not familiar with the brand *The Body Shop*, I would ask you to **build a brand image** based on the information you received. Then, use this image to **evaluate how you expect the company to perform** in those areas where information is missing.

In case it is not possible for you to evaluate a statement based on the image you have of *The Body Shop*, please choose the option "Neither agree nor disagree".

*Q3 – Treatment and Control*

To what extent do you agree or disagree with the following statements with regards to *The Body Shop's* customer orientation?

|  | Strongly disagree (1) | Somewhat disagree (2) | Neither agree nor disagree (3) | Somewhat agree (4)    | Strongly agree (5)    |
|--|-----------------------|-----------------------|--------------------------------|-----------------------|-----------------------|
| Has employees who treat customers courteously (1)        | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>          | <input type="radio"/> | <input type="radio"/> |
| Has employees who are concerned about customer needs (2) | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>          | <input type="radio"/> | <input type="radio"/> |
| Is concerned about its customers (3)                     | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>          | <input type="radio"/> | <input type="radio"/> |

*Q4 – Treatment and Control*

To what extent do you agree or disagree with the following statements with regards to *The Body Shop's* performance as an employer?

|   | Strongly disagree (1) | Somewhat disagree (2) | Neither agree nor disagree (3) | Somewhat agree (4)    | Strongly agree (5)    |
|---|-----------------------|-----------------------|--------------------------------|-----------------------|-----------------------|
| Looks like a good company to work for (1) | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>          | <input type="radio"/> | <input type="radio"/> |
| Seems to treat its people well (2)        | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>          | <input type="radio"/> | <input type="radio"/> |
| Seems to have excellent leadership (3)    | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>          | <input type="radio"/> | <input type="radio"/> |

*Q5 – Treatment and Control*

To what extent do you agree or disagree with the following statements with regards to *The Body Shop* as a reliable and financially strong company?

|   | Strongly disagree (1) | Somewhat disagree (2) | Neither agree nor disagree (3) | Somewhat agree (4)    | Strongly agree (5)    |
|---|-----------------------|-----------------------|--------------------------------|-----------------------|-----------------------|
| Tends to outperform competitors (1)                               | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>          | <input type="radio"/> | <input type="radio"/> |
| Seems to recognize and take advantage of market opportunities (2) | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>          | <input type="radio"/> | <input type="radio"/> |
| Looks like it has strong prospects for future growth (3)          | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>          | <input type="radio"/> | <input type="radio"/> |

*Q6 – Treatment and Control*

To what extent do you agree or disagree with the following statements with regards to the quality of *The Body Shop's* products and services?

|   | Strongly disagree (1) | Somewhat disagree (2) | Neither agree nor disagree (3) | Somewhat agree (4)    | Strongly agree (5)    |
|---|-----------------------|-----------------------|--------------------------------|-----------------------|-----------------------|
| Is a strong, reliable company (1)             | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>          | <input type="radio"/> | <input type="radio"/> |
| Develops innovative products/services (2)     | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>          | <input type="radio"/> | <input type="radio"/> |
| Offers high-quality products and services (3) | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>          | <input type="radio"/> | <input type="radio"/> |

*Q7 – Treatment and Control*

To what extent do you agree or disagree with the following statements with regards to *The Body Shop's* environmental and social performance?

|   | Strongly disagree (1) | Somewhat disagree (2) | Neither agree nor disagree (3) | Somewhat agree (4)    | Strongly agree (5)    |
|---|-----------------------|-----------------------|--------------------------------|-----------------------|-----------------------|
| Seems to make an effort to create new jobs (1)            | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>          | <input type="radio"/> | <input type="radio"/> |
| Seems to be environmentally responsible (2)               | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>          | <input type="radio"/> | <input type="radio"/> |
| Would reduce its profit to ensure a clean environment (3) | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>          | <input type="radio"/> | <input type="radio"/> |

Introduction L'Oréal – Treatment

*Text L – Treatment*

L'OREAL

In 2006, *The Body Shop* was acquired by the french cosmetics giant *L'Oréal*. The purpose of this acquisition was the entry into new markets, while increasing brand reputation simultaneously. *The Body Shop* would be retained and continued to operate independently.

At the time of the acquisition, *L'Oréal* has frequently been criticized for testing its products on animals. Animal welfare activists called former *The Body Shop* consumers to boycott the brand. Concerns were growing about whether the company could maintain its non-animal testing status under *L'Oréal* ownership.

*Confirm L – Treatment*

I confirm that i have read and understood the information provided above.

