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Corporate Employee-Engagement and Merger Outcomes

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Abstract

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Cross-Border Acquisitions and Employee-Engagement *

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Cross-Border Acquisitions and Employee-Engagement

I. Introduction

Cross-border M&A volume has boomed over the past 20 years – from 23% of the total deal value in 1998 to more than 50% of total value in 2016 - with some individual transaction values being close to that of a small country's GDP.[1] Cross-border acquisitions enable firms to expand their boundaries across national borders and provide new sources of value creation resulting from cross-country differences in product markets (DeGiovanni, 2005), regulations and governance standards (Bris and Cabolis, 2008; Chari et al., 2010), taxation regimes (Huizinga and Voget, 2009), currencies (Erel, Liao, and Weisbach, 2012), industry specialization (Frésard, Hege, and Phillips, 2017), and degree of development of the financial system (Alquist et al., 2014). However, cross-country takeover also induce frictions that reduce merger gains. Indeed, recent studies have attempted to explain the marked differences in domestic and cross-border takeovers with regard to the value implications of factors such as language and cultural distance (Ahern et al., 2015), economic nationalism (Dinc and Erel, 2013), geography and bilateral trade (Erel et al., 2012), investor protection and corporate governance (Rossi and Volpin, 2004; Bris and Cabolis, 2008), as well as government ownership (Karolyi and Liao, 2017).

In this paper, we provide novel evidence that a firm's employee-engagement—voluntary policies and practices that aim to enhance a firm's human capital and employee relations by providing higher compensation and job security—is strongly related to the marked differences in value generation between domestic and cross-border takeovers. Employees are crucial to the firm's performance: they are involved in the firm's daily operations and have a contractual claim on the company in the form of salaries and bonuses. Their relations with the firm are believed to be one of the most important driving forces of M&A activities and returns to shareholders, as restructuring

[1] For example, the 2016 deal between German drug company Bayer and US-based Monsanto was valued at $66 billion, which Bayer clinched with improved $66 billion bid, exceeding the 2015 GDP of Luxembourg ($57.8 billion), Source: Reuters, Sep. 15th 2016. http://www.reuters.com/article/us-monsanto-m-a-bayer-deal-idUSKCN11K128.

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the firm's workforce involves integrating and reconfiguring employees' human capital to reduce costs and to profit from larger economies of scale and scope (Maksimovic, Phillips, and Prabhala (2011)). Despite a large literature on human capital in M&As, the majority of studies focus on country- or state-level employment protection regulations to measure the effect of human capital on merger synergies, finding evidence that stronger employment protection is detrimental to takeover activity and merger synergies (John, Knyazeva, and Knyazeva (2015), Tian and Wang (2016), Dessaint, Golubov, and Volpin (2017)), although the opposite is found by Alimov (2015). Still, labor market regulation and employment protection set only the lower bound of how employees are to be treated when M&As take place. Arguably, a more significant part of the labor effect, if any, may result from the firm's own policies and investment in engaging and incentivizing employees (over and beyond the regulatory requirements). Some recent studies are along this line (Pagano and Volpin (2005), Cronqvist et al (2009), Masulis et al (2016)), but they mostly focus on the agency aspect of employee engagement, i.e., the detrimental effect of manager-employee alliances on shareholder value in M&As, and are limited to samples of US firms in which the roles of labor are remarkably different from the rest of the world (Atanassov and Kim (2009)). To date, there is little evidence on the effect of firms' voluntary engagement in employee-related issues on deal performance on a global scale.

The lack of research is partially due to the lack of data with detailed information on firm-level investment in employee relations, especially in a multi-country context. We utilize a newly assembled dataset on firm-level corporate engagement and investment in employee relations for a global sample, with the aim of investigating how cross-firm heterogeneity in employee-engagement (investing in employee satisfaction and wellbeing) that is distinct from country-level labor regulations may translate into short- and long-run firm performance when engaging in domestic and foreign acquisitions. Underlying our empirical investigation is the argument that, while generous voluntary employment policies by a firm can incentivize employees and hence increase labor productivity and generate synergy gains (Edmans (2011, 2012); Edmans, Li, and Zhang (2015)) that may be reflected in acquirer shareholders' expectations around M&As (Deng, Kang, and Low

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(2013)), labor-related frictions—a key feature of cross-border deals compared to domestic deals—can significantly attenuate the expected synergy gains from implementing specific employment policies.

What frictions may arise in cross-border deals that affect the returns to shareholders and firm value when investing in employee relations? A notable example, albeit not in the context of M&As, is the recent frustration of the greenfield investment in the US by the Chinese company Fuyao Glass Industry Group. Motivated by lower manufacturing costs, Fuyao entered into the US and invested in General Motors' abandoned plants in Ohio State. But the Chinese company soon faced a strong culture clash with its workforce as many workers questioned the company's commitment to operating under American supervision and American norms. The Chinese company also faced an acrimonious union campaign by the United Automobile Workers, endless complaints by US employees regarding unfair treatment in paid time-off, and a lawsuit by a former US manager,[2] in spite of a favorable stock market reaction when Fuyao announced its US investment plan in 2014. This example illustrates that managing the integration of employee policies in different national, cultural, and organizational contexts is likely to create a host of uncertainties (Aguilera and Dencker, 2004). In most jurisdictions, a buyer of a firm cannot change the human capital employed at a target company nor can it change the contracts that a target firm has adopted, which limits the acquirer's possibilities for implementing and integrating its own employee policies in the target firm.[3] Even when such integration is possible, breaking implicit contracts between target's employees and their management may not be desirable. Implicit contracts depend on culture and norms, the social climate (driven by important social partners such as unions and employers), the importance of

[2] "Culture Clash at a Chinese-Owned Plant in Ohio." New York Times, June 10, 2017. https://www.nytimes.com/2017/06/10/business/economy/ohio-factory-jobs-china.html.

[3] For example, a sale of a firm triggers the "transfer of undertakings protection of employment" (TUPE) regulations of 1981, which stems from the European Acquired Rights directive. This regulation states that "all the [seller's] rights, powers, duties and liabilities under or in connection with [an employee's contract of employment], shall be transferred to the [buyer]." Furthermore, the buyer assumes the liability for "anything done before the transfer is completed by or in relation to the [seller] in respect of that contract or a person employed in that undertaking or part" (Calcagno and Renneboog, 2007). TUPE states that such an act "shall be deemed to have been done by or in relation to the [buyer]."

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corporate social responsibility, etc., such that differences in local cultural values may result in the target's employees being less receptive to the labor policies implemented by the acquiring firm. Consequently, transferring the acquirer's employment policy to and integrating it in a foreign target may not be straightforward nor, even if it were possible, would it be expected to have the same impact on productivity and firm performance as in the acquirer. We therefore argue that, although strong employee relations can enhance shareholder value and firm performance in domestic takeovers, labor-related frictions in cross-border takeovers may limit the extent to which a firm's engagement towards employee satisfaction can be translated into employee productivity and shareholder value. This is essentially a supply-side argument (i.e., the acquiring firm "supplies" generous employment policies).

On the demand side, talented employees with many outside options and high mobility may demand more generous employment policies that may be crucial in order to retain their talent (in both the acquiring and target firms) and maintain their productivity in an M&A deal. But providing similarly generous employment packages to those without sufficient outside options and mobility may be perceived as a waste of money from the acquirer shareholders' perspective. A firm's employee-engagement may therefore be an equilibrium outcome reflecting the supply of generous employment policies by the firm and the demand for good treatment by employees. The value implications for shareholders depend on which forces (the supply- versus the demand-side considerations) carry most weight.

Based on a global sample of 2,009 acquiring firms from 48 countries engaging in 4,565 M&A deals, we find that there is considerable heterogeneity in *firm-level* policies of and investment in employee relations that are distinct from state-imposed country-level labor regulations. We show that the acquirer's employee-engagement in terms of monetary benefits and job security is positively related to the takeover deal's announcement returns and long-term performance when acquiring a domestic target, but that this effect reverses when acquiring a foreign target. A one-standard deviation increase in industry-adjusted employee-engagement results in a 22 basis point increase in

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CARs in domestic deals, but results in a 43 basis point decrease in cross-border deals.[4] This finding holds even after controlling for cross-country differences in labor regulations and other macroeconomic factors, as well as acquirer-level fixed effects in a sample of firms that acquire both domestically and internationally during our sample period, indicating our results are not driven by time-invariant acquirer characteristics. In addition, we show that it does not stem from the fact that cross-border deals on average destroy value as these deals have higher announcement returns than domestic deals. Moreover, the results on long-run post-merger performance are in line with those from the CARs estimations, potentially suggesting that the market can correctly predict the effect of employee-engagement on deal success. We also show that our findings are mainly driven by the acquirer's investment in pecuniary incentives and monetary compensation, and less so by factors representing job security factors such as employment retention and trade union relations, consistent with human relations theories (Herzberg 1959, 1964, 1966).

We also explore a few potential channels through which labor-related frictions in cross-border acquisitions may affect the relationship between employee-engagement and deal performance. We show that the negative effect of strong employee relations in cross-border deals is weakened when the acquirer has takeover experience in the target's country, when social norms in the target country more strongly value money, when economic nationalism in the target's country and strong labor unions in the acquirer's and target's countries are absent, and when both parties are in low-tech industries, all of which can reduce labor-related frictions in cross-border deals.

We further show that, for a subsample of deals for which we have both acquirer and target data on employee-engagement, our results are not likely to be driven by the target's employee-engagement. We also rule out several alternative explanations including other workplace-related dimensions (such as workforce diversity, health and safety, or training and development), the levels of or differences in country-level labor regulations, an acquirer's tendency of engaging in domestic or cross-border M&As, geographical distance between acquirer and target, differences in their

[4] These effects are economically significant as three-day acquirer CARs range between -50 and +50 basis points, on average.

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countries' economic development, the target employees' receptiveness towards job security incentives, or a back-firing effect of acquirer's over-engaging in employee relations. Our results are robust when excluding serial acquirers, targets from developing countries, or US acquirers, and when using an instrumental variable (IV) approach with the salaries and wage expenses in the acquirer's peers as an IV for employment quality. Overall, our findings highlight the importance of firm-level engagement and investment in employee-related issues to explain the marked differences in deal performance and shareholder value redistribution between domestic and cross-border M&As around the world.

The remainder of the paper proceeds as follows. Section II describes our data and methods, while Section III presents the main empirical results. Section IV presents the robustness tests and discusses several alternative explanations. Section V concludes.

II. Data and Methodology

II.1. Data

We measure a firm's employee-engagement using data from Thomson Reuters' ASSET4 Environmental, Social, and Corporate Governance (ESG) database. This firm-level database provides information and ratings on firms' practice on social, corporate governance, economic, and environmental issues ("pillars") and covers more than 4,000 companies worldwide, including the members of the S&P 500, Russell 1000, NASDAQ 100, MSCI Europe, FTSE 250, ASX 300, STOXX 600, the MSCI World Index, and the MSCI Emerging Market, index since 2002. The ASSET4 data is obtained from publicly available sources such as annual reports, 10-K statements, and CSR reports, which reduces concerns regarding self-reporting biases that may be present in survey-based data. The ASSET4 ratings consist of more than 750 ESG sub-dimensions (data points). Every data point results from a multi-step verification process, including a series of data entry checks, automated quality rules, and historical comparisons. Each data point is constructed by

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means of more than 280 key performance indicators and are rated as both a normalized score (0 to 100, with 50 as the industry mean) and the actual computed value. The equally-weighted average is then normalized by ASSET4 so that each firm is given a score relative to the performance of all firms in the same industry around the world. All ratings are provided on a yearly basis. For all companies, at least three years of history are available, and most companies are covered from 2005 onward. Firms are rated on the basis of their ESG compliance (regulatory requirements) and their ESG engagement (voluntary initiatives). Therefore, the ESG ratings reflect a comprehensive evaluation of how a firm engages in stakeholder issues and complies with regulations.

Our main focus is on the variables related to the firm's workforce under the "social" ("S") pillar, in particular those describing the firms' commitment and effectiveness with regard to the provision of high-quality employment benefits and job security, which we label as *Employment Quality*. Employment Quality is an equally-weighted average of a set of underlying elements. It consists of measures of the firm's salary level, wage distribution, trade union relations, bonus plans for at least middle management, fringe benefits such as health insurance provision, employment awards, employment creation, personnel turnover, lay-offs, management departures, strikes, job security policies, and employment controversies in the media such as strikes. This way we can test the importance the aggregate measure of employment quality, but also go one level deeper and test the monetary incentive factors as well as job security factors on shareholder returns around M&A announcements. As employment quality is the main empirical proxy for an acquirer's employee-engagement, we use these two terms interchangeably throughout the paper.

The Employment Quality score is, as are all other ESG scores mentioned above, normalized by ASSET4 such that each firm is given a z-score relative to the performance of all firms in the same industry. The normalization to a scale of 100 implies that, by construction, firms with scores higher than 50 perform above the median in terms of employee-engagement. These measures enable us to assess a firm's orientation towards employee issues relative to the industry benchmark, and provide us with a natural yardstick to gauge whether the firm excessively engages in employee relations. This

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way, we can compare corporate employee-engagement across firms with a similar demand for labor skills and operating in similar labor markets but with a different geographical focus in takeovers.

We obtain data on M&A deals from the SDC Mergers and Acquisitions database. In order to be included in our sample, the transactions should meet the following criteria: (1) the deal was announced between January 1st, 2002 and December 31st, 2014 and the SDC database contains detailed information on this transaction;[5] (2) the acquiring firm is publicly listed and its accounting and stock return data are available in Datastream; (3) the acquiring firm owns less than 50% of the target's shares before the offer and makes an offer with the intention to own more than 50% of the target's shares subsequent to a successful acquisition; (4) the acquiring firm has data available in ASSET4 for the fiscal year before the deal announcement; and (5) labor protection data for both the acquirer's and target's countries are available in the Botero et al. (2004) labor regulation indices.

