Chapter 1 : When target CEOs contract with acquirers: evidence from bank mergers and acquisitions - CO

When Target CEOs Contract with Acquirers: Evidence from Bank M&A The importance of the post-merger status of the target chief executive officer (CEO) is illustrated by reports of a humorous exchange between two CEOs discussing the possible merger.

Combining an event study with a survey of postacquisition resource transfer on a sample of horizontal acquisitions, we find that acquirers do not earn abnormal returns when they only receive resources from the target. In this case, it is likely that multiple bidders, which could have equally captured these resources, competed away all the abnormal returns from the successful bidder. In contrast, we find that acquirers can expect to earn abnormal returns when they transfer their own resources to the target. Overall, we find that value creation does not ensure value capture for the acquirer. Many studies in strategy and finance have shown that acquisitions are a mixed blessing for the share- holders of acquiring firms, even when they create synergies. The asymmetric distribution of gains between the acquirer and the target remains a puzzle in both the finance and strategy literature. If most of the studies show that, on average, acquirer share- holders about break even, very few emphasize that this mean hides a large variance in acquirer gains. The objective of this study is to examine the conditions under which acquirers earn abnormal returns. We recognize that many alternative expla- nations market power, operating or financial syn- ergy, tax gains, inefficient target management, overpayment, hubris, agency costs are relevant to address this issue Capron, Mitchell, and Swami- nathan, ; Seth, Song and Pettit, ; Anand and Singh, ; Chatterjee, In other words, where does the value captured by the acquirer come from: Drawing on Barney and Chatterjee , , we argue that mergers create value to the acquirer when competitors cannot duplicate the synergy and its resulting cash flows, which pre- vents the competitive bidding process from fully unfolding. Received 26 April Final revision received 10 April L. In contrast, when the source of synergies resides with the target, the market is likely to allocate the full gains to the target because of competition between potential acquirers. We test these hypotheses on a sample of U. We estimate the acquirer abnormal returns by using an event study, and assess the source of synergies by measuring the extent and direction of postacquisition resource transfer to and from the target through a survey. In many cases, even when the merger creates value thanks to a good resource fit between the target and acquirer, the market allocates the full synergistic gains to the target shareholders rather than to the acquirer shareholders. Value creation does not ensure value capture by the acquirer when the competition among potential bidders drives up the target price until the net present value NPV for the successful bidder is close to zero i. As a result, acquirers can earn abnormal returns only when the market for corporate control is imperfectly competitive. Barney specifies conditions that would be conducive to market failures in the market for corporate control. One of these conditions is when there is an inimitable and uniquely valuable synergy between a bidder and a target. In this case, the target is more valuable to one bidder than to the other bidders, and the highest bidder can expect to earn part of the synergistic gains. In contrast, if the target is equally valuable to at least two bidders, the competitive bidding process will unfold and all the synergistic gains will accrue to the target. The presence of a unique fit depends on the respective resource contribution of each partner. In contrast, when the synergistic gains originate from resources which are specific to one acquirer, the target is unlikely to be equally valued by multiple bidders. In his research on restructuring-driven vs. He argues that in restructuring- driven takeovers several firms are likely to have the management capabilities to restructure the tar- get, and bid for it. In this case, the source of value resides with the target. As a result, the price of the target is bid up until abnormal returns are competed away from the successful bidder. In the case of synergistic acquisitions, however, the syn- ergistic gains are likely to be divided between the acquirer and the target. The ultimate distribution of gains between the acquirer and the target depends on their respective bargaining leverageâ€"i. Following this line of thinking, we identify three scenarios of resource contribution and assess their impact on acquirer returns. See Table 1 for a summary. The target controls resources the value of which does not depend on the participation of a spe- cific acquirer. In this case, the acquirer is likely to have a broad selection of target firms to choose from, and face less competition from other potential bidders.