Yes (1)

*Q8 – Treatment*

How socially responsible would you rate *L'Oréal* in terms of...

|                           | not sustainable at all (1) | slightly unsustainable (2) | i don't know (3)      | slightly sustainable (4) | very sustainable (5)  |
|---------------------------|----------------------------|----------------------------|-----------------------|--------------------------|-----------------------|
| environmental factors (1) | <input type="radio"/>      | <input type="radio"/>      | <input type="radio"/> | <input type="radio"/>    | <input type="radio"/> |
| social factors (2)        | <input type="radio"/>      | <input type="radio"/>      | <input type="radio"/> | <input type="radio"/>    | <input type="radio"/> |
| governance factors (3)    | <input type="radio"/>      | <input type="radio"/>      | <input type="radio"/> | <input type="radio"/>    | <input type="radio"/> |

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Introduction Natura Co. – Control

*Text NCo – Control*

NATURA Co.

In 2017, *The Body Shop* was acquired by the Brazilian cosmetics group *Natura Co.* The group consists of four brands, all of which are committed to making business sustainably and ethically. In addition, *Natura Co.* takes action against the climate crisis, actively fights animal testing, and sources its products in a fair and sustainable way.

*Natura Co.* is the world's largest B-Corp. This means that it is one of only 4,000 businesses that are officially certified for implementing the highest environmental and social standards in their business.

*Confirm NCo – Control*

I confirm that i have read and understood the information provided above.

Yes (1)

*Q9 – Control*

How socially responsible would you rate *Natura Co.* in terms of...

|                           | not sustainable at all (1) | slightly unsustainable (2) | i don't know (3)      | slightly sustainable (4) | very sustainable (5)  |
|---------------------------|----------------------------|----------------------------|-----------------------|--------------------------|-----------------------|
| environmental factors (1) | <input type="radio"/>      | <input type="radio"/>      | <input type="radio"/> | <input type="radio"/>    | <input type="radio"/> |
| social factors (2)        | <input type="radio"/>      | <input type="radio"/>      | <input type="radio"/> | <input type="radio"/>    | <input type="radio"/> |
| governance factors (3)    | <input type="radio"/>      | <input type="radio"/>      | <input type="radio"/> | <input type="radio"/>    | <input type="radio"/> |

---

Customer-based Corporate Reputation Post-Acquisition – Treatment and Control

*Instruction Post-Acquisition L – Treatment*

Based on the information you just read and on your own impression, please evaluate the following statement with regards to your opinion on ***The Body Shop*** and how it changed after the acquisition.

The objective here is to find out how your impression of the brand changed after it was acquired by *L'Oréal*.

*Instruction Post-Acquisition NCo – Control*

Based on the information you just read and on your own impression, please evaluate the following statement with regards to your opinion on ***The Body Shop*** and how it changed after the acquisition.

The objective here is to find out how your impression of the brand changed after it was acquired by *Natura Co.*

*Q10 – Treatment and Control*

To what extent do you agree or disagree with the following statements with regards to The Body Shop's customer orientation?

|  | Strongly disagree (1) | Somewhat disagree (2) | Neither agree nor disagree (3) | Somewhat agree (4)    | Strongly agree (5)    |
|--|-----------------------|-----------------------|--------------------------------|-----------------------|-----------------------|
| Has employees who treat customers courteously (1)        | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>          | <input type="radio"/> | <input type="radio"/> |
| Has employees who are concerned about customer needs (2) | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>          | <input type="radio"/> | <input type="radio"/> |
| Is concerned about its customers (3)                     | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>          | <input type="radio"/> | <input type="radio"/> |

*Q11 – Treatment and Control*

To what extent do you agree or disagree with the following statements with regards to The Body Shop's performance as an employer?

|   | Strongly disagree (1) | Somewhat disagree (2) | Neither agree nor disagree (3) | Somewhat agree (4)    | Strongly agree (5)    |
|---|-----------------------|-----------------------|--------------------------------|-----------------------|-----------------------|
| Looks like a good company to work for (1) | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>          | <input type="radio"/> | <input type="radio"/> |
| Seems to treat its people well (2)        | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>          | <input type="radio"/> | <input type="radio"/> |
| Seems to have excellent leadership (3)    | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>          | <input type="radio"/> | <input type="radio"/> |

*Q12 – Treatment and Control*

To what extent do you agree or disagree with the following statements with regards to The Body Shop's as a reliable and financially strong company?

|   | Strongly disagree (1) | Somewhat disagree (2) | Neither agree nor disagree (3) | Somewhat agree (4)    | Strongly agree (5)    |
|---|-----------------------|-----------------------|--------------------------------|-----------------------|-----------------------|
| Tends to outperform competitors (1)                               | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>          | <input type="radio"/> | <input type="radio"/> |
| Seems to recognize and take advantage of market opportunities (2) | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>          | <input type="radio"/> | <input type="radio"/> |
| Looks like it has strong prospects for future growth (3)          | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>          | <input type="radio"/> | <input type="radio"/> |

*Q13 – Treatment and Control*

To what extent do you agree or disagree with the following statements with regards to the quality of The Body Shop's products and services?