Merging the information from ASSET4 with our sample of M&A deals from SDC results in a final sample of 4,565 deals by 2,009 acquiring firms from 48 countries. Of these deals, 2,550 (56%) are domestic and 2,015 (44%) are cross-border. The descriptions of our key variables are given in Appendix A. Appendix B shows the sample distribution by acquirer industry and year. The acquiring firms in our sample are mostly active in Business Services (10%), Trading (8%), and Banking (7%) industries[6]. Appendix C shows the sample distribution by acquirer country. Acquiring firms originate mainly from the US (27%), Japan (15%), and the UK (13%). In addition, Appendices D1 and D2 respectively offer an overview of our employee-engagement scores by country and industry.

II.2. Empirical Strategy

To assess shareholders' reactions to M&A announcements and thus draw inferences on shareholder value, we calculate cumulative abnormal stock returns (CARs) for the acquiring firm in the three days surrounding the deal announcement [-1,+1], where abnormal returns are defined as

[5] It is not meaningful to include the deals announced before 2002 as the ASSET4 coverage starts in 2002.
[6] To keep a sufficiently large number of observations, we do not exclude the financials and utilities industries. However, our conclusions remain unaffected after excluding these from the sample (results are available on request).

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the difference between the firm's actual and expected returns. These expected returns are obtained from the market model estimated over a period starting 100 days before the announcement date until 30 days before this date: $R_{it} = \propto_i + \beta_i * R_{mt} + \varepsilon_{it}$, where R_{it} is the actual return for firm *i* on day *t,* and R_{mt} is the return on the primary stock market of the country in which the firm's headquarter is located. The estimated coefficients enable us to calculate the returns expected for the case without a takeover offer. We then calculate the CARs by summing the abnormal returns in the three days around the announcement date. We necessarily focus on the acquiring firms' CARs because studying the combined CARs of both acquirers and targets makes us lose more than 80% of our sample (as the number of public target firms in our sample is limited). Similarly, we confine our analysis to the acquiring firms' employee relations, as the availability of data for firm-level employee-engagement and stock information for target firms is also very limited (less than 10% of the sample).[7] Our core specification is:

$$Acquirer\ CAR\ [-1,+1]_i = \alpha_i + \beta_1 Employee\ Engagement_{j,t-1} + \beta_2' X_{ij} + \beta_3' Lab.Reg.Index_c + \beta_4' \gamma + \varepsilon_i$$

where *Employee Engagement.*$_{j,t-1}$ measures the acquiring firm's investment in employee quality in terms of monetary benefits and job security for the fiscal year prior to the deal announcement, and X_{ij} indicates a set of standard deal- and firm-level control variables including acquirer ROA, acquirer leverage, acquirer size, a serial acquirer dummy, relative deal size, and dummies for toeholds, multiple bidders, all-cash financed deals, hostile deals, diversifying deals, and public targets. *Lab. Reg. Index*$_c$ is a set of four (target and/or acquirer) country-level labor regulation indices from Botero et al. (2004), which have been widely used in studies on the role of labor protection in corporate investment (e.g. Atanassov and Kim, 2009; Levine et al., 2015). These indices consist of (1) an employment laws index, which measures the protection of labor and employment contracts; (2) a collective relations laws index, which measures the statutory protection and power of labor unions

[7] We however perform an additional test for the subsample for which we have ASSET4 information for both target and acquirer in Table 7.

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as well as protection of workers during collective disputes; (3) a social security laws index, which measures social security benefits related to old age, disability, death, sickness, and unemployment; and (4) a civil rights index, which captures the degree of statutory protection of vulnerable groups against employment discrimination. As our goal is to examine the role of firm-level employee-engagement, it is important to control for these country-level labor regulation variables so as to disentangle the firm-level effects of (voluntary) labor-orientation from the effects resulting from country-level (mandatory) labor protection regulations. Finally, γ is a set of year, acquirer- and target-industry fixed effects, and "acquirer-region × target-region" fixed effects that we include to further reduce concerns related to a potential omitted variable bias in the relationship between corporate employee-engagement and stock returns around M&A announcements.

In addition, we explore the potential mechanisms that account for the differential relations between employee-engagement and shareholder returns in domestic and cross-border deals by considering a set of sub-dimensional factors of our main *Employment Quality* score (e.g. monetary incentives such as bonus plans for at least middle management, fringe benefits such as health insurance, the wage ratio of employees/CEO, trade union relations policies, employment growth/loss, job security policies, etc.). We also interact these employee-engagement measures with country- and firm-level variables that capture labor-related frictions. Definitions of all variables are available in Appendix A.

III. Results

III.1. Descriptive Statistics

Panel A in Table 1 reports descriptive statistics for our main measure of firm-level employee-engagement for the acquiring firms in domestic and cross-border deals, respectively. Our main explanatory variable on firm-level employee-engagement is *Employment Quality* in terms of monetary incentives and job security. It is measured by means of industry-adjusted normalized scores (ranging from 0 to 100) and captures a firm's engagement relative to its industry peers. In domestic deals, *Employment Quality* is close to the sample mean (of 50), whereas in cross-border deals, it is

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considerably higher than the sample mean. The difference of 9 points on a scale of 100 is both economically and statistically significant (Table 1, Panel A). The other variables shown in Panel A represent a set of sub-dimensional factors used to construct the *Employment Quality* score (see Appendix A for variable descriptions); in domestic deals, an average of 39% of the acquiring firms offer a bonus plan to their employees, 43% provide fringe benefits such as pension funds or health insurance, the average acquirer increased its workforce by 3.5% in the year prior to the acquisition, 18% of the acquiring firms has a policy in place for maintaining good relations with trade unions, and 6% of firms have policy to enhance job security. In contrast, acquirers engaging in cross-border deals are more likely to offer a bonus plan to their employees (48%), are more likely to have a policy for maintaining good relations with trade unions (32%), and are more likely to have a job security policy in place (11%). Overall, these results suggest that firms conducting cross-border acquisitions are different from those conducting domestic acquisitions in terms of their relations with employees, and also appear to have above-average employee-engagement.

Panel B reports descriptive statistics for deal-level characteristics, starting with the acquirer's CARs over the window [-1, 1]. Consistent with findings in the literature, acquirer shareholders in domestic deals do not gain from M&A deals: the mean and median CARs are -25 and -22 basis points, respectively. About 41% of our sample consists of cross-border deals, and in these deals acquirer shareholders earn positive mean and median returns of 16 and 3 basis points, respectively. Although shareholders of acquirers conducting cross-border deals earn more positive returns on average, the median return is close to zero. Cross-border acquirers are less likely to acquire public targets, make all-cash offers, and acquire toehold stakes. Cross-border deal values are comparable to domestic deal values (16% of the acquirer's market capitalization in cross-border deals and 17% in domestic deals). The firm-level variables in Panel C show that firms acquiring domestically are comparable to firms acquiring cross-border targets in terms of leverage and profitability (as, although the difference in means is statistically significant, it is economically small), but are smaller

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in size and are less likely to be serial acquirers[8]. Panels D and E compare the acquirer's and target's country-level labor protection indices: acquiring firms in domestic deals tend to be located in countries with slightly lower protection in terms of employment, collective relations, and social security, but with stronger civil rights than acquiring firms in cross-border deals. Also, targets in cross-border deals have a higher employment laws index than acquirers in domestic deals. These statistics are consistent with Alimov (2015).

[Insert Table 1 about here]

We can derive some interesting insights from our descriptive statistics: compared to acquirers in domestic deals, those engaging in cross-border deals have on average more generous employment policies at the firm-level, and their deals also earn higher announcement returns compared to domestic acquirers. However, they also differ on a number of deal-, firm-, and country-level characteristics. It is thus not clear whether the higher announcement returns in cross-border deals are causally related to stronger employee-engagement, which as we will show below, is in fact not likely the case.

We also show similar descriptive statistics for target firms, but only for the small subsample for which employee-engagement data are available, as ASSET4 mostly covers large firms included in the major global equity indices. Again, target firms' *Employment Quality* score is higher for cross-border deals than for domestic deals. Consistent with the M&A literature, target firms also enjoy positive announcement CARs, which are higher for cross-border deals. Targets are smaller in size compared to acquirers, but they are more profitable. The relative deal size is much larger in this small subsample compared to the full sample in Table 1, which is of course due to ASSET4 only covering large publicly-listed firms. Overall, the descriptive statistics in Tables 1 and 2 indicate that there are

[8] A serial acquiring firm is defined as a firm engaging in more than 10 takeover deals across our sample period. Alternatively, when we define serial acquirers as firms engaging in more than two takeover deals per year, our conclusions are not affected. A relatively large number of deals– they make up 25% of our sample – involve serial acquiring firms.

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substantial differences in employee-engagement and firm characteristics between acquirers and targets, and between domestic deals and cross-border deals.

[Insert Table 2 about here]

III.2. Employee-Engagement and Shareholder Returns in Domestic and Cross-Border Takeovers

We now formally test the relations between firm-level employee-engagement and acquirer returns. As we argue above, a firm's engagement towards its employees' welfare can increase employee productivity and support, leading to higher shareholder value, partially reflected in higher stock returns at the firm's acquisition announcement. However, such a positive incentive effect can be attenuated if the acquisition takes place across national borders, due to the labor-related frictions regarding the transfer and integration of employment policies. We test this hypothesis in Table 3, where we consider two subsamples for domestic and cross-border deals in Panel A, and interact a cross-border deal dummy with the firm's *Employment Quality* score on the full sample in Panel B. Using these two types of models enables us to include different types of fixed effects that would otherwise absorb, for example, the cross-border deal indicator. All specifications include the firm- and deal-level controls specified in Section II (acquirer ROA, leverage, size, a serial acquirer indicator, relative deal size, and dummies for toeholds, multiple bidders, all-cash financed deals, hostile deals, diversifying deals, and public targets), along with acquirer and target country-level labor protection indices or country fixed effects, and year, acquirer- and target-industry, and acquirer region by target region fixed effects.

Models (1) and (2) in Panel A indicate that a higher level of employment quality in terms of monetary incentives and job security is positively related to shareholder returns around domestic deal announcements. This is consistent with the notion that providing monetary incentives increases employees' productivity, which we show may be reflected in increased shareholder returns around domestic M&A announcements. When turning to cross-border deals, we find that the effect becomes reversed. In Models (3) through (6), we consistently find that higher levels of employment quality are negatively related to CARs. Importantly, we find that this effect is not eroded by the

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inclusion of acquirer region-by-target region or even acquirer country-by-target country fixed effects. This suggests that the effect is not driven by, for example, time-invariant agreements or capital flows between a pair of countries or differences in labor regulations between a pair of countries. In Panel B, we consider the full sample of deals, and interact *Employment Quality* with a cross-border deal indicator. The results in Models (1) through (6) are consistently in line with those in Panel A: stronger employee relations in the acquirer are positively related to announcement CARs in domestic deals, but negatively in cross-border deals. These models also consistently show that cross-border deals earn higher CARs, in line with findings in the extant literature (e.g., Doukas and Travlos, 1988; Chari, Ouimet and Tesar, 2010). Importantly, we find that our results hold after controlling for acquirer and target country fixed effects (Model (2)), acquirer region by target region fixed effects (Model (4)), and even acquirer firm fixed effects (Models (5) and (6)). The former two specifications indicate that our results are unlikely to be driven by acquirer or target level labor regulations. Whereas Model (5) includes acquirer fixed effects for the full sample, Model (6) only considers acquirers that engaged in both domestic and cross-border acquisitions over the sample period. Notably, the finding that the negative effect in cross-border deals holds even in Model (6) suggests that our results are not likely to be driven by time-invariant acquirer characteristics, i.e., acquirers with strong employee relations that acquire domestically may be inherently different from those that acquire internationally. In terms of economic significance, a one standard deviation increase (+ 30) in the acquirer's score on *Employment Quality* is associated with an increase in CARs of 0.21% (21 bps) in domestic deals, but the increase in returns around cross-border deals drops from 1.16% to 0.92% (a 24 bps decrease) in Model (4).[9] Combining these results, we can conclude that, despite the summary statistics in Table 1 indicating that cross-border acquirers have higher levels of employee-engagement and experience on average higher announcement returns, these higher returns are not likely to result from the acquirer's stronger employee-engagement. Instead, they are consistent with the notion that acquiring across national borders induces labor-related

[9] As using acquirer firm fixed effects reduces the number of observations considerably, we use Model (4) as our baseline specification.

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frictions that potentially reduce labor productivity gains for shareholders, which is priced by the stock market around such deals.

It is important to note that we control in all specifications for labor regulations in the acquirer's and—in cross-border deals—also the target's country, in addition to acquirer region by target region fixed effects. In line with Dessaint et al. (2017), we find that in domestic deals a country's labor laws regarding employment regulation (which to a large extent measures the labor rigidity faced by a firm) are negatively related to announcement returns.[10] However, the inclusion of country-level labor regulation indices does not erode the significance of our firm-specific employment quality score. This suggests that government-imposed labor protection regulations are not perfect substitutes for voluntary employment policies at the firm level. In addition, the signs and significance for our other control variables are comparable to those found in the literature (e.g. Lin, Officer, and Zou, 2011): acquiring a public target negatively affects the returns to shareholders, whereas most firm-level characteristics and the financial performance of acquirers do not seem to play a significant role in driving the acquirer's own returns. In our robustness tests, we additionally control for, and interact our employee-engagement variables with, the acquirer's and target's country GDP and GDP per capita, as well as other country-level characteristics. None of these controls affects the significance of our measure of employee-engagement.

[Insert Table 3 about Here]

III.3. Unbundling Employee Incentives

Next, we investigate the mechanisms underlying our above-documented effects of employment quality. Our aim is to analyze whether there are labor-related frictions arising from acquiring a target across national borders that alter the role of corporate employee-engagement. As documented both theoretically (Herzberg et al., 1959) and empirically (Edmans, 2011), employees are motivated most by the provision of monetary incentives which may augment their productivity which may in turn be reflected in the shareholder value. Therefore, our results are expected to be mainly driven by factors

[10] To save space, these control variables are not reported in Table 3, but they are available on request.

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related to the provision of monetary incentives. To test this hypothesis, we dig deeper into the ASSET4 database and we decompose *Employment Quality* into two broad categories capturing employees' monetary incentives (including fair salaries, bonus plans, and other fringe benefits such as health insurance) on the one hand and job security incentives (including growth in the workforce, trade union relations, and the presence of a job security policy) on the other hand. The former set of incentives represent how much the firm values the specificity of human assets (Williamson, 1981), and thus can increase employee productivity by linking compensation to firm performance, providing a fair wage, attracting talented employees, and encouraging diligence. The latter set of incentives is directly related to employee loyalty and commitment and is thus a more direct measure of the employment insurance dimension of employee relations.[11] They represent the collective governance of human assets which are not necessarily employee-specific, and may not directly translate into superior labor productivity (Williamson, 1981).