Reduced competition in the acquisition market creates opportunities for the acquirer to capture positive abnormal returns. The premium paid is typically lower than the discounted synergies stemming from the merger. Synergy is generated out of the joint participation of both parties, and thus one expects the synergistic ben- efits to be divided between the acquirer and the target. If, however, one party contributes more to the synergistic gains thanks to its resources or has stronger alterna- tive opportunities to redeploy its resources, it has a greater bargaining leverage and should capture a greater part of the synergistic gains than the other party. The relative proportion of gains accru- ing to the acquirer and target ultimately depends upon the relative bargaining position of the tar- get and the acquirer Chatterjee, Model We regress acquirer cumulative abnormal returns CAR on resource transfers to and from the target. Pistre The dependent variable is the market reaction measured from 20 days before the acquisition is announced in the Wall Street Journal, to the day after the acquisition announcement. Control variables are the relative size of target to acquirer, the geographical scope of the acquisition domestic vs. In Model 1, the equation takes the following general form for every acquirer i: Data We estimate the cumulative abnormal returns using the procedure described in Appendix 1. We use a survey to obtain fine-grained measures of postacquisition resource transfers. The final data set includes horizontal acquisitions which Table 2. We use postacquisition resource transfer as a proxy for the resource contribution of the target and the acquirer. Drawing from previous resource typologies Morck and Yeung, , we examine two main types of resource transfer, from acquirer to target and from target to acquirer, in three resource areas: There are six measures of resource transfer in total. Survey procedure and questions are pre- sented in Appendix 2. This finding is consistent with almost all of the results of previ- ous studies of acquisitions. Since our sample only includes horizontal acquisitions, our results show that relatedness, in itself, is not a sufficient condition for the acquir- ing firm to benefit from synergistic gains Barney, Note that this result could be a reflection of the significantly larger size of the average acquiring firm as compared with the average target firm. We conducted sensitivity analyses to control for size effect and found none. These differences were not statistically sig- nificant. Table 3 reports descriptive statistics and the correlations among the variables used in this study. Extent of postacquisition transfer to and from the target Table 4 a reports the extent to which the acquirer transfers its resources to the target. It shows that resource transfers from acquirer to target are much more common than the reverse, particularly for managerial resources. The correlation matrix in Table 3 shows that firms frequently transfer different types of resources combined. Similarly, firms often transfer jointly innovation and managerial resources, suggesting that managerial expertise supports the transfer of upstream innovation resources. Model results Table 5 reports the results of our model. Our model accounts respectively for 13 percent Model 1 , 27 percent Model 2 , and 33 percent Model 3 of the variance of acquirer abnormal returns. This hypothesis is fully supported. In Model 1, none of the coeffi- cients related to the three types of resource trans- fer innovation, marketing, managerial from target to acquirer is significant. The results are simi- lar when we estimate the impact of each type of resource transfer individually. Pistre Ta bl e 3. Extent of postacquisition resource transfer from a acquirer to target, b target to acquirer. This situation does not generate abnor- mal returns to the acquirer. OLS results Independent variables Dependent variable: Acquirer CAAR involved in acquisitions with high vs. In this case, the acquirer has the bargaining lever- age, and the market allocates gains to the acquirer, suggesting that the competitive bidding process does not fully unfold. This is consistent with research showing that marketing resources are more context-dependent than other types of resources Capron and Hulland, ; Anand and Delios, This is particularly important for cross-border acquisitions, which account for 82 percent of our sample. This result is also consistent with the findings of Morck and Yeung Hypothesis 3 predicts a positive relationship between bilateral resource transfer to and from the target and acquirer returns. This hypothesis is partially supported. This suggests that, in the presence of a joint transfer of resources from and to the tar- get, the acquirer captures a portion of the value created. This suggests that an optimal resource combination valued by the market occurs when the acquirer leverages its innovation and managerial resources into the target, while using the locally embedded marketing resources of the target. In this case, the acquirer finds an increased com- mercial potential for its innovation and managerial resources. In that case, it is likely that the acquirer controls unique resources, which prevents the competitive bidding from fully unfolding. These results further suggest that the value cap- tured by the acquirer depends on the respective distribution of resources among the competing bid- ders. For the acquirer to earn abnormal returns, the difference between the first and second most capa- ble acquirers matters more than the absolute value creation per se. This implication cannot be directly tested with our data, but could be an interesting area for further research. Quarterly Journal of Economics Anand J, Delios A. Location specificity and the transferability of downstream assets to foreign subsidiaries. Journal of International Business Studies 28 3: Anand J, Singh H. Asset redeployment, acquisi- tions and corporate strategy in declining industries. Returns to bidding firms in mergers and acquisitions: Synergistic gains from corporate acquisitions and their division between the stockholders of target and acquiring firms. Journal of Financial Economics The long-term performance of horizontal acquisitions. Strategic Management Journal 20 Capron L, Hulland J. Redeployment of brands, sales forces and general marketing expertise following horizontal acquisitions. Journal of Marketing Asset divestiture following horizontal acquisitions: Strategic Management Journal 22 9:

Chapter 2 : What does a merger or acquisition mean for the target company's employees? | Investopedia

Abstract. This paper investigates the impact of the target chief executive officer's (CEO) postmerger position on the purchase premium and target shareholders' abnormal returns around the announcement of the deal in a sample of bank mergers during the period

Cash[edit] Payment by cash. They receive stock in the company that is purchasing the smaller subsidiary. Financing options[edit] There are some elements to think about when choosing the form of payment. When submitting an offer, the acquiring firm should consider other potential bidders and think strategically. The form of payment might be decisive for the seller. With pure cash deals, there is no doubt on the real value of the bid without considering an eventual earnout. The contingency of the share payment is indeed removed. Thus, a cash offer preempts competitors better than securities. Taxes are a second element to consider and should be evaluated with the counsel of competent tax and accounting advisers. If the issuance of shares is necessary, shareholders of the acquiring company might prevent such capital increase at the general meeting of shareholders. The risk is removed with a cash transaction. Then, the balance sheet of the buyer will be modified and the decision maker should take into account the effects on the reported financial results. On the other hand, in a pure stock for stock transaction financed from the issuance of new shares , the company might show lower profitability ratios e. However, economic dilution must prevail towards accounting dilution when making the choice. The form of payment and financing options are tightly linked. If the buyer pays cash, there are three main financing options: There are no major transaction costs. It consumes financial slack, may decrease debt rating and increase cost of debt. Transaction costs include fees for preparation of a proxy statement, an extraordinary shareholder meeting and registration. If the buyer pays with stock, the financing possibilities are: Issue of stock same effects and transaction costs as described above. Transaction costs include brokerage fees if shares are repurchased in the market otherwise there are no major costs. In general, stock will create financial flexibility. Transaction costs must also be considered but tend to affect the payment decision more for larger transactions. Finally, paying cash or with shares is a way to signal value to the other party, e. The following motives are considered to improve financial performance or reduce risk: This refers to the fact that the combined company can often reduce its fixed costs by removing duplicate departments or operations, lowering the costs of the company relative to the same revenue stream, thus increasing profit margins. This refers to the efficiencies primarily associated with demand-side changes, such as increasing or decreasing the scope of marketing and distribution, of different types of products. Increased revenue or market share: This assumes that the buyer will be absorbing a major competitor and thus increase its market power by capturing increased market share to set prices. Or, a manufacturer can acquire and sell complementary products. For example, managerial economies such as the increased opportunity of managerial specialization. Another example is purchasing economies due to increased order size and associated bulk-buying discounts. In the United States and many other countries, rules are in place to limit the ability of profitable companies to "shop" for loss making companies, limiting the tax motive of an acquiring company. Geographical or other diversification: This is designed to smooth the earnings results of a company, which over the long term smoothens the stock price of a company, giving conservative investors more confidence in investing in the company. However, this does not always deliver value to shareholders see below. Vertical integration occurs when an upstream and downstream firm merge or one acquires the other. There are several reasons for this to occur. One reason is to internalise an externality problem. A common example of such an externality is double marginalization. Double marginalization occurs when both the upstream and downstream firms have monopoly power and each firm reduces output from the competitive level to the monopoly level, creating two deadweight losses. This increases profits and consumer surplus. A merger that creates a vertically integrated firm can be profitable. This is especially common when the target is a small private company or is in the startup phase. In this case, the acquiring company simply hires "acquhires" the staff of the target private company, thereby acquiring its talent if that is its main asset and appeal. The target private company simply dissolves and few legal issues are involved. Access to hidden or nonperforming assets land, real estate.

