

**What Drives Acquisition Premiums and Why do Targets Reject Offers? – Evidence from Failed Acquisition Offers**

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# **What Drives Acquisition Premiums and Why do Targets Reject Offers? – Evidence from Failed Acquisition Offers**

## **Abstract**

Using a unique hand-collected sample of 1,195 failed acquisition offers from 1979 to 2012, we investigate whether acquisition premiums are driven by the information hypothesis or the synergy hypothesis. A key factor in addressing this question is to partition the sample into acquisition offers that fail due to the target's rejection (rejection group) and those that fail due to other reasons (non-rejection group). We find that the information hypothesis dominates in the rejection group, while the synergy hypothesis dominates in the non-rejection group. In addition, focusing on the rejection group, we examine whether a target's rejection of an acquisition offer is consistent with managerial incentive alignment or rent extraction. We focus on the rejection group given that it is highly likely that within this group the CEO plays a key role in the rejection decision. Testing for the efficacy of different corporate governance and executive compensation measures, we find that the existence of a poison pill provision exacerbates managerial rent extraction. In contrast, we find that the existence of a staggered board does not promote rent extraction and that higher levels of CEO option ownership enhance incentive alignment.

*Keywords:* Mergers and acquisitions; Failed acquisitions; Corporate governance; Incentive alignment; Rent extraction.

## 1. Introduction

Prior research has documented positive target firm returns surrounding announcements of acquisition offers, consistent with the existence of an acquisition premium. Two possible explanations given in the literature for such a premium are the prospect of valuable synergies with the acquirer (known as the synergy hypothesis) and an assessment by the acquirer that the market has undervalued the target as a stand-alone firm (known as the information hypothesis).<sup>1</sup> It is not possible to distinguish between these explanations in the context of successful acquisitions since both the post-acquisition returns and the long-term financial performance are unavailable for target firms. Previous studies based on failed acquisitions find evidence supporting the synergy hypothesis, but no evidence in support of the information hypothesis. In this paper we construct a large comprehensive sample of failed acquisition offers and identify reasons for the acquisition failure from public announcements, which allows us to explore the possibility that undervaluation as well as prospective synergies may serve as drivers of the acquisition premium.

For our analysis we partition our sample of failed acquisitions into two groups: those that fail due to rejection by either the target firm's board of directors or management (the "rejection group") and those that fail for other reasons (the "non-rejection group"). If target firm undervaluation does indeed serve as a driver of the acquisition premium, we would most likely find evidence of it in the rejection group. This is because the target firm's board or management generally has private information about its firm's stand-alone value. In contrast, we would most likely find evidence of synergies as a driver of the premium in the non-rejection group. This is

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<sup>1</sup> In the context of successful acquisitions, Bhagat, Dong, and Hirshleifer (2005) opine that "disentangling these non-exclusive sources is a first-order building block in estimating the real value created by mergers and acquisitions."

because the absence of evidence that rejection by the target's board or management played a principal role in the failure of the acquisition offer suggests that factors other than private information likely caused the failure, thereby implying greater scope for the synergy hypothesis to explain an acquisition premium.

Our analysis is based on a hand-collected sample of 1,195 failed acquisition offers between 1979 and 2012. In keeping with previous studies of acquisition premiums, we first examine the "announcement period" target cumulative abnormal return (CAR) for five days surrounding acquisition offer announcements. Second, we calculate the "proposal period" CAR starting 25 trading days prior to the announcement of the offer and ending 25 trading days following the termination announcement date. Consistent with previous studies, we find a significant positive mean announcement period CAR of 13.92 percent. However, when we extend the measurement to the proposal period, we find an insignificant negative mean proposal period CAR of -3.76 percent, implying a reversal of the positive effect of the announcement. These latter results stand in contrast to earlier findings of positive proposal period returns from studies employing much smaller samples drawn from earlier periods.<sup>2</sup>

We also calculate the announcement and proposal period CARs separately for each of our two groups. We find that the difference in the mean announcement period CAR between the two groups is insignificant, indicating that the market is unable to distinguish between the two groups at the time of the announcement and, thus, is unable to predict the eventual reason for the acquisition failure. Focusing on the proposal period, we find a significant positive mean CAR of

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<sup>2</sup> Dodd (1980) reports a mean return of 4.36% from day -40 to day 40 around the termination announcement for 80 failed acquisition offers. Davidson et al. (1989) document a significant positive return of 7.15% for 163 canceled mergers from day -90 to day 90 around the termination announcement.