We test these decomposed employee-engagement measures in Table 4. In Panel A, we consider three forms of monetary incentives: (i) the provision of a bonus plan to at least middle management (*Acquirer Bonus Plan Dummy*), (ii) the provision of fringe benefits such as pension funds and health insurance (*Acquirer Fringe Benefits Dummy*), and (iii) the wage ratio of the average worker's salary and the CEO's income (*Acquirer Wage Ratio Employees/CEO*).[12] We include the latter based on the argument that a smaller wage gap is likely to increase employees' perception of being paid a fair wage, which may increase their productivity. As before, we interact these monetary incentive variables with the cross-border indicator. In line with theory and empirical evidence, we find that each of our monetary incentive variables is positively related to acquirer announcement returns and hence shareholder value. In addition, echoing our results in Table 3, cross-border deals, which arguably may entail more labor-related frictions, seem to limit the extent to which these incentives can be translated into productivity and firm value. Employee compensation schemes differ

[11] This classification conceptually matches the dichotomy by Herzberg et al. (1959) who distinguish between "motivational" factors (such as monetary incentives) and "maintenance" factors (such as job retention policies and improving working conditions).
[12] The effect of the firm's industry is controlled for by including industry fixed effects in all models.

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significantly across countries (e.g., Card, Heining, and Kline, 2013; Mueller, Ouimet, and Simintzi, 2017) and an overly generous compensation policy for all employees with different backgrounds and cultural values may distort workforce incentives in general (Mueller et al., 2017). Moreover, in line with Herzberg's theory that job security does not directly lead to superior performance, we find no significant effects for the provision of job security incentives on shareholder CARs in Panel B. We measure job security incentives by (i) whether or not the firm has a trade union relations policy (*Acquirer Trade Union Relations Policy*), (ii) employment growth (*Acquirer Net Employment Creation*), and (iii) whether the firm has a job security policy (*Acquirer Job Security Policy*).[13] This potentially indicates that the labor-related frictions only constrain the transformation of monetary incentives in productivity and shareholder value, whereas they do not matter much for the employment insurance dimension. This is not unsurprising, as earlier evidence has indicated that employment protection and insurance in cross-border M&As is generally affected by country-level labor regulations (Dessaint et al., 2017). What we document here are firm-level voluntary incentivizing policies going beyond labor protection and regulation that only provide employees with a safety net.

[Insert Table 4 about here]

IV.4. Labor-Related Frictions in Cross-Border Deals: Channels

We now delve deeper into the channels of labor-related frictions in cross-border deals. In other words, what types of frictions may account for the negative interaction effects shown in Table 3? Relative to domestic deals, cross-border deals are considerably more complex transactions which make the integration of firms with different employee policies and different national, cultural, and organizational contexts more difficult (Aguilera and Dencker, 2004). In this section, we attempt to identify the channels through which such difficulties arise or the contexts that facilitate the transfer and integration of employee policies. In particular, we focus on seven variables at the firm-level, industry-level, and the country-level, and interact them with *Employment Quality* for the subsample of

[13] In addition, we test a set of alternative variables related to job security (not reported): the percentage of trade unionization in the acquirer firm, the rate of turnover in the workforce, and the number of labor-related controversies reported in the media (e.g. strikes). As before, none of these are significantly related to CARs.

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cross-border deals, as reported in Table 5. Again, all variable descriptions are given in Appendix A. As before, we find in each specification that the main effect of employment quality is significantly negative.[14]

The first variable captures whether or not the transaction is a repeat acquisition in the target's country. Repeatedly acquiring firms in the same country familiarizes the acquirer with the target's country's employment cultures and labor market, which reduces information asymmetry and makes the transfer and integration of its employee policies more efficient. As shown in Model (1) of Table 5, while the coefficient on *Employment Quality* is negative, the interaction term "*Acquirer Employment Quality* $_{t-1}$ × *Repeat Acquisition*" is positive and statistically significant at the 5% level, supporting the above argument. In economic terms, a 30 point increase in *Employment Quality* (one standard deviation) increases CARs by 0.18% if the acquirer has acquisition experience in the target's country, relative to a -0.33% decrease if this were not the case.

Second, following our earlier hypothesis and the evidence that employee-engagement mainly functions via the provision of monetary incentives, we conjecture that cultures and norms on labor compensation can constitute another form of friction. Therefore, in Model (2), we consider the target country's remuneration culture regarding the importance of 'good pay'. When there is a similar or better attitude towards monetarily incentivizing employees in the target's country, it will be easier for the acquirer to implement in the target firm the same incentivizing policies that can effectively enhance employee productivity. We obtain the data on the country-level "Importance of Good Pay" from the World Value Survey, and consider the case in which people in the target's country have a higher predilection for good pay in their job relative to those in the acquirer's country. This predilection could signal the potential effectiveness of introducing or maintaining monetary incentives for employees in the target firm to acquiring firms' shareholders. The positive interaction of "*Acquirer Employment Quality* × *(Target Country > Acq. Country 'Good Pay is Important')*" in

[14] This echoes our results in Panel A of Table 3 on the effect of employment quality on acquirer CARs in cross-border deals.

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Model (2) supports this argument. In deals where the target's country has a higher predilection for good pay, the negative effect of employment quality is reversed.

The third variable of Table 5 captures the attitude towards saving in the target's country, which should again only be related to monetary incentives and less so to job security incentives. It indicates whether people in the target's country attach more importance to saving money relative to people in the acquirer's country. An acquiring firm may more easily transfer and integrate monetary incentive policies to countries where people think saving money is relatively important (or value the possession of money more). This is supported by the positive interaction of "*Acquirer Employment Quality × (Target Country > Acq. Country 'Saving is Important')*" in Model (3). A one standard deviation increase in *Employment Quality* increases CARs from -0.81% to -0.21% when acquiring a target firm in such a country.

The fourth variable captures the absence of economic nationalism in the target country's government as, in the inverse case foreign acquirers face more resistance from target countries' governments who may fear that foreign acquirers will infringe national interests and that corporate restructuring result in massive lay-offs in the target firm. If such "economic nationalism" is low, foreign acquirers with better employee relations may face less political opposition and hence less labor-related frictions such that transposing their employment policies to the target is likely to be more effective than in the case with stronger protectionist attitudes. We follow Dinc and Erel (2013) and use the ruling of a liberal government (a dummy variable indicating whether the ruling government is right-wing; data obtained from the Database of Political Institutions) in the target's country to proxy for the absence of economic nationalism, as (rightwing-)liberal parties usually and traditionally favor more free trade (Dinc and Erel, 2013). This argument is supported by the positive coefficient on the interaction term "*Acquirer Employment Quality t-1 × (Absence of Economic Nationalism in Target Country)*" in Model (4), which indicates that the absence of strong economic nationalism reduces the effect of labor-related frictions on shareholder returns.

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The fifth variable is the perceived strength of labor unions in the acquirer and target's country. The rationale is that strong labor unions increase contract rigidity and difficulty in negotiating with employees. Therefore, low union strength in the target's country (as perceived by the acquirer) indicates the relative ease with which acquirers can restructure and implement post-merger employment policies in line with those in the acquiring firm. Of course, if in the acquirer country there are strong labor unions, the employees of the acquiring firm may attempt to resist such implementation of favorable employment policies in the target firm as this may shift resources from the acquirer's to the target's employees. We therefore specifically consider the case in which both the acquirer and target countries' have low perceived union strength ("low" is defined as being in the bottom tercile of the distribution), where perceived union strength is measured by "Confidence in Unions", also from the World Value Survey. As shown in Model (5), the interaction term "*Acquirer Employment Quality × (Acquirer and Target Country Low Union Strength)*" has a positive loading, suggesting that the negative effect of employee-engagement in cross-border deal becomes less negative when both acquirer and target country have low perceived union strength.

In Model (6), we test whether employee policies are more easily transferred and integrated in the case of low-tech deals (in which target and acquirer are both in low-tech industries), relative to deals in which at least one of the parties is in a high-tech industry. High-tech industries are fast-changing and more complex than traditional low-tech industries, especially in terms of incentivizing and motivating employees (Eyob, 1994). We thus expect that transferring and integrating employee policies in a high-tech target is more difficult, as in such industries corporate culture or the reputation of the employer may be more important than purely monetary incentives (see e.g. Focke, Maug and Niessen-Runzi, 2016). In low-tech deals on the other hand, there should be less labor-related frictions that limit the extent to which monetary incentives can be transferred. As shown in Model (6), "*Acquirer Employment Quality × Low-Tech deal*" is significantly positive, indicating that acquirer shareholders react more positively to cross-border deals undertaken by high-employment quality acquirers that engage in low-tech deals. More importantly, this test also helps us to

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distinguish our argument based on the provision of employment quality (the supply-side) from the argument based on employee mobility (the demand-side). Understandably, employees in high-tech industries are more mobile and have more outside options, which entails that the acquirer's employment quality is more important in these high-tech deals so as to retain talent (demand-side), but our findings are the opposite. The fact that the effect of employment quality is more pronounced in low-tech deals suggest that the supply-side factors outweigh demand-side factors in this setting.

Overall, the results in Table 5 identify specific contexts in which the integration and transfer of employment policies across borders is easier and less costly, such that negative effect of employee quality in cross-border M&As becomes weaker and can be even completely off-set. Combining this with the fact that cross-border deals usually achieve higher abnormal returns, our results indicate that the negative interaction between employment quality and cross-border deals as found in Table 3 is not due to a deal being cross-border per se. Instead, there appears to be a unique aspect of cross-border deals that is related to the inability of firms to efficiently transform monetary incentives in higher shareholder value in a foreign target firm.

[Insert Table 5 about here]

IV.5. Employee-Engagement and Post-Merger Performance

Measuring short-run CARs around merger announcements of course does not paint a complete picture regarding a deal's performance. Therefore, in this section we investigate the effect of employment quality on the acquirer's long-run post-merger performance. That is, we investigate whether the labor-related frictions in cross-border deals that, as we argue, limit the extent to which monetary incentives can be transformed into employee productivity indeed reduce post-merger employee productivity and firm performance in the long run. We measure long-run performance using the acquirer's industry-adjusted returns on assets (ROA), return on sales (ROS), and employee productivity (Sales/Employees) two years after the completion of the takeover. We follow the approach in Harford, Humphery-Jenner, and Powell (2012), and include the acquirer's industry-

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adjusted pre-merger performance in the model as a control. Model (1) in Table 6 indicates that having a higher *Employment Quality* score increases the average post-merger industry-adjusted ROA in domestic deals, whereas it decreases the post-merger profitability in cross-border deals. These effects translate into an increase in post-merger ROA of 0.41% for a one standard-deviation increase in *Employment Quality* in domestic deals. Although cross-border deals on average show an increase in post-merger ROA, having a one standard-deviation higher level of *Employment Quality* in such deals decreases the post-merger profitability by 0.30%. We find similar but weaker results for the post-merger industry-adjusted ROS in Model (2), and Model (3) shows that an increase in *Employment Quality* results in a decrease in post-merger labor productivity in cross-border deals but not in domestic deals. This suggests that markets correctly anticipate the deal's performance at the merger announcement, and reinforces the validity of our measure that captures labor-related frictions affecting the transformation of incentivizing employees towards more productivity and firm performance.

[Insert Table 6 about here]

IV.6. The Role of the Target Firm's Employee-Engagement

One could wonder whether our above results are driven by the target's employee-engagement, rather than the acquirer's employee-engagement. Empirically this is a difficult question because we have relatively few data on the targets' employment quality scores in the ASSET4 database. ASSET4 mainly covers large firms included in the major global equity indices, so most (small) targets do not receive a rating from ASSET4. Nevertheless, we conduct tests on a subsample of deals with employment quality data available for both the target and the acquiring firm (362 deals in total). We classify both the acquirer's and the target's *Employee Quality* scores into high- and low-groups ("high" or "low" refers to the employment quality score being above or below the sample median). We then interact the cross-border dummy with different combinations of the acquirer's and target's employment quality scores such that we concentrate on four subsamples based on a two-by-two matrix capturing high/low scores by acquirers/targets, as shown in Table 7. We first investigate each

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dimension separately in Models (1) – (3), and combine them in Model (4) (the "Acquirer Low, Target Low" combination is omitted as it is the benchmark case). We find that our results are almost exclusively valid for those cases with an above-median level of employment quality in the acquirer, regardless of the target's employment quality score. In other words, the target's employee-engagement does not seem to affect the impact of the enhanced employee incentives of the acquirer and the labor-related frictions that we identify. Of course, these results should be interpreted with caution as they come from a relatively small subsample.

[Insert Table 7 about here]

In the next section, we investigate the robustness of our results by performing a placebo test and an instrumental variable test, and we rule out a large set of alternative stories.

IV. Robustness and Alternative Explanations

IV.1. Placebo Test on Employee Engagement

Are our results unique to the employment quality measure, or are the relations hardwired in the rating metrics of the ASSET4 database? In Table 8, we show results for a placebo test in which we investigate alternative dimensions of employee relations that are not related to the provision of monetary incentives and which should not be affected by labor-related frictions that affect firms' abilities to incentivize employees to increase their productivity and shareholder value. Model (1) repeats our analysis in Model (4) of Panel B in Table 3, which we show here as a benchmark. Models (2)-(4) show the results for 3 alternative dimensions of employee relations, namely *Workforce Health & Safety*, *Workforce Diversity*, and *Training & Development*. We combine them with *Employment Quality* in Model (5). We find that only *Employment Quality* is significantly related to CARs, which supports our argument that we capture labor-related frictions that affect monetary incentives but no other dimensions of employee-engagement. Therefore, it is plausible to argue that employees are more

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incentivized by benefits in terms of monetary compensation, than by the improvement of their working environment or workforce diversity (Herzberg et al., 1959).[15]

[Insert Table 8 about here]

IV.2. The Role of Labor Regulations

A large fraction of the literature on the role of human capital in M&As focuses on the effects of country-level labor regulations. To rule out that our results are driven by cross-country differences in for example employment protection regulations, we have already included country by country fixed effects or acquirer and target country labor regulations indices, and acquirer region by target region fixed effects. However, one may still argue that we do not fully capture such regulatory issues and that the negative coefficient on employment quality in cross-border deals simply reflects "regulatory arbitrage" (Alimov (2015)) or rigidity of labor regulations in the target country. We therefore explore how an acquiring firm's employee relations investment, captured by our *Employment Quality* variable, interacts with differences in state-imposed labor regulations between its home country and the target's country. If the strength of labor regulations at the country-level does shape firm-level employee-engagement, we expect the interaction terms to be significant. We capture labor regulation in the acquirer's country and target's country by using the indices developed in Botero et al. (2004) and taking the differences in the index values of the two countries. In Table 9, we find that none of the interaction terms is significant, suggesting that the cross-country differences in labor regulation do not explain the negative CARs for firms with strong employee quality scores in cross-border deals.