Acquire innovative intellectual property. While this may hedge a company against a downturn in an individual industry it fails to deliver value, since it is possible for individual shareholders to achieve the same hedge by diversifying their portfolios at a much lower cost than those associated with a merger. Managers have larger companies to manage and hence more power. In the past, certain executive management teams had their payout based on the total amount of profit of the company, instead of the profit per share, which would give the team a perverse incentive to buy companies to increase the total profit while decreasing the profit per share which hurts the owners of the company, the shareholders. A horizontal merger is usually between two companies in the same business sector. An example of horizontal merger would be if a video game publisher purchases another video game publisher, for instance, Square Enix acquiring Eidos Interactive. A vertical merger represents the buying of supplier of a business. A statutory merger is a merger in which the acquiring company survives and the target company dissolves. The purpose of this merger is to transfer the assets and capital of the target company into the acquiring company without having to maintain the target company as a subsidiary. The purpose of this merger is to create a new legal entity with the capital and assets of the merged acquirer and target company. Both the acquiring and target company are dissolved in the process. The first element is important because the directors have the capability to act as effective and active bargaining agents, which disaggregated stockholders do not. Therefore, when a merger with a controlling stockholder was: In recent years, these types of acquisitions have become common in the technology industry, where major web companies such as Facebook , Twitter , and Yahoo! For the period , consumer products companies turned in an average annual TSR of 7. Organizations should move rapidly to re-recruit key managers. Brand considerations[edit] Mergers and acquisitions often create brand problems, beginning with what to call the company after the transaction and going down into detail about what to do about overlapping and competing product brands. Decisions about what brand equity to write off are not inconsequential. And, given the ability for the right brand choices to drive preference and earn a price premium, the future success of a merger or acquisition depends on making wise brand choices. Brand decision-makers essentially can choose from four different approaches to dealing with naming issues, each with specific pros and cons: The strongest legacy brand with the best prospects for the future lives on. In the merger of United Airlines and Continental Airlines , the United brand will continue forward, while Continental is retired. Keep one name and demote the other. The strongest name becomes the company name and the weaker one is demoted to a divisional brand or product brand. An example is Caterpillar Inc. Some companies try to please everyone and keep the value of both brands by using them together. This can create an unwieldy name, as in the case of PricewaterhouseCoopers , which has since changed its brand name to "PwC". Discard both legacy names and adopt a totally new one. Not every merger with a new name is successful. The factors influencing brand decisions in a merger or acquisition transaction can range from political to tactical. Ego can drive choice just as well as rational factors such as brand value and costs involved with changing brands. The detailed decisions about the brand portfolio are covered under the topic brand architecture. It was possibly in fact the first recorded major consolidation [41] [42] and is generally one of the most successful mergers in particular amalgamations in the history of business. However, mergers coincide historically with the existence of companies. In , for example, the East India Company merged with an erstwhile competitor to restore its monopoly over the Indian trade. The Great Merger Movement: During this time, small firms with little market share consolidated with similar firms to form large, powerful institutions that dominated their markets. It is estimated that more than 1, of these firms disappeared into consolidations, many of which acquired substantial shares of the markets in which they operated. The vehicle used were so-called trusts. Companies such as DuPont , US Steel , and General Electric that merged during the Great Merger Movement were able to keep their dominance in their respective sectors through , and in some cases today, due to growing technological advances of their products, patents , and brand recognition by their customers. There were also other companies that held the greatest market share in but at the same time did not have the competitive advantages of the companies like DuPont and General Electric. These companies such as International Paper and American Chicle saw their market share decrease significantly by as smaller competitors joined forces with each other and provided much more competition. The companies that merged were mass producers of homogeneous goods that could exploit the efficiencies of large volume production. In addition, many of these mergers were capital-intensive. Due to high fixed costs, when demand fell, these newly merged companies had an incentive to maintain output and reduce prices. However more often than not mergers were "quick mergers". These "quick mergers" involved mergers of companies with unrelated technology and different management. As a result, the efficiency gains associated with mergers were not present. The new and bigger company would actually face higher costs than competitors because of these technological and managerial differences. Thus, the mergers were not done to see large efficiency gains, they were in fact done because that was the trend at the time. Companies which had specific fine products, like fine writing paper, earned their profits on high margin rather than volume and took no part in the Great Merger Movement.

Chapter 3 : EconPapers: When target CEOs contract with acquirers: evidence from bank mergers and acq

This paper investigates the impact of the target chief executive officer's (CEO) postmerger position on the purchase premium and target shareholders' abnormal returns around the announcement of the deal in a sample of bank mergers during the period We find evidence that the target.

Chapter 4 : Mergers and acquisitions - Wikipedia

This paper investigates the impact of the target chief executive officer's (CEO) postmerger position on the purchase premium and target shareholders' abnormal returns around the announcement.

Chapter 5 : When do acquirers earn abnormal returns? - [PDF Document]

Abstract: This paper investigates the impact of the target chief executive officer's (CEO) postmerger position on the purchase premium and target shareholders' abnormal returns around the announcement of the deal in a sample of bank mergers during the period We find evidence that.

Chapter 6 : What Happens to Employees When an Acquisition Occurs? | racedaydvl.com

post-acquisition and, since target CEOs prefer "being the boss," acquirers make promises about maintaining managerial discretion and providing job security. However, it is difficult for acquirers to.