7.06 percent for the rejection group and a significant negative mean CAR of -16.02 percent for the non-rejection group. These results are robust to the inclusion of controls in a regression specification for deal size, deal premium, payment medium, and industry- and year-fixed effects.

Prior literature provides evidence of a positive revaluation only for firms that are subsequently acquired and an insignificant revaluation for firms that remain independent. Conditioning on whether firms remain independent or are subsequently acquired, we provide evidence of a positive (negative) revaluation for the our rejection (non-rejection) group regardless of a subsequent acquisition, indicating that identifying the reason for the acquisition failure is of prominent importance.

The significant positive market revaluation over the proposal period for the rejection group is consistent with investors' upward revision of their assessment of the target firm's stand-alone value, and supports the information hypothesis. The significant negative proposal period return for the non-rejection group is surprising, as Bradley, Desai, and Kim (1983) predict insignificant returns during this period for failed acquisition offers. In our analysis, we confirm that our finding of a negative revaluation is robust by showing insignificant returns for the period that ends prior to the revelation of the failure reason and a significant negative revaluation when the failure reason is disclosed. This analysis demonstrates that investors reverse the announcement period returns prior to the revelation of the acquisition failure, indicating that they are able to anticipate the failure of the acquisition offer and the loss of possible synergies. Subsequently, upon the revelation of the failure reason, these investors learn about the diminished prospect of successful future offers and that the firm was overvalued prior to the acquisition offer, resulting in a negative revaluation. Nevertheless, the proposal period returns for the non-rejection group lend strong support to the

synergy hypothesis.

We complement these analyses with an examination of long-term returns subsequent to the failure of the acquisition offer. A four-factor model is used to estimate abnormal returns over the five years starting one month following the termination date of an acquisition offer. We find that the mean abnormal return, measured by Jensen's alpha, is insignificant for each of the groups, consistent with market efficiency. The absence of a reversal of the proposal period revaluations over the subsequent five years for both groups is further evidence that undervaluation drives the acquisition premium for the rejection group and that potential synergies drive the premium for the non-rejection group.

We also examine financial measures of subsequent five-year performance. To do so, we employ a matched sample design based on industry, year, total assets, and return on assets as of the end of the fiscal year prior to the acquisition announcement year. For the rejection group, we observe gains in operating, investment, and financing efficiencies at the same time that the growth in profitability is sustained relative to its matched sample. These results corroborate the permanent positive revaluation we document in our return analysis, lending further support for our conclusion that the information hypothesis drives the acquisition premium for the rejection group. Our results are also consistent with the kick-in-the-pants hypothesis of Safieddine and Titman (1999), who conjecture that a failed acquisition provides an impetus for target firm management to improve firm performance so as to forestall future takeover bids (referred to as "a kick in the pants"). For the non-rejection group, we also document an improvement in operating, investment, and financing efficiencies over the subsequent five years relative to their matched sample. However, our results show a significant and consistent deterioration in profitability relative to a matched

sample, suggesting that the increase in efficiencies is insufficient to prevent this deterioration. This finding is consistent with the permanent negative revaluation which we document using the return analysis, as it provides evidence that investors correct their expectations regarding the firm's future profitability on a stand-alone basis. Specifically, investors decreased the firm's market value beyond its pre-announcement value due to a permanent loss of synergetic value. This result lends further support for our conclusion that the synergy hypothesis drives the acquisition premium for the non-rejection group.