[Insert Table 9 about here]

[15] We perform a second set of placebo tests on the smaller sample of deals for which we have employment quality information for both the target and the acquirer in Appendix G. Our conclusions remain unchanged. In addition, when we run similar tests on other ASSET4 Social Pillar scores and Environmental Pillar scores (the subcategorical scores that are not necessarily employment-related), we do not find any statistical significance.

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Another alternative explanation for our main findings is that our cross-border results are driven by the fact that firms acquiring targets in countries with stronger labor regulations face higher restructuring and integration costs due to the rigidity of laws (Levine et al., 2015). That is, the negative coefficient of firm-level *Employment Quality* could possibly capture the direct effect of (target) country-level labor regulations. Although this is not likely the case because we control for acquirer and target country labor regulation indices in all regressions, we nevertheless regress the acquirer's CARs on the separate acquirer's and target's country-level labor regulation indices (not taking differences as in Table 9) to better understand the relative importance of imposed regulations and the firm's choice of employment policies. In unreported results, we find that only the target and acquirer country's employment law indices are significant determinants of acquirer CARs, in line with findings in Alimov (2015) and Dessaint et al. (2017). After adding our firm-level *Employment Quality* variable, we find that the country-level labor regulations coefficients remain significant, and that firm-level *Employment Quality* also remains highly significant. This indicates that our previous results on firm-level *Employment Quality* are not explained by country-level labor regulations. Although others have documented that labor market regulations and ownership structure are substitutive governance mechanisms (e.g., Bennedsen, Huang, Wagner, and Zeume, 2015), we show that this may not be the case for firm-level employment policies; firm- and country-level measures of employee policies capture different aspects and cannot be used as substitutes.

IV.3. Other Alternative Explanations

In Table 10, we further conduct several more tests to rule out other alternative explanations for our results that may be unrelated to labor-related frictions in cross-border M&As. First, the attenuating effect of cross-border deals that we identify may simply capture the geographical distance between the acquirer's and target's country. Although such an argument does not explain why only monetary incentives are affected, we interact Employment Quality with an indicator of whether the geographical distance between the acquirer's and target's countries is above the sample median (Model (1)). Similarly, many have documented that the acquirer and target countries sharing

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a common language or a common border may explain the propensity and returns of cross-border deals. We therefore interact Employment Quality with indicator variables capturing whether the acquirer's and target's countries have a language in common (Model (2)), or a share a common border (Model (3)). Third, our results may also be driven by a difference in GDP per capita between the acquirer's and the target's countries. That is, if acquirers with strong employee relations are firms from high GDP per capita countries that acquire targets in low GDP per capita countries, it could be that it is such difference in economic development that drives the negative CARs around cross-border deals. We therefore interact Employment Quality with the difference between the two countries' GDP per capita (in logarithm) (Model (4)). Fourth, the level of employee-engagement may be driven by the difference between the cultures of the target's and the acquirer's countries that are unrelated to labor issues (Ahern, Daminelli, and Fracassi, 2015). Hence, in Models (5) and (6), we interact the Employment Quality score with two World Value Survey variables capturing the difference between the acquirer's and target's countries in terms of people's attitudes towards work.[16] We consider the percentage of people considering "*Responsibility Is Important*" and "*Job Security Is Important*." The latter dimension is an important test, as we found that our results are almost exclusively driven by monetary incentives. Therefore, we should not expect to find that the relative importance of job security incentives induces labor-related frictions when acquiring a foreign target. As expected, we find that none of the above mentioned interactions have significant coefficients.

IV.4. Frictions or Over-engagement?

What remains unclear is whether the negative effect when acquiring a foreign target is the result of labor-related frictions specific to cross-border deals, or whether it results from simply over-engaging in providing employee welfare which could be too costly and thus reduces firm value. The descriptive statistics in Panel A of Table 2 indicate that these two effects may coincide, and we need to disentangle them to further pin down the exact mechanism. Therefore, we consider an indicator for whether the acquirer's *Employment Quality* score is above the score of 50 (larger than the industry

[16] Interacting with the widely-used Hofstede cultural variables gives similar insignificant results (results not reported).

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average, which we consider as "over-engagement" in employee relations), but we investigate its effect on the subsample of *domestic deals only*. If the over-engagement story holds, we expect a significant and negative coefficient of the "*High Employment Quality*" dummy in this subsample of domestic deals. The positive coefficient in Model (7) refutes this, and suggests that the negative effect of employee quality in cross-border deals does not arise from the acquirer over-engaging in employee relations in general.

[Insert Table 10 about here]

IV.5. Instrumental Variable Approach

In earlier specifications, we have shown that our results are not likely to be driven by time-invariant underlying characteristics of firms that acquire domestically or internationally (see Model (6) in Panel B of Table 3). In addition, it seems unlikely that acquirers adjust their level of employee quality because they may do a takeover bid in the next year. To reduce a potential omitted variable bias, we included industry, year, region by region, country by country, and acquirer firm fixed effects, along with a large number of control variables in our specifications. However, to further account for potential endogeneity issues from unobservable omitted variables, we perform a two-stage instrumental variable (IV) regression as a robustness test. Specifically, we use the acquirer's industry peers' average employee wages and benefits as an IV for *Employment Quality*. Whereas a firm's expenses in terms of wages and benefits are influenced by the wage expenses by its industry peers (satisfying the relevance requirement of instrumental variables), it is unlikely that these expenses by industry peers affect the firm's announcement returns directly or through channels other than the focal firm's employment policies, thus satisfying the exclusion condition.[17] Similar arguments on peer effects are made for other corporate policies such as capital structure (Leary and Roberts, 2014), corporate financial policies (Ferrell, Liang, and Renneboog, 2016), corporate social responsibility

[17] One potential concern is that the firm's employment quality and its peer firms' wages and benefits expenses are affected by transitory political or economic situations (e.g. Brexit). However, as our employment quality score is adjusted for the firm's global industry peers rather than its national peers, such local events should not affect our identification in a meaningful way.

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(Cao, Liang, and Zhan, 2016; Liang and Renneboog, 2016), and corporate culture (Fiordelisi, Li, Stentella-Lopes, and Ricci, 2016). We take the within-sample mean of the lagged employee salaries and benefits expenses (as obtained from Worldscope) for the focal company's peer firms by industry and by year (industry-year average) as the IV. The results for the first- and second-stage regressions are presented in Appendix E. We find that the industry peers' average wage expenses are strongly positively related to *Employment Quality* and that using an IV approach does not affect our conclusions from Table 3: higher levels of employment quality (as predicted in the first stage) is positively related to CARs in domestic deals, and the effect again reverses in cross-border deals. This increases our confidence that the effects on shareholder value we have identified are indeed driven by the acquirer's level of employee-engagement.

IV.6. Other Robustness Tests

We further conduct a few other sample-specific robustness tests. First, based on our sample distributions, one could argue that our results may be driven by US acquirers, as they make up 27% of our sample (Appendix C). In Appendix F, we repeat our results for a sample excluding US acquirers. We find that our results remain qualitatively unchanged, suggesting that we are identifying a global phenomenon. Similarly, our results may be driven a small subsample of serial acquiring firms that have radically different strategies for acquiring domestic versus foreign targets. Excluding serial acquiring firms also does not affect our results, however. Next, we investigate whether our results may be driven by a demand-side story in which employees demand for stronger monetary compensation with the threat that they may otherwise leave the firm. Although such an explanation is hard to reconcile with our earlier evidence, we test this by comparing subsamples of deals involving targets from OECD targets versus those from non-OECD targets. The costs of rewarding employees from targets in developing countries with strong monetary incentives may outweigh the benefits, as these employees are unlikely to have many outside options. They are thus unlikely to threaten to leave the firm if their demands are not met, such that the costs of providing strong incentives do not outweigh the benefits of retaining employees. We find that such an effect does not

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drive our results, as all our results appear in the sample consisting of OECD targets and not in the sample consisting of non-OECD targets. Last, we investigate a different dimension of the demand-side story, by interacting employment quality with a proxy for the firm's reputation. We construct an indicator for whether the firm won an employee award as such firms likely have better reputations. In these firms, employees may not threaten to leave if their demands are not met as firm reputation acts as an incentive by itself. However, we find no significant effects, indicating that our results are more likely to be driven by a supply-side argument rather than a demand-side argument.

We also examine whether a firm's level of employee-engagement drives the returns around domestic and cross-border M&A deals through its effect on increasing/reducing the likelihood of engaging in a domestic versus a cross-border M&A. We use a Heckman selection model to estimate the relation between the firm's employment quality and the likelihood of the firm embarking on a domestic versus a cross-border takeover transaction, conditional on the firm having decided on performing an M&A transaction. Gao and Ma (2016) and Ouimet and Zarutskie (2016) find that labor regulation is strongly related to takeover propensity. Our results, based on *firm-level* data (which go beyond the country-level regulations), show that a firm's employment quality is positively related to engaging in M&A deals (in the first stage), but that the magnitudes are economically very small. In addition, the firm's employee quality is not significantly related to the choice between domestic and cross-border deals (2nd stage regressions; tables available upon request). This implies that a firm's engagement towards its employees (over and beyond a country's labor regulations) is not likely to be a significant driver of management's decision to engage in domestic or cross-border M&A deals, but it does affect the value creation in these deals.

V. Conclusion

Despite the plethora of studies on how cross-border takeovers differ from domestic ones, a possible explanation based on human capital and employee-engagement is largely under-explored. In this paper, we have provided novel evidence on how human capital *at the firm-level* matters in M&As by

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investigating the role of an acquiring firm's engagement in employee welfare on the returns to shareholders around M&A announcements for a sample of large public corporations around the world. We find that acquirers engaging in cross-border deals have on average more generous employment policies at the firm level, and their deals also earn higher announcement returns compared to domestic acquirers. Acquirers with a higher degree of employment quality (especially in terms of monetary compensation) earn substantially higher returns around domestic M&A announcements, but this effect is reversed in cross-border acquisitions. We attribute this reversal effect in cross-border deals to labor-related frictions. The underlying idea is that the acquiring firm cannot easily change the explicit and implicit contracts (such as compensation contracts and policies, or tacit agreements with labor unions) in the foreign target firm, so as to align acquirer's and target's employment policies and to properly incentivize employees in both firms and unleash their combined human capital. We do not find consistent evidence that (differences in) country-level labor regulations, economic development, and culture, geographical distance between target and acquirer, or their main languages drive our results. Furthermore, our main findings stem from the employee-engagement of the acquirer rather than of the target.

Our study adds to the literature on the determinants of value creation in cross-border acquisitions. By acquiring a foreign target, firms can take advantage of cross-country differences in legal environment and investor protection (Rossi and Volpin (2004), Bris and Cabolis (2008)), product markets (DeGiovanni, 2005), financial development (Alquist et al., 2014), and tax rules (Huizinga and Voget, 2009). However, such differences also induce additional complexity and uncertainties (Aguilera and Dencker, 2004) arising from cultural and organizational differences that affect post-merger coordination and the realization of merger synergies (Siegel, Licht, and Schwartz (2012), Ahern et al. (2015)). This paper provides evidence for a new source of frictions arising in cross-border acquisitions, namely those related to the transfer and integration of employee policies across national borders.

Our study is also related to the growing literature on human capital in M&As. While some recent studies look at labor relations in the context of corporate restructuring and takeovers

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(Atanassov and Kim, 2009; Masulis et al., 2016; John, Knyazeva, and Knyazava, 2015; Dessaint et al., 2016; Levine et al., 2015; Kim et al., 2015; Lin, Schmid, and Xuan, 2017; Ahmad and Lambert, 2016),, rather than at the firm-level. In addition, a large fraction of studies investigates these issues in a single-country setting, generally based on the US framework (Pagano and Volpin (2005), Cronqvist et al (2009), Edmans (2011, 2012), Edmans, Li, and Zhang 2015), Masulis et al (2016)). Instead, this paper is the first to provide global evidence on firm-level investment in employee relations and how labor-related frictions in cross-border M&A deals affect the link between employee-engagement and deal performance.

Taken together, our findings may provide an explanation for the marked differences in deal performance between domestic and cross-border takeovers, as well as for the conflicting findings in the existing literature on the role of labor orientation in driving firm and shareholder value. Perhaps the most intuitive implication of our results is that firms and shareholders should not consider generous employee benefits as being absolutely good or bad for firm value in the context of an acquisition. A trade-off exists between value-enhancing incentive effects and the labor-related frictions brought about by cross-border deals. Overall, our findings reinforce the notion that employees play a fundamental yet nuanced role in a corporation, and highlight the importance of taking into account such nuances when studying M&As and the interplay between finance and labor, which remain a fruitful area for future research.

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Table 1. Descriptive Statistics - Acquirer

This table shows summary statistics for the variables used in our study for domestic and cross-border deals. Panel A shows descriptive statistics for the acquiring firms' labor orientation measure. Panel B shows a set of deal-level variables, including the acquirer's announcement returns. Panel C shows firm-level variables and Panels D and E show country-level labor regulation indices for the acquirer's and target's country, respectively. Continuous variables are winsorized at the 1st and 99th percentiles.

