Maintaining Brand Authenticity Upon Acquisition:

The Role of Acquirer Reputation and Operational Independence

Daeun Chloe Shin, University of Houston; Byoungho Ellie Jin, North Carolina State University

Introduction: In the fashion industry, select successful startup brands are choosing to sell their business to a larger company for further growth. To illustrate, Bonobos, a men's clothing brand, was acquired by Walmart in 2017. While this growth strategy offers access to critical resources for the startups, less is known about the potential tradeoff from the branding perspective. Consumers may consider selling the business to a large corporation a departure from its initial identity. As a result, they may question whether the brand will remain true to its core values, a notion referred to as *brand authenticity*, which is a determinant of important retail outcomes, including brand loyalty (e.g., Choi et al., 2015). While *acquirer reputation* (AR) was shown to be a critical predictor of consumer response to mergers and acquisitions (M&A) (e.g., Resciniti et al., 2019), its impact on brand authenticity remains unexplored. Also under-researched is the effect of *operational independence* (OI), defined as the extent to which the acquired company operates its business independently from the acquirer. There is a critical need for empirical evidence for the current industry practice of actively advertising operational independence to positively shape consumer response (Walmart, 2017). Further, despite prior evidence that consumers rely on multiple market cues to make judgements (Purohit & Srivastava, 2001), limited attention has been paid to investigating the interaction effect of multiple cues (Resciniti et al., 2020). To fill the gaps, drawing from signaling theory (Spence, 1973) and cue diagnosticity theory (Erdem & Swait, 2004), this experimental study investigated both the main and interaction effects of OI and AR on brand authenticity.

Theoretical Framework and Hypotheses:
Signaling theory: Signaling theory explains how consumers reduce uncertainty in the presence of imperfect information and information asymmetry. In the M&A context, the acquirer's reputation serves as a signal (e.g., Resciniti et al., 2019). If the reputation is positive, consumers are more likely to conclude that the acquirer will create an environment more conducive for the acquired brand to maintain its founding values, compared to when the reputation is negative. Therefore, *H1*: Consumers will perceive higher brand authenticity when the acquirer's reputation is positive vs. negative. This study proposes the acquired brand's operational independence as a market signal that can inform brand authenticity as higher operational independence indicates more control over the business and thus the brand's ability to continue doing its business as usual, such

as product development (Zaheer et al., 2013). Thus, *H2:* Consumers will perceive higher brand authenticity when operational independence is high vs. low.

Cue diagnosticity theory: Cue diagnosticity theory explains how consumers combine multiple market signals to make judgments (Purohit & Srivastava, 2001). The extent of reliance on cues is determined by diagnosticity, the perceived reliability of a cue in helping to reach accurate evaluations. Based on diagnosticity, informational cues are classified into two categories: high-scope and low-scope. High-scope cues are stable cues such as brand reputation whereas low-scope cues are cues such as price, whose valence (e.g., high vs. low) can be changed relatively more easily. Thus, high-scope cues are perceived to be more credible and diagnostic. This study posits operational independence to be a low-scope cue because it is an internal decision that is subject to change. A low-scope cue is considered more diagnostic when a high-scope cue is positive in valence. For example, when the brand reputation is positive, consumers rely on price to make quality judgements whereas price loses the signaling power when the brand reputation is negative (Akdeniz et al., 2013). Following this logic, acquirer reputation and operational independence will interact such that *H3*: The positive effect of operational independence on brand authenticity will be attenuated when the acquirer has a negative reputation.

Methods: This study employed a scenario-based approach involving fictitious companies: a company called *Roen*, to represent a fashion startup, and a retailer named *Cartmann Corp* to represent a large company. To manipulate the acquirer's reputation, information about corporate social responsibility practices and an aggregate consumer rating were provided. The acquisition was presented in a newspaper article format. To manipulate operational independence, the article included details about the acquired company's level of integration with the acquirer, consistent with information available in acquisition announcements (Walmart, n.d.). In all conditions, the article stated that *Roen*'s founder will remain, consistent with all extant acquisition cases. A total of 200 participants were recruited through *Prolific Academic* and randomly assigned to one of the four conditions: OI (high vs. low) x AR (positive vs. negative). The involvement of the startup's founder was included as a covariate as it was shown to be a determinant of brand authenticity (Siemens et al., 2020). The measurements for company size, founder involvement, acquirer reputation, and brand authenticity were adapted from previous studies (Dean, 2003; Napoli et al., 2014; Siemens et al., 2020; Yang & Aggarwal, 2019). To measure operational independence, following prior conceptualization (Zaheer et al., 2013), this study developed a three-item scale (e.g., "After Roen is acquired, the brand will do business as usual").

Results: SPSS Statistics version 28 was used to analyze data. All measurements showed high internal consistency. The independent samples t-test results revealed that the manipulations were successful. A two-way ANCOVA was conducted, with founder involvement as a covariate. Results revealed a significant main effect of acquirer reputation ($F_{(1, 195)} = 35.19$, $p < .00$). Brand authenticity was significantly higher when the reputation was positive ($M_{\text{positive}} = 4.48$, $SD = 1.26$), compared to when it was negative ($M_{\text{negative}} = 3.32$, $SD = 1.62$), supporting H1. The main effect of operational independence was marginally significant ($F_{(1, 195)} = 3.13$, $p = .08$). The interaction effect was not significant ($F_{(2, 293)} = .40$, $p = .67$), failing to support H2 and H3. The covariate was shown to be a significant predictor of brand authenticity ($F_{(1, 195)} = 82.05$, $p<.00$).

Conclusion: The acquirer's reputation influenced the acquired company's brand authenticity, consistent with prior findings that the acquirer reputation is a critical determinant of consumer response to an M&A. Therefore, when choosing an acquisition partner, startups should consider the prospective acquirer's reputation, beyond the tangible resources an acquisition can offer. For big companies, this highlights the importance of maintaining a good reputation as it can affect the success of a company's major strategic decisions, such as an M&A. However, operational independence was not a significant predictor, suggesting that consumers do not consider it a reliable cue diagnostic of brand authenticity. This may be because consumers do not perceive as high operational independence in the high condition that reflected actual industry practice. Despite a significant difference compared to the low condition ($M = 2.41$, $SD = 1.02$), the average response in the high condition was 'somewhat agree' ($M = 5.00$, $SD = 1.44$), suggesting that a more drastic measure may be required to ensure consumer perception of truly high operational independence. The finding suggests that the current industry practice of actively advertising operational independence may not be effective in ensuring brand authenticity. Still, brands are recommended to be cognizant of the operational independence level, given its significant effects on other outcome variables, such as the acquired company's employee productivity (e.g., Paruchuri et al., 2006). Additionally, the significant effect of founder involvement validates the current industry practice of retaining the founder upon acquisition.

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