The rejection group also provides a unique context for investigating the effect of various corporate governance and executive compensation measures in promoting either incentive alignment or rent extraction. For this group the target board or management, particularly the CEO, play a prominent role in deciding whether to accept or reject an acquisition offer. If these measures in place at the time of an acquisition offer are negatively associated with target firms' future profitability growth, then this would strongly suggest that they lead to managerial rent extraction. Alternatively, if these measures are associated with an improvement in target firms' future profitability growth, then this would suggest that they lead to incentive alignment. The specific measures we examine include the anti-takeover provisions of poison pills and staggered boards, and the CEO's option-based compensation and share ownership.<sup>3</sup>

With respect to anti-takeover measures, we do not find significant differences in future profitability growth over the subsequent five years between firms with and without staggered boards, suggesting that this measure does not promote rent extraction. For firms with a poison pill

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<sup>3</sup> While a more comprehensive corporate governance measure would strengthen our conclusion, only a few of our companies are covered by commonly used corporate governance indices such as the G-Index and the E-Index.

provision, we find a significant deterioration in profitability growth over the subsequent five years relative to firms without such a provision. These results are consistent with the poison pill provision leading to rent extraction.

With respect to CEO compensation, prior literature suggests that compensation in the form of options or shares acts as a device to align management incentives with shareholder interests. The argument for options is especially cogent for acquisition offers since options become immediately exercisable at the acquisition date if the acquisition is successful. Further, unlike share ownership, options by themselves do not convey control. Consistent with this form of compensation enhancing incentive alignment, we find a positive association between option holdings and improvement in accounting profitability growth over the five subsequent years. With regard to CEO share ownership, we find inconclusive results as we observe a significant decrease in accounting profitability growth only in the first year after the acquisition failure.

Several other studies have examined the reasons for the positive acquisition premium. Bradley et al. (1983) find evidence of a positive revaluation for a sample of 112 failed tender offers, but just for those that were followed by a successful offer. They conclude that only the synergy hypothesis is consistent with the acquisition premium in their sample. Using a sample of 163 failed acquisitions, Davidson et al. (1989) reach a similar conclusion, observing no persistent revaluation for targets that were not subsequently acquired. We significantly expand on these studies by employing a much larger sample, using more recent data, and partitioning the sample according to the reason for the acquisition failure. We find the synergy hypothesis to be applicable only to the non-rejection group, where the proposal period return is significantly negative and continues to be negative over the next five years regardless of future successful offers. In contrast,



we find the information hypothesis to be applicable to the rejection group, where the proposal period return is significantly positive and remains positive for at least the next five years regardless of future successful offers.<sup>4</sup>

A large number of papers have studied and debated the impact of corporate governance and executive compensation on firm financial performance. They have done so by examining the association between measures of corporate governance and executive compensation and both risk-adjusted stock returns and firm accounting performance (generally measured as accounting return-on-assets). Most of these studies test this association in various settings where agency costs are more likely to be present, yielding mixed results (Bebchuk and Fried, 2006). We contribute to this debate by testing the efficacy of these measures within our rejection group. This group provides an ideal setting in which to examine whether managers act in shareholders' best interests since target management, in particular the CEO, play a prominent role in deciding whether to accept or reject an acquisition offer. Moreover, an acquisition offer strongly impacts the CEO's career prospects and wealth.

We test for incentive alignment versus rent extraction using four commonly applied measures -- whether there is a staggered board, whether a poison pill provision exists, CEO share ownership, and CEO option ownership. Prior research on the effects of staggered boards on firm valuation have yielded mixed results.<sup>5</sup> Our findings are consistent with studies that show that this

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<sup>4</sup> Malmendier et al. (2016) also find support for the information hypothesis in their analysis of failed takeover bids, but in the context of cash-financed versus stock-financed deals.