Variables	N	Mean	Median	St. Dev.	Min.	Max.	N	Mean	Median	St. Dev.	Min.	Max.	*Difference*
	Domestic Deals						**Cross-Border Deals**						
Panel A: Labor Orientation Variables (Acquirer)													
Workforce Diversity Score	2,550	49.81	45.61	31.40	4.830	98.67	2,015	56.66	57.80	30.94	6.11	98.79	*-6.84****
Employment Quality Score	2,550	49.31	47.92	29.91	2.950	98.45	2,015	58.64	64.75	30.40	2.88	98.57	*-9.34****
Health and Safety Score	2,550	45.50	38.62	29.60	2.800	99.44	2,015	58.09	58.22	30.27	3	99.49	*-12.59****
Training and Development Score	2,550	47.97	45.29	31.25	5.160	97.40	2,015	61.66	72.34	29.49	5.16	97.39	*-13.69****
Bonus Plan (Dummy)	2,550	0.386	0	0.486	0	1	2,015	0.478	0	0.499	0	1	*-0.09****
Fringe Benefits (Dummy)	2,550	0.436	0	0.495	0	1	2,015	0.442	0	0.496	0	1	*-0.006*
Wage Ratio Empl./CEO	2,550	0.337	0.315	1.552	0.001	11.25	2,015	0.369	0.001	1.631	0.001	10.96	*-0.03*
Net Employment Creation	2,550	0.035	0	0.339	-0.79	8.06	2,015	0.023	0	0.599	-0.65	25.61	*0.01*
Trade Union Relations Policy	2,550	0.176	0	0.381	0	1	2,015	0.316	0	0.465	0	1	*-0.14****
Job Security Policy	2,550	0.060	0	0.238	0	1	2,015	0.110	0	0.313	0	1	*-0.05****
Panel B: Deal-level Variables													
Acquirer CARs	2,550	-0.246	-0.219	4.275	-12.13	13.42	2,015	0.159	0.028	4.027	-12.13	13.42	*-0.41****
Public Target	2,550	0.193	0	0.395	0	1	2,015	0.147	0	0.354	0	1	*0.07****
Diversifying Deal	2,550	0.485	0	0.500	0	1	2,015	0.398	0	0.490	0	1	*0.09*
Hostile Deal	2,550	0.009	0	0.0946	0	1	2,015	0.012	0	0.111	0	1	*-0.003*
All-Cash Financing Deal	2,550	0.411	0	0.492	0	1	2,015	0.369	0	0.483	0	1	*0.04****
Multiple Bidders	2,550	0.033	0	0.177	0	1	2,015	0.041	0	0.199	0	1	*-0.01*
Toehold Stake	2,550	0.154	0	0.361	0	1	2,015	0.106	0	0.308	0	1	*0.05****
Relative Deal Size	2,550	0.169	0.032	0.007	0	3.28	2,015	0.159	0.021	0.604	0	20.07	*0.01*
Panel C: Firm-level Variables													
Acquirer Leverage	2,550	0.443	0.406	0.257	-0.005	1.000	2,015	0.429	0.388	0.253	0.001	1.000	*0.01**
Acquirer ROA	2,550	0.110	0.0986	0.105	-0.972	2.209	2,015	0.127	0.118	0.093	-0.60	0.645	*-0.02****
Serial Acquirer	2,550	0.217	0	0.412	0	1	2,015	0.300	0	0.458	0	1	*-0.08****
Acquirer Size (USD Mil)	2,550	38,906	6,925	123,507	249.9	1,107,776	2,015	65,855	8,733	186,560	249.9	1,107,776	*-35,010****
Panel D: Country-level Variables (Acquirer)													
Employment Laws Index	2,550	0.318	0.218	0.180	0.161	0.828	2,015	0.411	0.282	0.216	0.161	0.828	*-0.09****
Collective Relations Laws Index	2,550	0.382	0.259	0.174	0.188	0.711	2,015	0.410	0.384	0.178	0.188	0.711	*-0.03****
Social Security Laws Index	2,550	0.678	0.646	0.0868	0.177	0.873	2,015	0.702	0.692	0.092	0.177	0.873	*-0.02****
Civil Rights Index	2,550	0.685	0.733	0.0997	0.233	0.850	2,015	0.660	0.733	0.119	0.233	0.850	*0.02****
Panel E: Country-level Variables (Target) – Cross-Border Only													
Employment Laws Index							2,015	0.437	0.403	0.201	0.148	0.828	
Collective Relations Laws Index							2,015	0.400	0.378	0.155	0.188	0.711	
Social Security Laws Index							2,015	0.679	0.692	0.135	0.105	0.873	
Civil Rights Index							2,015	0.667	0.733	0.125	0.233	0.933	

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Table 2. Descriptive Statistics – Target

This table shows summary statistics for the variables used in our study for domestic and cross-border deals. Panel A shows descriptive statistics for the target firms' labor orientation measure. Panel B shows a set of deal-level variables, including the target's announcement returns. Panel C shows firm-level variables and Panel D shows country-level labor regulation indices target's country. Continuous variables are winsorized at the 1st and 99th percentiles.

Variables	N	Mean	Median	St. Dev.	Min.	Max.	N	Mean	Median	St. Dev.	Min.	Max.	*Difference*
	Domestic Deals						**Cross-Border Deals**						
Panel A: Labor Orientation Variables (Acquirer)													
Workforce Diversity Score	202	52.98	50.00	30.17	8.260	97.35	160	58.63	58.43	28.12	10.21	97.94	*-5.65**
Employment Quality Score	202	54.42	59.34	29.83	3.520	97.78	160	62.36	70.76	28.79	3.330	97.81	*-7.94***
Health and Safety Score	202	48.89	44.13	28.87	10.23	98.99	160	59.65	59.77	28.60	10.57	98.84	*-10.75****
Training and Development Score	202	55.01	63.28	30.98	5.200	96.58	160	60.28	73.57	30.45	5.190	96.45	*-5.27*
Panel B: Deal-level Variables													
Target CARs	202	6.307	3.185	12.02	-41.00	53.12	160	7.386	2.491	12.54	-12.48	55.21	*-1.08*
Weighted CARs	202	1.321	0.524	4.014	-5.140	12.15	160	1.166	0.541	3.729	-5.140	12.15	*0.15*
Panel C: Firm-level Variables													
Target ROA	202	0.301	0.0998	1.533	-6.680	10.63	160	0.299	0.110	1.426	-2.540	12.23	*0.002*
Relative Deal Size	202	0.699	0.553	0.604	0.00237	3.278	160	0.461	0.301	0.604	0.001	4.930	*0.24****
Target Size (USD Mil)	202	29,567	6,985	60,273	48.10	289,603	160	25,006	5,661	57,277	89.30	289,603	*4,561*
Panel D: Country-level Variables (Target)													
Employment Laws Index	202	0.324	0.218	0.182	0.164	0.809	160	0.394	0.282	0.200	0.164	0.828	*-0.07****
Collective Relations Laws Index	202	0.343	0.259	0.161	0.188	0.667	160	0.349	0.259	0.159	0.188	0.667	*-0.006*
Social Security Laws Index	202	0.678	0.646	0.0677	0.400	0.873	160	0.704	0.692	0.0741	0.400	0.873	*-0.03****
Civil Rights Index	202	0.685	0.733	0.0918	0.461	0.807	160	0.654	0.692	0.109	0.500	0.850	*0.03****

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Table 3. Employee Quality and Announcement CARs

This table shows regression results where the dependent variable is the acquirer's three-day CAR around an M&A announcement for subsamples of domestic and cross-border deals (Panel A), or for the combined sample (Panel B). The main independent variable is the acquirer's pre-merger employee quality score in terms of job security and monetary benefits (0-100), interacted with a cross-border deal dummy in Panel B. All specifications include a set of deal- (dummies for serial acquirers, toeholds, multiple bidders, all-cash financed deals, hostile deals, diversifying deals, and public targets, and the relative deal size), firm- (acquirer ROA, size, and leverage), and acquirer and target country-level (labor protection indices as in Botero et al. (2004)) control variables or acquirer and target country fixed effects. In addition, each specification includes year, acquirer industry, target industry fixed effects, along with acquirer country by target country fixed effects (Panel A, Model 5), acquirer region by target region fixed effects (Panel A, Model 6, and Panel B, Model 4), or acquirer firm fixed effects (Panel B, Models 5 and 6). Model 5 in Panel B includes the full sample of acquirers; Model 6 in Panel B only includes acquirers that engage in both domestic and cross-border deals. Robust standard errors are reported in parentheses. *, ** and *** stand for statistical significance at the 10%, 5%, and 1%, respectively.

Panel A: Subsamples	Domestic			Cross-Border		
Dep.Var.: Acquirer CAR [-1,+1]	(1)	(2)	(3)	(4)	(5)	(6)
Acquirer Employment Quality$_{t-1}$	0.008**	0.007**	-0.009**	-0.010***	-0.009*	-0.008**
	(0.003)	(0.003)	(0.003)	(0.004)	(0.004)	(0.005)
Observations	2,550	2,550	2,015	2,015	2,015	2,015
Adj. R-squared	0.075	0.086	0.058	0.110	0.103	0.314
Firm and Deal Level Controls	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer and Target Country Level Controls	Yes	No	Yes	No	No	No
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer and Target Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer and Target Country FE	No	Yes	No	Yes	No	No
Acquirer Region x Target Region FE	No	No	No	No	Yes	No
Acquirer Country x Target Country FE	No	No	No	No	No	Yes
Panel B: Full Sample						
Dep.Var.: Acquirer CAR [-1,+1]	(1)	(2)	(3)	(4)	(5)	(6)
Acquirer Employment Quality$_{t-1}$	0.007**	0.005*	0.007**	0.007**	0.012**	0.001
	(0.003)	(0.003)	(0.003)	(0.003)	(0.005)	(0.006)
Acquirer Employment Quality$_{t-1}$ × Cross-Border	-0.013***	-0.013***	-0.014***	-0.015***	-0.014**	-0.014**
	(0.004)	(0.004)	(0.004)	(0.004)	(0.006)	(0.007)
Cross-Border	1.178***	1.231***	1.184***	1.158***	1.129**	1.083**
	(0.294)	(0.312)	(0.303)	(0.278)	(0.446)	(0.472)
Observations	4,565	4,565	4,565	4,565	4,565	2,363
Adj. R-squared	0.037	0.042	0.027	0.050	0.054	0.078
Firm and Deal Level Controls	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer and Target Country Level Controls	Yes	No	No	No	No	No
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer and Target Industry FE	Yes	Yes	Yes	Yes	No	No
Acquirer Country FE	No	Yes	Yes	Yes	No	No
Target Country FE	No	Yes	Yes	Yes	Yes	Yes
Acquirer and Target Region FE	No	No	Yes	No	No	No
Acquirer Region x Target Region FE	No	No	No	Yes	No	No
Acquirer Firm FE	No	No	No	No	Yes	Yes

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Table 4. Unbundling Employee Incentives

This table shows regression results where the dependent variable is the acquirer's three-day CAR around domestic and cross-border deal announcements. The main independent variables are the acquirer's pre-merger employee quality dimensions in terms of monetary incentives (Panel A), and job security factors (Panel B), interacted with a cross-border deal dummy. Monetary incentives consist of a bonus plan (Model 1a), fringe benefits (Model 2a), and the wage ratio of an average worker and the CEO (Model 3a). Job security factors consist of an indicator for having a trade union relations policy in place (Model 1b), net employment creation, measured as employment growth in the previous year (Model 2b), and a dummy for whether the firm has a job security policy (Model 3b). Each specification includes a set of deal- (relative deal size, and dummies for serial acquirers, toeholds, multiple bidders, all-cash financed deals, hostile deals, diversifying deals, and public targets), firm- (acquirer ROA, size, and leverage), and country-level (acquirer country labor protection indices as in Botero et al. (2004)) control variables. Each specification includes year, acquirer industry, target industry, and acquirer by target region fixed effects fixed effects. Robust standard errors are reported in parentheses. *, ** and *** stand for statistical significance at the 10%, 5%, and 1%, respectively.

Dependent Variable: Acquirer CAR [-1,+1]	***Panel A: Monetary Incentives***		
	(1a)	(2a)	(3a)
Cross-Border	0.628***	0.662***	0.315*
	(0.255)	(0.235)	(0.193)
Acquirer Bonus Plan Dummy t-1	0.389***		
	(0.148)		
Acquirer Bonus Plan Dummy t-1 × Cross-Border	-0.591***		
	(0.227)		
Acquirer Fringe Benefits Dummy t-1		0.470***	
		(0.163)	
Acquirer Fringe Benefits Dummy t-1 × Cross-Border		-0.673***	
		(0.232)	
Acquirer Wage Ratio Employees/CEO t-1			0.130***
			(0.032)
Acquirer Wage Ratio Employees/CEO t-1 × Cross-Border			-0.109***
			(0.041)
Observations	4,565	4,565	4,565
Adj. R-squared	0.068	0.068	0.057
Deal-, Firm-, and Country-Level Controls	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Acquirer and Target Industry FE	Yes	Yes	Yes
Acquirer Region x Target Region FE	Yes	Yes	Yes
Dependent Variable: Acquirer CAR [-1,+1]	***Panel B: Job Security Factors***		
	(1b)	(2b)	(3b)
Cross-Border	0.303	0.341*	0.388*
	(0.201)	(0.201)	(0.210)
Acquirer Trade Union Relations Policy t-1	-0.292		
	(0.221)		
Acquirer Trade Union Relations Policy t-1 × Cross-Border	0.194		
	(0.273)		
Acquirer Net Employment Creation t-1		0.027	
		(0.102)	
Acquirer Net Employment Creation t-1 × Cross-Border		0.051	
		(0.154)	
Acquirer Job Security Policy t-1			-0.128
			(0.335)
Acquirer Job Security Policy t-1 × Cross-Border			-0.385
			(0.432)
Observations	4,565	4,565	4,565
Adj. R-squared	0.067	0.067	0.067
Deal-, Firm-, and Country-Level Controls	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Acquirer and Target Industry FE	Yes	Yes	Yes
Acquirer Region x Target Region FE	Yes	Yes	Yes

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Table 5. Acquirer Employment Quality: Channels (Cross-Border Deals)

This table shows regression results where the dependent variable is the acquirer's three-day CAR around cross-border deal announcements. The main independent variables are a dummy for whether the acquirer does a repeat acquisition in a particular country (Model 1), a dummy indicating whether the target country's population considers "good pay" more important in a job than the acquirer's country (Model 2), a dummy indicating whether the target country's population considers "saving money" a more important child quality than the acquirer's country (Model 3), a dummy indicating whether the target country has a main executive party that is not considered "nationalist"(Model 4), a dummy indicating whether the target's and the acquirer's country's population have low confidence in unions (union strength) (Model 5), or a dummy indicating low-tech deals (both the acquirer and target are in low-tech industries) (Model 6), all interacted with employment quality. Each specification includes a set of deal- (dummies for serial acquirers, toeholds, multiple bidders, all-cash financed deals, hostile deals, and public targets), firm- (acquirer ROA, size, and leverage), and country-level (acquirer and target country labor protection indices as in Botero et al. (2004)) control variables. Each specification includes year, acquirer industry, target industry, and acquirer by target region fixed effects fixed effects. Robust standard errors are reported in parentheses. *, ** and *** stand for statistical significance at the 10%, 5%, and 1%, respectively.