|   | Strongly disagree (1) | Somewhat disagree (2) | Neither agree nor disagree (3) | Somewhat agree (4)    | Strongly agree (5)    |
|---|-----------------------|-----------------------|--------------------------------|-----------------------|-----------------------|
| Is a strong, reliable company (1)             | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>          | <input type="radio"/> | <input type="radio"/> |
| Develops innovative products/services (2)     | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>          | <input type="radio"/> | <input type="radio"/> |
| Offers high-quality products and services (3) | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>          | <input type="radio"/> | <input type="radio"/> |

*Q14 – Treatment and Control*

To what extent do you agree or disagree with the following statements with regards to The Body Shop's environmental and social performance?

|   | Strongly disagree (1) | Somewhat disagree (2) | Neither agree nor disagree (3) | Somewhat agree (4)    | Strongly agree (5)    |
|---|-----------------------|-----------------------|--------------------------------|-----------------------|-----------------------|
| Seems to make an effort to create new jobs (1)            | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>          | <input type="radio"/> | <input type="radio"/> |
| Seems to be environmentally responsible (2)               | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>          | <input type="radio"/> | <input type="radio"/> |
| Would reduce its profit to ensure a clean environment (3) | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>          | <input type="radio"/> | <input type="radio"/> |

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*Q15 – Treatment and Control*

How old are you?

- 16-25 (1)
- 26-35 (2)
- 37-45 (3)
- 46-55 (4)
- 56 or older (5)

*Q16 – Treatment and Control*

What is your gender?

- Male (1)
- Female (2)
- Non-binary / third gender (3)
- Prefer not to say (4)

*Q17 – Treatment and Control*

In which country did you grow up?

▼ Afghanistan (1) ... Zimbabwe (1357)

*Q18 – Treatment and Control*

What is your highest level of education?

- Primary School (1)
- Secondary School (2)
- Undergraduate Degree / Bachelor (3)
- Graduate Degree / Master (4)
- Post-Graduate Degree / PhD or higher (5)
- Prefer not to say (6)

*Q19 – Treatment and Control*

Do you consider yourself to be a socially responsible person?

- Not at all (1)
- Slightly (2)
- Moderately (3)
- Very (4)
- Extremely (5)

## Appendix 02: Overview of all variables

| Name           | Type | Range | Description   |
|----------------|------|-------|---|
| Treatment      | Cat  | 0;1   | Treatment (1) vs control (0)  |
| pre_CBR_CO     | Dis  | 1;5   | Participant's evaluation of customer orientation before the acquisition                 |
| pre_CBR_PE     | Dis  | 1;5   | Participant's evaluation of performance as an employer before the acquisition           |
| pre_CBR_RFS    | Dis  | 1;5   | Participant's evaluation of reliability and financial stability before the acquisition  |
| pre_CBR_QPS    | Dis  | 1;5   | Participant's evaluation of quality of products and services before the acquisition     |
| pre_CBR_ESP    | Dis  | 1;5   | Participant's evaluation of environmental and social performance before the acquisition |
| pre_CBR_total  | Dis  | 1;5   | Participant's total evaluation of TBSs corporate reputation before the acquisition      |
| post_CBR_CO    | Dis  | 1;5   | Participant's evaluation of customer orientation after the acquisition                  |
| post_CBR_PE    | Dis  | 1;5   | Participant's evaluation of performance as an employer after the acquisition            |
| post_CBR_RFS   | Dis  | 1;5   | Participant's evaluation of reliability and financial stability after the acquisition   |
| post_CBR_QPS   | Dis  | 1;5   | Participant's evaluation of quality of products and services after the acquisition      |
| post_CBR_ESP   | Dis  | 1;5   | Participant's evaluation of environmental and social performance after the acquisition  |
| post_CBR_total | Dis  | 1;5   | Participant's total evaluation of TBSs corporate reputation after the acquisition       |
| TBS_CSR        | Cat  | 1;5   | Participant's evaluation of TBSs CSR performance  |
| ACQ_CSR        | Cat  | 1;5   | Participant's evaluation of the acquirer's CSR performance                              |
| fam_TBS        | Cat  | 1;5   | Familiarity with The Body Shop  |
| gender         | Cat  | 1;5   | Participant's gender  |
| country        | Cat  | 1;195 | Country in which participant grew up  |
| education      | Cat  | 1;5   | Participant's highest level of education  |
| sup_CSR        | Cat  | 1;5   | Participant's personal support for CSR  |
| diff_CBR_total | Dis  | -5;5  | Difference between CBR scores before and after acquisition                              |
| spr_CSR        | Dis  | -5;5  | Difference between the evaluation of CSR of the acquirer and TBS                        |