<sup>5</sup> Bebchuk, Coates, and Subramanian (2002a, 2002b), Faleye (2007), and Masulis, Wang, and Xie (2007) find a negative association between staggered boards and shareholder wealth. In contrast, Bates et al. (2008) and Amihud and Stoyanov (2017) show that a staggered board provision does not harm firm value or performance. Finally, Cremers and Ferrell (2014) provide evidence that the adoption of a staggered board provision significantly increases firm value.

provision does not detract from either firm value or performance, supporting the conclusion that a staggered board does not promote rent extraction. Studies on the effects of poison pills on firm value have also produced mixed results.<sup>6</sup> We find strong evidence of a negative association between a poison pill provision and a firm's future accounting performance, suggesting that the existence of a poison pill provision promotes rent extraction.

Results from prior inquiries on whether executive compensation promotes incentive alignment or rent extraction are mixed.<sup>7</sup> Regarding share ownership, our results also provide mixed evidence as we observe a negative relation between share ownership and firm performance in the first year following the acquisition failure year, which becomes insignificant in years two through five after the acquisition failure. With regard to stock option compensation, we find a positive association between option holdings and improvement in accounting profitability, consistent with this form of compensation enhancing incentive alignment. Overall, our results support the literature that argues that executive compensation enhances incentive alignment and is not a mechanism for executives to extract rents.

## **2. Sample**

Our sample construction method is detailed in Appendix 2. We begin with a sample of

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<sup>6</sup> Malatesta and Walkling (1988) and Ryngaert (1988) report negative abnormal stock returns around the announcement of poison pill adoptions. In contrast, Brickley, Coles, and Terry (1994) and Comment and Schwert (1995) find that the existence of a poison pill enhances target firm value.

<sup>7</sup> With respect to CEO share ownership, Core and Larcker (2002), and Benson and Davidson (2009) find a positive relation between share ownership by the CEO and firm performance, while Stulz (1988) and McConnell and Servaes (1990) find a positive relation at low levels of ownership and a negative relation at higher levels. In contrast, Palia (2001) and Cheung and Wei (2006) find no relation between managerial ownership and firm performance. Regarding CEO option ownership, Cai and Vijn (2007) and Fich, Cai, and Tran (2011) provide evidence that managers exploit options for their own benefit, consistent with rent extraction. In contrast, the majority of papers following the theoretical work of Jensen and Meckling (1976) find that options align managerial incentives with those of shareholders (Core and Guay, 1999; and Hanlon, Rajgopal, and Shevlin, 2003).

58,327 acquisition offers identified by the SDC database. This sample includes firms whose merger or acquisition announcement falls between January 1, 1979 and December 31, 2012, and where the target is a publicly traded U.S. company. We exclude 52,596 observations that SDC identifies as successful acquisitions, leaving us with a potential sample of 5,731 failed acquisition offers. Then, using information provided by the SDC database, we exclude observations for which: (1) the acquirer sought to purchase less than 50 percent, (2) the target market value is less than \$10 million, (3) the status of the deal is “Seeking Buyer Withdrawn” or “Dis Rumor”, (4) the target is missing a CRSP permanent number or a COMPUSTAT gvkey number, (5) the target is not traded as of 25 trading days prior to the acquisition announcement date, (6) the deal is classified as a share repurchase, (7) the acquirer and the target are the same firm, or (8) the target’s stock price is less than \$1. After applying these additional filters, we are left with 3,018 potential failed acquisition offers.

Addressing our research questions necessitates identifying the reason and date for each failed acquisition offer. However, the SDC database does not specify the reason behind failed acquisition offers; rather, it only documents whether an acquisition offer is successful or not. To obtain this information, we manually download from the Factiva database all press releases and news articles for each of the 3,018 failed acquisition offers over the period starting six months prior to the SDC acquisition announcement date and ending one year after the SDC withdrawn date. Reading through these news articles allows us to first identify both the reason behind each failed acquisition offer and the party that disclosed the reason, and to then correct for mistakes in the SDC database.<sup>8</sup> This extensive process results in a reduction of 465 observations that are