Dependent Variable: Acquirer CAR [-1,+1]	(1) Repeat Acquirer	(2) Importance of Good Pay	(3) Importance of Savings	(4) Economic Nationalism	(5) Confidence in Unions	(6) Low-Tech Deal
Acquirer Employment Quality t-1	-0.011***	-0.010***	-0.027***	-0.039**	-0.010***	-0.016***
	(0.003)	(0.003)	(0.009)	(0.017)	(0.003)	(0.005)
Acquirer Employment Quality t-1 × Repeat Acquisition	0.017**					
	(0.006)					
Acquirer Employment Quality t-1 × (Target Country > Acq. Country "Good Pay is Important")		0.027**				
		(0.011)				
Acquirer Employment Quality t-1 × (Target Country > Acq. Country "Saving Money is Important")			0.020**			
			(0.009)			
Acquirer Employment Quality t-1 × (Absence of Economic Nationalism in Target Country)				0.031*		
				(0.017)		
Acquirer Employment Quality t-1 × (Acquirer and Target Country Low Union Strength)					0.016**	
					(0.008)	
Acquirer Employment Quality t-1 × Low-Tech Deal						0.012**
						(0.006)
Repeat Acquisition	-0.678					
	(0.552)					
Target Country > Acq. Country "Good Pay is Important"		-2.926***				
		(0.944)				
Target Country > Acq. Country "Saving Money is Important"			-0.121			
			(0.739)			
Absence of Economic Nationalism in Target Country				-0.837		
				(0.766)		
Acquirer and Target Country Low Union Strength					-1.277**	
					(0.608)	
Low-Tech Deal						-0.683*
						(0.349)
Observations	2,015	2,015	2,015	2,015	2,015	2,015
Adj. R-squared	0.104	0.098	0.098	0.102	0.106	0.102
Deal-, Firm-, and Country-Level Controls	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer and Target Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer Region by Target Region FE	Yes	Yes	Yes	Yes	Yes	Yes

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Table 6. Long-Run Operating Performance

This table shows regression results where the dependent variables are the acquirer's average 2-year post-merger industry-adjusted ROA (defined as net income/assets) (Model 1), the acquirer's 2-year post-merger industry-adjusted ROS (return on sales) (Model 2), or the acquirer's Sales-to-Employees ratio (Model 3) following domestic and cross-border deal announcements. The independent variables are the acquirer's pre-merger employment quality score and the acquirer's pre-merger industry-adjusted ROA (Model 1), ROS (Model 2), or the combined industry-adjusted Sales-to-Employees ratio (Model 3). Each specification includes a set of deal- (relative deal size, dummies for serial acquirers, toeholds, multiple bidders, all-cash financed deals, hostile deals, diversifying deals, and public targets), firm- (acquirer ROA and leverage), and country-level (index for acquirer and target country labor regulations as in Botero et al. (2004)) control variables. Robust standard errors are reported in parentheses. *, ** and *** stand for statistical significance at the 10%, 5%, and 1%, respectively.

Dependent variable:	(1) *2-Year Post-Merger Acquirer ROA*	(2) *2-Year Post-Merger Acquirer ROS*	*(3)* *2-Year Post-Merger Acquirer Sales/Employee*
Acquirer Employment Quality	0.014*	0.002	0.012
	(0.008)	(0.001)	(0.010)
Cross-Border	1.736**	0.385	1.150*
	(0.796)	(0.270)	(0.666)
Acquirer Employment Quality x Cross-Border	-0.024**	-0.004*	-0.020**
	(0.012)	(0.002)	(0.009)
Pre-Merger Acquirer ROA (industry-adjusted)	0.069***		
	(0.025)		
Pre-Merger Acquirer ROS (industry-adjusted)		0.526**	
		(0.259)	
Pre-Merger Combined Sales/Employees Ratio (industry-adjusted)			1.224***
			(0.200)
Deal-, Firm-, and Country-Level Controls	Yes	Yes	Yes
Observations	1,113	2,478	85
Adj. R-squared	0.094	0.010	0.809

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Table 7. Aligning the Target's Employee-Engagement with Acquirer's Employee-Engagement

This table shows regression results where the dependent variable is the acquirer's three-day CAR around an M&A announcement. The independent variables are dummies for combinations of above- and below-median target and acquirer employee relations in terms of employment quality. All specifications include a set of deal- (dummies for serial acquirers, toeholds, multiple bidders, all-cash financed deals, hostile deals, diversifying deals, and relative deal size), firm- (acquirer ROA, size, and leverage, and target ROA), and acquirer and target country-level (labor protection indices as in Botero et al. (2004)) control variables. Each specification includes year, acquirer industry, and target industry fixed effects.

Dependent Variable: Acquirer CAR [-1,+1]	(1)	(2)	(3)	(4)
Cross-Border	-1.369*	-0.544	-0.126	1.041
	(0.793)	(0.495)	(0.615)	(1.006)
Low Acq. Employment Quality, High Target	-1.377			-0.474
Employment Quality	(0.846)			(0.788)
Low Acq. Employment Quality, High Target	1.876			-0.472
Employment Quality × Cross-Border	(1.437)			(1.584)
High Acq. Employment Quality, Low Target		0.198		0.667
Employment Quality		(0.703)		(0.744)
High Acq. Employment Quality, Low Target		-1.651*		-3.205***
Employment Quality × Cross-Border		(0.925)		(1.043)
High Acq. Employment Quality, High Target			2.318**	2.286*
Employment Quality			(1.062)	(1.203)
High Acq. Employment Quality, High Target			-2.691**	-3.982***
Employment Quality × Cross-Border			(1.065)	(1.278)
Observations	362	362	362	362
Adj. R-squared	0.161	0.159	0.171	0.186
Deal, Firm, and Country Controls	Yes	Yes	Yes	Yes
Acquirer Industry, Target Industry, and Year FE	Yes	Yes	Yes	Yes

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Table 8. Dimensions of Employee-Engagement, Placebo Tests

This table shows regression results where the dependent variable is the acquirer's three-day CAR around an M&A announcement. The independent variables are the acquirer's pre-merger employee relations scores in terms of (a combination of (Model (5)) employment quality (Model (1)), health and safety (Model (2)), workforce diversity (Model (3)), and training and development (Model (4)). All specifications include a set of deal- (dummies for serial acquirers, toeholds, multiple bidders, all-cash financed deals, hostile deals, diversifying deals, and public targets, and the relative deal size), firm- (acquirer ROA, size, and leverage), and acquirer and target country-level (labor protection indices as in Botero et al. (2004)) control variables. Each specification includes year, acquirer industry, target industry, and acquirer by target region fixed effects fixed effects. Robust standard errors are reported in parentheses. *, ** and *** stand for statistical significance at the 10%, 5%, and 1%, respectively.

Dependent Variable: Acquirer CAR [-1,+1]	(1)	(2)	(3)	(4)	(5)
Cross-Border	1.158***	0.587*	0.658*	0.537	1.086***
	(0.278)	(0.321)	(0.360)	(0.388)	(0.401)
Acquirer Employment Quality$_{t-1}$	0.007**				0.008*
	(0.003)				(0.004)
Acquirer Employment Quality$_{t-1}$ × Cross-Border	-0.015***				-0.017***
	(0.004)				(0.006)
Acquirer Health & Safety$_{t-1}$		0.001			-0.002
		(0.002)			(0.003)
Acquirer Health & Safety$_{t-1}$× Cross-Border		-0.001			-0.001
		(0.004)			(0.004)
Acquirer Workforce Diversity$_{-1}$			0.004		0.004
			(0.003)		(0.004)
Acquirer Workforce Diversity$_{-1}$× Cross-Border			-0.006		-0.003
			(0.005)		(0.005)
Acquirer Training & Development$_{t-1}$				0.0004	-0.005
				(0.003)	(0.004)
Acquirer Training & Development$_{t-1}$× Cross-Border				-0.004	0.007
				(0.005)	(0.005)
Observations	4,565	4,565	4,565	4,565	4,565
Adj. R-squared	0.050	0.048	0.048	0.048	0.051
Acquirer and Target Country Level Controls	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
Acquirer and Target Industry FE	Yes	Yes	Yes	Yes	Yes
Acquirer Region x Target Region FE	Yes	Yes	Yes	Yes	Yes

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Table 9. Difference of Labor Regulations between Acquirer and Target Countries in Cross-Border Deals

This table shows regression results where the dependent variable is the acquirer's three-day CAR around cross-border deal announcements. The independent variables in are the acquirer's pre-merger employee relations in terms of employment quality, and the difference between the acquirer and target country's employment laws index (model 1), collective relations laws index (model 2), social security laws index (model 3), civil rights index (model 4), and their interactions with employment quality. Each specification includes a set of deal- (relative deal size, dummies for serial acquirers, toeholds, multiple bidders, all-cash financed deals, hostile deals, diversifying deals, and public targets), firm- (acquirer ROA and leverage), and country-level (acquirer country labor protection indices as in Botero et al. (2004)) control variables. Each specification includes year, acquirer industry, target industry, and acquirer by target region fixed effects fixed effects. Robust standard errors are reported in parentheses. *, ** and *** stand for statistical significance at the 10%, 5%, and 1%, respectively.

Dependent Variable: Acquirer CAR [-1,+1]	(1)	(2)	(3)	(4)	(5)
Acquirer Employment Quality	-0.010**	-0.010**	-0.010***	-0.010***	-0.011***
	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
Difference Acquirer-Target Employment Laws Indices	-0.494				-0.818
	(1.084)				(1.201)
Acquirer Employment Quality × Difference Acquirer-Target Employment Laws Indices	0.007				0.011
	(0.013)				(0.016)
Target Country Collective Relations Laws Index		-0.548			-0.147
		(1.181)			(1.310)
Acquirer Employment Quality × Difference Acquirer-Target Collective Relations Laws Indices		0.006			-0.002
		(0.015)			(0.018)
Target Country Social Security Laws Index			2.162		2.495
			(1.712)		(1.703)
Acquirer Employment Quality × Difference Acquirer-Target Social Security Laws Indices			-0.020		-0.025
			(0.024)		(0.025)
Target Country Civil Rights Index				-0.899	-0.906
				(1.680)	(1.686)
Acquirer Employment Quality × Difference Acquirer-Target Civil Rights Indices				0.015	0.016
				(0.023)	(0.023)
Observations	2,015	2,015	2,015	2,015	2,015
Adj. R-squared	0.131	0.131	0.132	0.131	0.132
Deal and Firm Controls	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
Acquirer and Target Industry FE	Yes	Yes	Yes	Yes	Yes
Acquirer Region x Target Region FE	Yes	Yes	Yes	Yes	Yes

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Table 10. Testing Alternative Explanations for the Attenuating Effect in Cross-Border Deals

This table shows regression results where the dependent variable is the acquirer's three-day CAR around cross-border (Models 1-6) or cross-border and domestic (Model 7) deal announcements. The main independent variables are a dummy for whether the distance between the target's and acquirer's country is higher than the sample median (Model 1), whether the target's and acquirer's countries have a common language (Model 2) or a border (Model 3), the difference in log(GDP/Capita) between the target's and acquirer's country (Model 4), the difference in the percentage of the target's and acquirer's country's population that considers "responsibility" important (Model 5), a dummy indicating whether the target's country's population considers "job security" more important in a job than the acquirer's country's population (Model 6), all interacted with employment quality. Model 7 reports the result of regressing acquirer CAR on a dummy variable indicating that the acquirer has high employment quality (defined as the Employment Quality score above 50) and without any interaction on the subsample of domestic deals only. Each specification includes a set of deal- (dummies for serial acquirers, toeholds, multiple bidders, all-cash financed deals, hostile deals, relative deal size, and public targets), firm- (acquirer ROA, size, and leverage), and country-level (acquirer and target country labor protection indices as in Botero et al. (2004)) control variables. Each specification includes year, acquirer industry, target industry, and acquirer by target region fixed effects fixed effects. Robust standard errors are reported in parentheses. *, ** and *** stand for statistical significance at the 10%, 5%, and 1%, respectively.