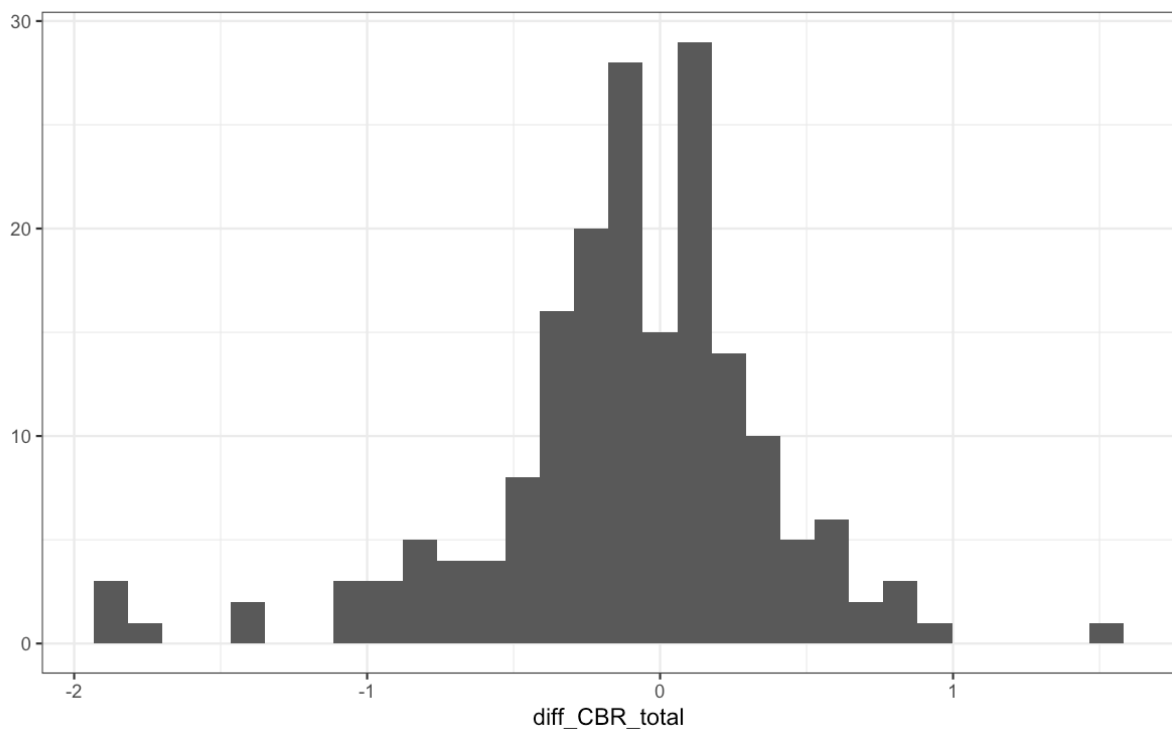
## Appendix 03: Overview of the final variables

| Name           | Type | Range | Description  |
|----------------|------|-------|--|
| Treatment      | Cat  | 0;1   | Treatment (1) vs control (0)                                     |
| fam_TBS        | Cat  | 1;5   | Familiarity with The Body Shop                                   |
| gender         | Cat  | 1;5   | Participant's gender   |
| country        | Cat  | 1;195 | Country in which participant grew up                             |
| education      | Cat  | 1;5   | Participant's highest level of education                         |
| sup_CSR        | Cat  | 1;5   | Participant's personal support for CSR                           |
| diff_CBR_total | Dis  | -5;5  | Difference between CBR scores before and after acquisition       |
| spr_CSR        | Dis  | -5;5  | Difference between the evaluation of CSR of the acquirer and TBS |

## Appendix 04: $H_0$ of all hypotheses for the t-tests

| <b>Null hypotheses</b> |  |
|------------------------|--|
| H1a                    | The customer-based corporate reputation of a target with a high CSR spread after a high CSR spread acquisition will be statistically higher than 0   |
| H1b                    | The customer-based corporate reputation of a target with a high CSR spread after a low CSR spread acquisition will be statistically lower than 0   |
| H1c                    | The average customer-based corporate reputation of a high CSR target in an acquisition with a low CSR spread is not significantly different from the average customer-based corporate reputation of a high CSR target in an acquisition with a high CSR spread |
| H2                     | Participants with a high familiarity with the target are not likely to show different responses to corporate reputation after an acquisition with a huge CSR spread compared to participants with a weaker familiarity with the target.                        |
| H3                     | Participants with a stronger support for CSR are not more likely to show extreme responses to corporate reputation after an acquisition with a huge CSR spread compared to participants with a weaker support for CSR.   |
| H4                     | Participants from the DACH region are not likely to respond differently to corporate reputation after an acquisition with a huge CSR spread compared to participants from Brazil.  |

## Appendix 05: Histogram of the dependent variable diff\_CBR\_total



**Appendix 06: Betas and regression Lines of Random and Non-Random Sample**