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<sup>8</sup> SDC is found to be erroneous regarding information pertaining to acquirers (Barnes, Harp and Oler, 2014).

misclassified by SDC and 192 observations for which we can find no press release from any source discussing the acquisition offer. Additionally, following Bates and Lemmon (2003) and Bates and Becher (2017), we combine multiple bidders that seek to acquire the same target into one observation if all bidding parties fail in acquiring the target, resulting in the elimination of 241 observations. Further, we remove 593 failed acquisition offers with multiple bidders where one bidder successfully acquired the target while the other bidders were classified as failed acquisition offers by SDC. Finally, we exclude 105 observations for which neither COMPUSTAT nor CRSP information is available and 87 observations where the acquisition process exceeds two years. This reduced sample consists of 1,335 observations for which we are able to identify the announcement date, the medium of payment of the initial offer price, the amount and date of any revised offers, the date of and reason of any rejections, the party that disclosed the reason for the failure, and the final termination date.

To address our first research question, we categorize each failed acquisition offer into one of two groups. The first group consists of all failed acquisition offers whose news article clearly identified the target's management or its board of directors as rejecting the offer (rejection group). The second group includes all other reasons where the target did not explicitly express an objection to the acquisition offer (non-rejection group). During this categorization process, we further remove 140 observations that contain multiple reasons for the failure and therefore could not be exclusively assigned to either group. This step yields a final sample of 1,195 observations. Table 1 provides the classification of the failure reason, and shows that the rejection group consists of 635 observations. Within this group, the main categories for rejection are (1) the target board rejected the offer stating that the offer price is too low (189 observations), (2) the target board rejected the offer without providing a specific reason (168 observations), and (3) the target board

rejected the offer stating that the offer is not in shareholders' best interest (136 observations). Our non-rejection group is comprised of 560 observations and includes 189 failed acquisition offers where the acquirer withdrew the offer, 131 observations where the acquirer disclosed that there is mutual consent by the acquirer and the target to cease the acquisition process, 25 observations where the acquisition was terminated due to regulatory obstacles, and 215 observations where failure was due to miscellaneous reasons.

[Insert Table 1 about here.]

A potential concern with regard to our classification process is that we inadvertently assign observations into the non-rejection group. In particular, the 131 observations that we classify as mutual consent and assign to the non-rejection group might actually belong to the rejection group. We believe that our classification process is appropriate, as none of the news articles that we read pertaining to the acquisition process of the 131 observations indicated a rejection by the target. Only at the termination date did the news article mention a mutual consent as the reason for the acquisition failure, implying that during the acquisition process the target's board of directors did not reject the acquisition offer. We confirm that our classification process is appropriate in the empirical analyses section.

### **3. Empirical analyses**

Our analyses in sections 3.1 and 3.2 investigate two possible explanations for the positive returns to the shareholders of target firms around the announcement date (e.g., information versus synergy). In Section 3.1, we examine the revaluation during the proposal period for the rejection group and the non-rejection group. In section 3.2, we further test for the information versus synergy hypotheses for both groups using future stock returns and future financial

performance. In Section 3.3, we examine our second research question by focusing on the rejection group and testing whether various corporate governance measures promote either managerial incentive alignment or rent extraction.

### *3.1 Revaluation during the proposal period*

In this sub-section, we investigate the returns during the proposal period for the rejection and non-rejection groups. Figure 1 plots the CAR for the proposal period for the entire sample of failed acquisition offers and for both groups.<sup>9</sup> For the rejection group, the failure date is defined as the last rejection date identified from newspaper articles and press releases. For the non-rejection group, we define the failure date as the first press release that provides information about the reason for the acquisition failure.<sup>10</sup> To account for differences in the length of the proposal period across acquisition offers, we follow the procedure described in detail by Malmendier et al. (2016) and express trading days as a percentage of the proposal period. For example, the 50 percent mark in the figure reflects trading day 50 if a bid fails after 100 trading days and trading day 20 if a bid fails after 40 trading days. The pattern of returns over the proposal period reflects a continuous updating by investors of the probability of the failure, as well as changes in the valuation of the target conditional on success.