Dependent Variable: Acquirer CAR [-1,+1]	(1) *Cross-Border*	(2) *Cross-Border*	(3) *Cross-Border*	(4) *Cross-Border*	(5) *Cross-Border*	(6) *Cross-Border*	(7) *Domestic*
Acquirer Employment Quality t-1	-0.008	-0.011***	-0.009***	-0.010***	-0.012**	-0.009***	
	(0.005)	(0.004)	(0.003)	(0.003)	(0.006)	(0.003)	
Distance > Median	-0.482						
	(0.611)						
Acquirer Employment Quality t-1 × (Distance > Median)	-0.001						
	(0.007)						
Target and Acquirer Country Share Common Language		-0.232					
		(0.633)					
Acquirer Employment Quality t-1 × (Target and Acquirer Country Share Common Language)		0.007					
		(0.008)					
Target and Acquirer Country Share Border			0.767				
			(0.782)				
Acquirer Employment Quality t-1 × (Target and Acquirer Country Share Border)			0.004				
			(0.009)				
Difference in log(GDP/Capita)				0.232			
				(0.258)			
Acquirer Employment Quality t-1 × (Difference in log(GDP/Capita))				-0.002			
				(0.003)			
Target > Acquirer Country "Responsibility is Important"					-0.034*		
					(0.019)		
Acquirer Employment Quality t-1 × (Target > Acquirer Country "Responsibility is Important")					0.001		
					(0.002)		
Target > Acquirer Country "Job Security is Important"						-0.806	
						(1.029)	
Acquirer Employment Quality t-1 × (Target > Acquirer Country "Job Security is Important")						0.009	
						(0.013)	
Acquirer High Employment Quality (Dummy)							0.368**
							(0.187)
Observations	2,015	2,015	2,015	1,735	1,432	2,015	2,550
Adj. R-squared	0.100	0.105	0.108	0.110	0.131	0.105	0.042
Deal-, Firm-, and Country-Level Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer and Target Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer Region x Target Region FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes

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Appendix A. Variable Descriptions

Deal Characteristics	
Cross-Border	A dummy equal to one if the deal is labelled as "Cross-Border" in SDC, and zero otherwise. *Source: SDC Mergers and Acquisitions Database.*
Public Target	A dummy equal to one if the target's public status is "Listed", and zero otherwise. *Source: SDC Mergers and Acquisitions Database.*
Diversifying Deal	A dummy equal to one if the acquirer's 2-digit SIC code is different from the target's 2-digit SIC code, and zero otherwise. *Source: SDC Mergers and Acquisitions Database.*
Hostile Deal	A dummy equal to one if the deal's attitude is labelled as "Hostile" in SDC, and zero otherwise. *Source: SDC Mergers and Acquisitions Database.*
All-Cash Financing	A dummy equal to one if the deal is fully financed in cash, and zero otherwise. *Source: SDC Mergers and Acquisitions Database.*
Multiple Bidders	A dummy equal to one if more than one bidding firm was involved in the deal, and zero otherwise. *Source: SDC Mergers and Acquisitions Database.*
Firm Characteristics	
Toehold	A dummy equal to one if the acquiring firm had a toehold before the acquisition, and zero otherwise. *Source: SDC Mergers and Acquisitions Database.*
Relative Deal Size	Value of the deal, divided by the market value of equity of the acquiring firm. *Source: SDC Mergers and Acquisitions Database.*
Acquirer Size	Log of the acquirer's total assets. *Source: Datastream.*
Acquirer Leverage	Book value of the acquirer's total liabilities, divided by the market value of assets. *Source: Datastream.*
Acquirer ROA	Acquirer's EBITDA, divided by the book value of assets. *Source: Datastream.*
Serial Acquirer	A dummy equal to one if the acquiring firm made more than 10 takeover announcements over the sample period, and zero otherwise.
Country Labor Regulations	
Employment Laws Index	Measures the protection of labor and employment laws, calculated as the average of (i) alternative employment contracts; (ii) cost of increasing hours worked; (iii) cost of firing workers; and (iv) dismissal procedures. *Source: Botero et al. (2004).*
Collective Relations Laws Index	Measures the protection of collective relations laws, calculated as the average of (i) labor union power and (ii) collective disputes. *Source: Botero et al. (2004).*
Social Security Laws Index	Measures social security benefits, based on measures of (i) old age, disability and death benefits; (ii) sickness and health benefits; and (iii) unemployment benefits. *Source: Botero et al. (2004).*
Civil Rights Index	Measures the degree of protection of vulnerable groups against employment discrimination, based on measures of (i) labor discrimination on grounds of race is expressly prohibited by law, (ii) labor discrimination on grounds of gender is expressly prohibited by law, (iii) statutory duration of maternity leave with retention of 100% of earnings, (iv) minimum working age, and (v) mandatory minimum wage. *Source: Botero et al. (2004).*
Employee-Engagement	

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Employment Quality	A score measuring the firm's commitment and effectiveness towards providing high-quality employment benefits and job conditions, such as distributing fair employment benefits, focusing on long-term employment growth and stability, avoiding lay-offs, and maintaining relations with trade unions. The score ranges from 0 to 100, with larger value indicating better employment relations. *Source: Thomson Reuters ASSET4 ESG Database.*
Health and Safety	A score measuring the firm's commitment and effectiveness towards providing a healthy and safe workplace, concern for physical and mental health, well-being, and stress levels of all employees. The score ranges from 0 to 100, with larger value indicating better employment relations. *Source: Thomson Reuters ASSET4 ESG Database.*
Workforce Diversity	A score measuring the firm's commitment and effectiveness towards maintaining diversity and equal opportunities in its workforce, such as promoting an effective work-life balance, a family-friendly environment, and equal opportunities regardless of age, gender, ethnicity, religion, or sexual orientation. The score ranges from 0 to 100, with larger values indicating better employment relations. *Source: Thomson Reuters ASSET4 ESG Database.*
Training and Development	A score measuring the firm's commitment and effectiveness towards providing training and development (education) for its workforce. The score ranges from 0 to 100, with larger values indicating better employee relations. *Source: Thomson Reuters ASSET4 ESG Database.*
Bonus Plan Dummy	A dummy indicator for whether the firm provides a bonus plan to at least the middle management level whether employees' compensation based on personal or company-wide targets. *Source: Thomson Reuters ASSET4 ESG Database.*
Fringe Benefits Dummy	A dummy indicator for whether the firm provides its employees with a pension fund, health care, or other insurances. *Source: Thomson Reuters ASSET4 ESG Database.*
Wage Ratio Employees/CEO	Ratio between an average worker's salary and the CEO's salary, measured as Average Salaries and Benefits/Highest Salary. *Source: Thomson Reuters ASSET4 ESG Database.*
Net Employment Creation	Growth in the firms' employee base, measured as Number of Employees, scaled by last year's Number of Employees, -1. *Source: Thomson Reuters ASSET4 ESG Database.*
Trade Union Relations Policy	A dummy indicator for whether the firm has a policy in place to ensure good relations with trade unions. *Source: Thomson Reuters ASSET4 ESG Database.*
Job Security Policy	A dummy indicator whether the firm has a policy in place to maintain job security. *Source: Thomson Reuters ASSET4 ESG Database.*
Mechanisms	
Repeat Acquisition	A dummy equal to one if the firm has acquired a firm in the target's country in the past. It is equal to zero if the firm has not previously acquired any firms in the target's country.
Target Country > Acq. Country "Good Pay is Important"	A dummy equal to one if the target's country is in the top tercile and the acquirer's country is in the bottom tercile for the variable "importance of good pay in a job", aggregated at the country level. *Source: World Value Survey.*
Target Country > Acq. Country "Saving Money is Important"	A dummy equal to one if the target's country is in the top tercile and the acquirer's country is in the bottom tercile for the variable "saving money is an important child quality", aggregated at the country level. *Source: World Value Survey.*
Absence of Economic Nationalism in Target Country	A dummy equal to one if the target country's government has a rightwing/liberal main executive party. It is equal to zero if it has a leftwing/nationalist main executive party. *Source: Database of Political Institutions.*

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Acquirer and Target Country Low Union Strength	A dummy equal to one if the target's and acquirer's country are in the bottom tercile for the variable "confidence in unions", aggregated at the country level. *Source: World Value Survey.*
Ind-Yr Average Salaries & Benefits Expenses	Firms' annual expenses in terms of employee salaries and benefits, averaged annually by industry. *Source: Worldscope.*
Distance > Median	A dummy equal to one if the log distance between the acquirer's and target's capitals is above the sample median, and zero otherwise. *Source: CEPII.*
Target and Acquirer Countries Share Common Language	A dummy equal to one if the acquirer's and target's country have an official language in common, and zero otherwise. *Source: CEPII.*
Target and Acquirer Countries Share Common Border	A dummy equal to one if the acquirer's and target's countries share a common border, and zero otherwise. *Source: CEPII.*
Low-Tech Deal	A dummy equal to one if the target and acquirer are in low-tech industries, as defined by SDC. *Source: SDC.*
Difference in log(GDP/Capita)	The difference in log(GDP/Capita) between the acquirer's and target's countries. *Source: CEPII.*
Target Country > Acq. Country "Responsibility is Important"	A dummy equal to one if the target's country is in the top tercile and the acquirer's country is in the bottom tercile for the variable "a feeling of responsibility is important", aggregated at the country level. *Source: World Value Survey.*
Target Country > Acq. Country "Job Security is Important"	A dummy equal to one if the target's country is in the top tercile and the acquirer's country is in the bottom tercile for the variable "job security is important in a job", aggregated at the country level. *Source: World Value Survey.*

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Appendix B. Industry Distribution

This table shows the sample distribution by acquirer industry and year for the domestic and cross-border deals in our sample.

	Year												
Acquirer Industry (Fama-French 48)	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**Total**
Agriculture	0	0	2	1	3	0	3	4	6	7	2	0	**28**
Food Products	2	0	3	7	6	7	5	16	16	16	11	6	**95**
Candy & Soda	0	1	0	5	4	0	1	2	5	3	4	0	**25**
Beer & Liquor	6	5	6	3	3	4	2	1	5	11	1	2	**49**
Tobacco Products	1	1	0	0	3	1	4	0	1	1	0	1	**13**
Recreation	2	1	2	3	7	7	6	0	2	2	4	0	**36**
Entertainment	1	0	0	3	1	2	1	1	1	3	1	0	**14**
Printing and Publishing	3	4	4	11	6	3	2	9	8	5	6	2	**63**
Consumer Goods	0	1	4	3	4	5	2	16	9	13	6	4	**67**
Apparel	0	2	3	1	2	1	1	1	1	2	0	0	**14**
Healthcare	1	0	3	2	5	1	0	4	1	3	3	2	**25**
Medical Equipment	9	4	11	13	8	12	8	10	11	13	12	5	**116**
Pharmaceutical Products	6	4	8	19	18	15	21	20	22	14	16	8	**171**
Chemicals	3	6	7	13	9	12	6	17	16	21	17	6	**133**
Rubber and Plastic Products	0	0	0	0	1	0	2	2	3	2	1	2	**13**
Textiles	0	0	2	0	1	1	1	2	2	1	2	0	**12**
Construction Material	5	3	6	9	8	8	6	8	7	10	5	3	**78**
Construction	3	2	7	9	19	5	12	9	8	5	11	4	**94**
Steel Works Etc	4	2	9	8	9	10	11	15	14	8	4	8	**102**
Fabricated Products	0	0	0	0	0	0	4	2	0	0	0	0	**6**
Machinery	4	1	8	15	15	9	15	13	23	21	9	8	**141**
Electrical Equipment	2	2	3	1	2	3	2	2	7	3	7	1	**35**
Automobiles and Truck	1	3	2	4	8	7	3	3	7	3	5	3	**49**
Aircraft	3	4	0	2	4	4	3	4	5	2	5	1	**37**
Shipbuilding, Railroad Equipment	0	0	0	1	0	0	4	1	0	1	1	1	**9**
Defense	2	0	1	1	2	5	1	2	0	0	1	2	**17**
Precious Metals	0	0	3	3	2	6	25	18	22	16	10	2	**107**
Non-Metallic and Industrial Metal Mining	0	0	4	5	8	11	15	17	19	15	7	4	**105**
Coal	0	0	1	2	5	3	2	6	1	4	1	0	**25**
Petroleum and Natural Gas	5	2	15	20	25	23	36	30	31	32	17	10	**246**
Utilities	13	7	9	20	11	21	19	20	14	14	4	3	**155**
Communication	8	6	28	24	18	18	30	19	24	18	23	13	**229**
Personal Services	0	0	3	4	2	0	4	2	3	2	4	1	**25**
Business Services	24	21	41	42	38	49	29	35	47	53	43	37	**459**
Computers	1	5	6	6	11	5	11	11	11	14	12	2	**95**
Electronic Equipment	11	10	13	23	22	13	19	17	13	23	11	11	**186**
Measuring and Control Equipment	1	2	7	8	9	3	2	3	3	6	1	3	**48**
Business Supplies	2	1	2	2	1	2	3	3	3	5	2	3	**29**
Shipping Containers	3	2	1	3	3	0	1	0	2	3	1	1	**20**
Transportation	4	4	12	12	8	13	10	15	5	8	9	4	**104**
Wholesale	8	3	9	17	14	10	13	11	17	12	13	6	**133**
Retail	1	1	4	19	15	22	14	15	27	22	18	14	**172**
Restaurants, Hotels, Motels	2	5	6	6	3	4	2	0	7	2	3	3	**43**
Banking	12	19	36	44	49	29	24	31	38	30	21	18	**351**
Insurance	5	5	5	11	20	15	9	12	9	12	12	11	**126**
Real Estate	1	4	4	3	5	4	4	4	8	3	4	5	**49**
Trading	7	10	42	43	51	28	28	41	35	42	32	18	**377**
Other	2	1	2	5	2	12	2	2	1	8	2	0	**39**
Total	**168**	**154**	**344**	**456**	**470**	**413**	**428**	**476**	**520**	**514**	**384**	**238**	**4,565**

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Appendix C: Sample Distribution by Acquirer Country

This table shows the sample distribution by acquirer country for the domestic and cross-border deals in our sample.