[Insert Figure 1 about here.]

As shown in Figure 1, for our entire sample, the mean CAR is about 5 percent over the 25 trading days preceding the acquisition announcement date. This is consistent with prior literature

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<sup>9</sup> The use of 25 days window is standard in the literature (see, for example, Schwert, 1996, and Malmendier et al., 2016).

<sup>10</sup> For both groups we verify that there are no further events that are related to the acquisition process by reading news articles regarding the target firm dating up to one year following the failure date.

documenting pre-announcement stock price run-ups. Also, consistent with prior research, we observe a mean CAR of about 10 percent at the acquisition announcement date. As time progresses, there is a gradual decline in the mean CAR, as investors lower the probability of the acquisition's success. By the failure date, the positive revaluation that takes place prior to and at the acquisition announcement date almost fully dissipates. In the 25 trading days following the acquisition failure date, there is an insignificant downward drift in the mean CAR. To sum, over the entire proposal period, the mean CAR for the full sample is insignificantly different than zero.

A comparison of the rejection group and the non-rejection group over the proposal period provides striking differences. During the pre-announcement and announcement periods, the mean CAR for the rejection group is only slightly higher than that of the non-rejection group. However, during the period between the acquisition announcement and failure dates, the positive revaluation completely reverses for the non-rejection group, while it decreases substantially less for the rejection group. Further, the stock price declines significantly for the non-rejection group around the failure date, but does not decline for the rejection group. Overall, over the entire proposal period, we observe a positive and significant revaluation for the rejection group and a negative and significant revaluation for the non-rejection group.<sup>11</sup>

Figure 2 plots the mean CAR over the proposal period for both groups, conditioning on whether firms remain independent or are acquired within five years following the failure date.

Panel A of Figure 2 shows a positive revaluation over the proposal period for firms in the

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<sup>11</sup> In untabulated results, we confirm that our results are not sensitive to the assignment of the 131 observations classified as mutual consent to the non-rejection group. Specifically, removing these observations does not change figure 1 results.

rejection group irrespective of whether they are acquired. In untabulated results we find that the positive revaluation over the proposal period is a significant 6.21 percent for target firms that remain independent and a significant 8.59 percent for target firms who are acquired within the next five years. The difference in means between these two sub-groups is significant at the 1 percent level, providing evidence that the market is able to discern which target firms will be attractive targets in the future. Our finding of a positive revaluation for target firms that rejected an acquisition offer and remain independent is novel and is in contrast to prior literature documenting that a positive revaluation over the proposal period exists only for firms that are subsequently acquired.

Panel B of Figure 2 plots the mean CAR over the proposal period for the non-rejection group, conditioning on whether firms remain independent or are acquired within five years following the failure date. As shown in this panel, we find a negative revaluation over the proposal period for firms in the non-rejection group irrespective of whether they are acquired or not. In untabulated results, we find a negative permanent revaluation over the proposal period of -17.43 percent for target firms that remain independent and -10.35 percent for target firms that are subsequently acquired. The difference in means between these two sub-groups is significant at the 1 percent level. This again provides evidence that the market is able to distinguish which target firms will be acquired in the future. However, the significant negative returns for these firms indicate that investors understand that the acquisition premium in the future will be lower than their expectation prior to the current failed offer. Our finding of a negative revaluation for target firms in the two sub-groups is also novel and is in contrast to prior literature documenting insignificant returns for firms that are not subsequently acquired.



Overall, the results in Figures 1 and 2 support the following conclusions: First, the positive market revaluation over the proposal period for the rejection group is consistent with investors revising upward their assessment of the target firm's stand-alone value, and supports the information hypothesis. Second, the negative proposal period return for the non-rejection group suggests that investors are reacting not only to the failure of the acquisition offer but also to the diminished prospects of future offers, and is supportive of the synergy hypothesis for this group of firms.