Acquirer Nation	Freq.	Percent	Cumulative Percent
Argentina	3	0.07	0.07
Australia	172	3.77	3.83
Austria	27	0.59	4.42
Belgium	35	0.77	5.19
Brazil	84	1.84	7.03
Canada	289	6.33	13.36
Chile	9	0.2	13.56
China	61	1.34	14.9
Colombia	10	0.22	15.12
Czech Republic	1	0.02	15.14
Denmark	26	0.57	15.71
Finland	44	0.96	16.67
France	237	5.19	21.86
Germany	54	1.18	23.04
Greece	26	0.57	23.61
Hong Kong	16	0.35	23.96
Hungary	4	0.09	24.05
India	31	0.68	24.73
Indonesia	10	0.22	24.95
Ireland-Rep	28	0.61	25.56
Israel	3	0.07	25.63
Italy	116	2.54	28.17
Japan	672	14.72	42.89
Malaysia	21	0.46	43.35
Mexico	17	0.37	43.72
Morocco	1	0.02	43.75
Netherlands	58	1.27	45.02
New Zealand	3	0.07	45.08
Nigeria	1	0.02	45.1
Norway	54	1.18	46.29
Peru	2	0.04	46.33
Philippines	11	0.24	46.57
Poland	26	0.57	47.14
Portugal	16	0.35	47.49
Russian Fed	51	1.12	48.61
Singapore	37	0.81	49.42
South Africa	49	1.07	50.49
South Korea	86	1.88	52.38
Spain	114	2.5	54.87
Sweden	81	1.77	56.65
Switzerland	112	2.45	59.1
Taiwan	35	0.77	59.87
Thailand	13	0.28	60.15
Turkey	7	0.15	60.31
Ukraine	6	0.13	60.44
United Kingdom	593	12.99	73.43
United States	1,213	26.57	100
Total	**4,565**	**100**	

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Appendix D1: Employment Engagement by Acquirer Country

Acquirer Country	*Employment Quality*	*Training & Development*	*Workforce Diversity*	*Health & Safety*
Argentina	32.40	65.44	29.92	92.64
Australia	41.04	38.83	53.87	54.18
Austria	54.14	67.91	48.09	39.36
Belgium	64.09	64.45	45.45	53.00
Brazil	68.48	68.05	55.06	64.94
Canada	39.25	34.02	37.64	47.46
Chile	31.49	75.57	26.66	24.19
China	51.34	44.01	25.96	32.45
Colombia	46.97	70.07	37.78	60.28
Czech Republic	69.88	77.75	57.75	28.70
Denmark	57.55	51.28	47.34	55.14
Finland	67.41	80.49	48.99	60.50
France	75.68	80.27	75.15	70.69
Germany	76.78	83.03	72.10	64.23
Greece	68.97	71.89	47.03	49.24
Hong Kong	59.87	52.90	29.53	32.32
Hungary	89.23	78.68	90.59	91.11
India	44.17	63.48	40.72	56.01
Indonesia	77.85	82.32	20.98	48.08
Ireland-Rep	48.92	54.77	36.26	60.90
Israel	40.17	53.52	27.13	22.58
Italy	65.19	67.30	55.06	54.92
Japan	35.38	49.26	56.11	43.16
Malaysia	43.12	60.08	32.29	40.76
Mexico	48.90	39.07	43.33	41.41
Morocco	61.42	91.92	15.37	13.76
Netherlands	67.16	74.46	59.01	66.74
New Zealand	69.24	45.92	46.72	51.77
Nigeria	10.76	24.15	22.39	36.98
Norway	71.62	68.91	78.47	68.48
Peru	34.57	38.57	16.40	65.72
Philippines	39.43	40.25	19.90	26.20
Poland	37.32	40.67	15.15	25.93
Portugal	71.44	68.41	38.12	54.58
Russian Fed	65.62	66.16	26.20	52.46
Singapore	34.12	61.59	30.50	43.31
South Africa	60.13	69.84	63.02	80.66
South Korea	50.96	57.32	44.88	45.92
Spain	78.55	83.34	73.74	69.33
Sweden	70.54	61.76	57.43	45.61
Switzerland	68.12	74.26	61.16	68.41
Taiwan	63.94	58.27	40.55	40.83
Thailand	57.37	63.45	46.76	65.24
Turkey	61.26	83.49	54.28	35.21
Ukraine	6.80	21.58	10.50	26.18
United Kingdom	64.47	64.34	58.79	62.57
United States	48.68	39.29	49.64	41.38
Total	**53.43**	**54.01**	**52.84**	**51.06**

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Appendix D2: Employee-Engagement by Acquirer Industry

Acquirer Country	*Employment Quality*	*Training & Development*	*Workforce Diversity*	*Health & Safety*
Agriculture	39.11	63.68	33.83	62.72
Food Products	48.97	52.89	47.29	51.36
Candy & Soda	60.12	65.50	60.64	68.34
Beer & Liquor	53.09	57.60	52.77	50.77
Tobacco Products	56.56	72.32	67.90	75.18
Recreation	67.06	75.77	82.93	84.33
Entertainment	37.71	30.51	34.23	35.60
Printing and Publishing	51.93	53.60	57.89	41.32
Consumer Goods	67.16	63.90	65.03	67.29
Apparel	38.03	32.93	35.95	35.08
Healthcare	48.77	47.27	51.31	35.58
Medical Equipment	54.73	57.28	55.68	48.56
Pharmaceutical Products	54.55	50.76	58.70	58.86
Chemicals	56.58	60.98	62.46	74.67
Rubber and Plastic Products	46.17	52.71	52.82	47.38
Textiles	29.16	46.58	58.71	55.80
Construction Material	55.44	56.83	47.19	68.62
Construction	54.29	62.87	50.09	57.95
Steel Works Etc	56.20	60.69	47.43	64.61
Fabricated Products	26.36	41.31	26.45	27.67
Machinery	46.22	53.02	44.94	51.43
Electrical Equipment	59.70	62.68	63.86	61.10
Automobiles and Truck	55.20	71.49	61.77	69.38
Aircraft	57.26	64.19	56.70	72.50
Shipbuilding, Railroad Equipment	67.50	69.95	42.64	43.21
Defense	57.35	52.76	57.65	61.29
Precious Metals	37.69	38.26	34.76	52.93
Non-Metallic and Industrial Metal Mining	53.33	52.22	46.36	69.27
Coal	55.99	66.54	57.90	75.97
Petroleum and Natural Gas	52.52	49.26	48.67	64.20
Utilities	64.73	68.13	67.54	71.80
Communication	58.40	56.55	58.28	49.74
Personal Services	41.04	33.22	42.94	32.91
Business Services	51.76	48.71	49.20	43.61
Computers	46.65	50.94	49.90	43.67
Electronic Equipment	49.55	49.72	49.89	47.72
Measuring and Control Equipment	43.21	36.69	43.77	43.81
Business Supplies	65.95	60.88	63.32	68.39
Shipping Containers	50.28	65.73	57.95	60.30
Transportation	50.88	49.45	44.31	46.04
Wholesale	45.46	51.88	57.29	39.91
Retail	44.58	51.38	50.45	36.88
Restaurants, Hotels, Motels	67.89	59.72	59.75	43.18
Banking	64.45	62.17	56.84	42.35
Insurance	62.54	63.38	69.29	40.84
Real Estate	45.27	47.99	51.50	38.91
Trading	50.03	44.50	45.66	35.00
Other	53.21	51.19	61.16	55.31
Total	**53.43**	**54.01**	**52.84**	**51.06**

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Appendix E. Robustness and Alternative Explanations: Instrumental Variable Approach

This table shows results for a two-stage instrumental variable regression (IV-2SLS) where the dependent variable in the first stage (Model (1)) is the acquirer's employment quality score and the independent variables are the industry-year average of the salaries and benefits expenses in the focal firm's industry peers (IV), along with a cross-border deal dummy, their interaction, and a set of firm-, deal-, and country-level control variables. The dependent variable in the second stage (Model (2)) is the acquirer's three-day CAR and the main independent variable is the acquirer's instrumented pre-merger employment quality score, a cross-border deal dummy, and their interaction, along with the same set of deal- (relative deal size, dummies for serial acquirers, toeholds, multiple bidders, all-cash financed deals, hostile deals, diversifying deals, and public targets, and relative deal size), firm- (acquirer ROA and leverage), and country-level (labor protection indices as in Botero et al. (2004)) control variables. Each specification includes year, acquirer industry, and target industry fixed effects. The underidentification test refers to the Anderson canonical correlation statistics. Robust standard errors are reported in parentheses. *, ** and *** stand for statistical significance at the 10%, 5%, and 1%, respectively.

	(1)	(2)
Dependent Variable: Acquirer CAR [-1,+1]	*1st stage: DV = Employment Quality*	*2nd stage: DV = CAR [-1, 1]*
Acquirer Employment Quality *t-1*		0.095**
		(0.046)
Acquirer Employment Quality *t-1* × Cross-Border		-0.081**
		(0.041)
Ind-Yr Average Salaries & Benefits Expenses *t-1*	1.942***	
	(0.516)	
Ind-Yr Average Salaries & Benefits Expenses *t-1* × Cross-Border	-1.039	
	(0.717)	
Cross-Border	15.39	4.866**
	(9.398)	(2.363)
Observations	4,511	4,511
F-test	27.10	1.954
Underidentification test (p-value)	0.004	
Deal-, Firm-, and Country-level Controls	Yes	Yes
Year FE	Yes	Yes
Acquirer and Target Industry FE	Yes	Yes

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Appendix F: Alternative Explanations for the Attenuating Effect in Cross-Border Deals

This table shows regression results where the dependent variable is the acquirer's three-day CAR around cross-border and domestic deal announcements. The main independent variable is the acquirer's pre-merger employee quality score in terms of job security and monetary benefits, interacted with a cross-border deal dummy (Models 1 – 4). Model 5 interacts employment quality with an indicator for target firms having won an employment award for a sample of cross-border deals. Each specification includes a set of deal- (dummies for serial acquirers, toeholds, multiple bidders, all-cash financed deals, hostile deals, relative deal size, and public targets), firm- (acquirer ROA, size, and leverage), and country-level (acquirer and target country labor protection indices as in Botero et al. (2004)) control variables. Each specification includes year, acquirer industry, target industry, and acquirer by target region fixed effects fixed effects. Robust standard errors are reported in parentheses. *, ** and *** stand for statistical significance at the 10%, 5%, and 1%, respectively.

Dependent Variable: Acquirer CAR [-1,+1]	(1) Excl. US Acq.	(2) Excl.Serial Acq.	(3) OECD Targets	(4) Non-OECD Targets	(5) Cross-Border
Acquirer Employment Quality t-1	0.004**	0.010***	0.008***	-0.001	-0.009**
	(0.002)	(0.004)	(0.002)	(0.007)	(0.004)
Cross-Border	1.293***	1.527***	1.225***	1.147	
	(0.389)	(0.262)	(0.354)	(0.952)	
Cross-Border x Acquirer Employment Quality t-1	-0.010**	-0.020***	-0.016***	-0.010	
	(0.005)	(0.005)	(0.005)	(0.011)	
Target Won Employee Award					-0.894
					(1.713)
Target Won Employee Award x Acquirer Employment Quality t-1					0.019
					(0.021)
Observations	3,243	3,407	3,492	1,073	2,015
Adj. R-squared	0.036	0.063	0.049	0.159	0.096
Deal-, Firm-, and Country-Level Controls	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
Acquirer and Target Industry FE	Yes	Yes	Yes	Yes	Yes
Acquirer Region by Target Region FE	Yes	Yes	Yes	Yes	Yes

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Appendix G. Target and Acquirer Employee-Engagement, Placebo Tests

This table shows regression results where the dependent variable is the acquirer's three-day CAR around an M&A announcement. The independent variables dummies for combinations of above- and below-median target and acquirer employee relations in terms of employment quality (model 1), health and safety (model 2), workforce diversity (model 3), and training and development (model 4), and all combined (model 5). All specifications include a set of deal- (dummies for serial acquirers, toeholds, multiple bidders, all-cash financed deals, hostile deals, diversifying deals, and relative deal size), firm- (acquirer ROA, size, and leverage, and target ROA), and acquirer and target country-level (labor protection indices as in Botero et al. (2004)) control variables. Each specification includes year, acquirer industry, and target industry fixed effects.

Dependent Variable: Acquirer CAR [-1,+1]	(1)	(2)	(3)	(4)	(5)
Cross-Border	0.879	-1.688	0.598	0.117	1.111
	(1.273)	(1.231)	(1.205)	(1.195)	(1.580)
Low Acq. Employment Quality, High Target Employment Quality	-0.541				-0.623
	(1.041)				(1.080)
Low Acq. Employment Quality, High Target Employment Quality × Cross-Border	0.270				0.840
	(1.590)				(1.596)
High Acq. Employment Quality, Low Target Employment Quality	0.997				1.366
	(1.067)				(1.223)
High Acq. Employment Quality, Low Target Employment Quality × Cross-Border	-2.924*				-3.789**
	(1.567)				(1.653)
High Acq. Employment Quality, High Target Employment Quality	2.288**				2.357*
	(1.145)				(1.307)
High Acq. Employment Quality, High Target Employment Quality × Cross-Border	-3.376**				-3.266*
	(1.626)				(1.808)
Low Acq. Health and Safety, High Target Health and Safety		-0.384			-0.455
		(1.098)			(1.296)
Low Acq. Health and Safety, High Target Health and Safety × Cross-Border		1.536			2.802
		(1.600)			(1.883)
High Acq. Health and Safety, Low Target Health and Safety		-0.992			-1.215
		(0.954)			(1.109)
High Acq. Health and Safety, Low Target Health and Safety × Cross-Border		1.643			3.837*
		(1.595)			(1.981)
High Acq. Health and Safety, High Target Health and Safety		0.00713			-0.668
		(1.216)			(1.449)
High Acq. Health and Safety, High Target Health and Safety × Cross-Border		0.703			2.890
		(1.628)			(2.029)
Low Acq. WF Diversity, High Target WF Diversity			-0.547		-0.410
			(1.157)		(1.337)
Low Acq. WF Diversity, High Target WF Diversity × Cross-Border			-0.981		-1.406
			(1.725)		(1.849)
High Acq. WF Diversity, Low Target WF Diversity			-0.254		-0.232
			(1.260)		(1.433)
High Acq. WF Diversity, Low Target WF Diversity × Cross-Border			-0.990		-1.260
			(1.754)		(1.941)
High Acq. WF Diversity, High Target WF Diversity			0.386		0.267
			(0.943)		(1.170)
High Acq. WF Diversity, High Target WF Diversity × Cross-Border			-3.226**		-3.767**
			(1.428)		(1.538)
Low Acq. Training and Dev., High Target Training and Dev.				0.260	0.401
				(1.193)	(1.355)
Low Acq. Training and Dev., High Target Training and Dev .× Cross-Border				-1.416	-2.756
				(1.861)	(2.122)
High Acq. Training and Dev., Low Target Training and Dev.				-0.449	-0.698
				(1.087)	(1.403)
High Acq. Training and Dev., Low Target Training and Dev .× Cross-Border				-0.998	-1.109
				(1.716)	(2.114)
High Acq. Training and Dev., High Target Training and Dev.				0.223	-0.365
				(1.069)	(1.330)
High Acq. Training and Dev., High Target Training and Dev .× Cross-Border				-1.360	-0.447
				(1.392)	(1.741)
Observations	362	362	362	362	362
Adj. R-squared	0.164	0.139	0.154	0.139	0.206
Deal, Firm, and Country Controls	Yes	Yes	Yes	Yes	Yes
Acquirer Industry, Target Industry, and Year FE	Yes	Yes	Yes	Yes	Yes

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