[Insert Figure 2 about here.]

Since Figure 1 does not provide economic and statistical significance for the differences in CARs between the rejection and non-rejection groups, we report both univariate results (Table 2) and multivariate results (Table 3) for the mean CAR over different windows during the proposal period for each group and the difference in returns between the groups.

[Insert Table 2 about here.]

Table 2 shows that during the period starting 25 trading days and ending 2 trading days prior to the acquisition announcement date (A-25, A-2), there is a significant positive CAR of 4.12 percent for the rejection group and 2.06 percent for the non-rejection group, consistent with a pre-announcement stock price run-up. The difference in the mean CAR between the two groups is only marginally significant (t-statistic of 1.81). In addition, the mean CAR over the five-day window around the acquisition announcement date (A-2, A+2) is a significant 14.24 percent for the rejection group and a significant 13.56 percent for the non-rejection group; but the mean CARs insignificantly differ from one another. Moreover, the offer premium for both

groups is similar and is around 30 percent. These results highlight that within failed acquisition offers, investors, *a priori*, do not differentiate between the rejection and non-rejection groups.

Moving to the intermediate period starting 2 trading days following the acquisition announcement date and ending 2 trading days prior to the failure date (A+2, F-2), we find negative and significant CARs for both groups. Specifically, the mean CAR for the rejection group is -6.15 percent, maintaining an overall positive revaluation of 12.21 percent. In contrast, the mean CAR for the non-rejection group is -15.65 percent, completely reversing the positive revaluation at the acquisition announcement (total CAR of -0.03 percent). These results provide evidence that during the intermediate period investors continuously update the probability of the acquisition offer to be successful. Our conclusion that the reason for the acquisition failure is prominent is confirmed by observing the 5-day mean CAR around the failure date (F-2, F+2). In particular, for the rejection group we observe an insignificant CAR of 0.46 percent, while for the non-rejection group, we observe a negative and significant CAR of -11.87 percent. Last, we observe that over the entire proposal period there is a significant positive revaluation of 7.06 percent for the rejection group and a significant negative revaluation of -16.02 percent for the non-rejection group.

The negative revaluation of -16.02 percent for the non-rejection group takes place around the failure date and the post-failure date. Whereas the reversal of the positive revaluation at the announcement date is to be expected due to the loss of the synergetic value, the negative revaluation result is novel and surprising. In additional untabulated analysis within the non-rejection group, we find a similar CAR pattern for 21 out of the 26 reasons where the negative revaluation appears only after the failure reason is revealed. For reasons 2, 14, 21, 23 and 24 (a

total of 152 observations), which are primarily related to either target or acquirer poor-performance, we find a different CAR pattern. Specifically, for these 5 reasons, we find significant negative revaluation prior to the revelation of the failure reason and an additional significant price decline during and subsequent to the failure reason revelation. This analysis confirms that there is a negative revaluation in response to the disclosure of the failure reason regardless of the failure reason. These results support our previous conclusion that the failure reason is informative about the prospect of synergy gains from future acquisition offers.

We complement our univariate results by estimating the following multivariate regression:

$$CAR_j(X_i) = Rejection_j + Cash_j + Stock_j + Mix_j + Target\_size_j + Offer\_premium_j + \varepsilon_j, \quad (1)$$

where  $CAR_j(X_i)$  is calculated for firm  $j$  over six different return windows  $X_i$ : the entire proposal period (A-25,F+25), the pre-acquisition announcement period  $CAR(A-25,A-2)$ , the acquisition announcement period  $CAR(A-2,A+2)$ , the intermediate period  $CAR(A+2,F-2)$ , the failure period  $CAR(F-2,F+2)$ , and the post-failure period  $CAR(F+2,F+25)$ . The indicator variable,  $Rejection_j$  takes the value 1 if target firm  $j$  belongs to the rejection group, and 0 otherwise.  $Cash_j$  ( $Stock_j$ ) is an indicator variable equal to 1 if the consideration for the acquisition of target firm  $j$  consists of 100 percent cash (stock), and 0 otherwise.  $Mix_j$  is an indicator variable equal to 1 if the consideration for the acquisition of target  $j$  consists of both cash and stock, and 0 otherwise.  $Target\_size_j$  is calculated as the logarithm of target  $j$ 's market value as of 26 trading days prior to the acquisition announcement date.  $Offer\_premium_j$  is the ratio of the initial offer price to

target  $j$ 's stock price as of 26 trading days prior to the acquisition announcement date, minus one. All of our regressions include year- and industry-fixed effects (based on the Fama-French 48-industry classification). We provide descriptive statistics regarding our control variables in Table 2. As shown in the table, a target firm in the rejection group is significantly more (less) likely to receive an all-cash (all-stock) offer than is a target firm in the non-rejection group. In addition, target firms in the rejection group have a mean market value that is slightly higher than that of firms in the non-rejection group (\$850 million versus \$690 million).

[Insert Table 3 about here.]

Table 3 reports the results of estimating equation (1). The multivariate results are consistent with the univariate results in Table 2, indicating that deal characteristics and firm attributes do not impact our conclusion from the univariate results. In particular, as shown in columns 1 and 2 of Table 3, during the pre-announcement period and at the acquisition announcement date, the coefficient on the rejection indicator is insignificantly different from zero. These results are consistent with investor inability to differentiate between the two groups prior to and at the time of the acquisition announcement date. In columns 3 and 4, the coefficient on the rejection indicator is positive and significant, indicating a divergence between the two groups conditional on the reason for the acquisition failure. In the post-failure period (column 5), the coefficient is insignificant, consistent with market efficiency. As shown in column 6, over the entire proposal period the mean CAR is a significant 21.3 percent higher for the rejection group relative to the non-rejection group. This compares to 23.08 percent found in our univariate results in Table 2.

Overall, our univariate and multivariate results are consistent with the synergy hypothesis

being the dominant explanation for the premium offered to firms in the non-rejection group. One interpretation of the negative revaluation experienced by firms in the non-rejection group is that prior to the acquisition announcement date, investors consider these firms as attractive targets due to their synergetic value, which results in a higher market value relative to their stand-alone value. Therefore, when the acquisition fails due to reasons such as the acquirer deciding not to proceed with the acquisition, regulatory intervention, or exogenous deterioration in market conditions, this acquisition premium disappears, resulting in a negative revaluation following the acquisition failure. In contrast, the result of a positive revaluation documented for the rejection group supports the information hypothesis. In the next sub-section, we substantiate our conclusion regarding the two groups.

### *3.2 Information hypothesis versus synergy hypothesis*

In this sub-section we investigate both hypotheses using both long-term stock returns and long-term financial performance. We use long-term stock returns to establish whether positive (negative) revaluation for the rejection (non-rejection) group is permanent. The absence of reversal of the proposal period revaluation over subsequent years would provide further evidence that the information hypothesis applies to the rejection group and that the synergy hypothesis applies to the non-rejection group. We also provide additional insights into the drivers of the acquisition premium by examining firms' future financial performance. Observing gains in operating, investing, and financing efficiencies will be consistent with the kick-in-the-pants hypothesis of Safieddine and Titman (1999). They conjecture that a failed acquisition provides impetus for target firm management to improve firm performance so as to forestall future takeover bids.

### 3.2.1 Long-term stock returns

In this sub-section, we test whether the revaluation of the two groups during the proposal period persists over the long term. We estimate long-term abnormal returns using the Fama-French four-factor model:

$$R_{p,t} - R_{f,t} = \alpha_j + \beta_j (R_{m,t} - R_{f,t}) + \delta_j SMB_t + \sigma_j HML_t + \phi_j UMD_t + \varepsilon_{j,t} \quad (2)$$

where  $R_{p,t}$  is the return on an equally-weighted portfolio  $p$  formed for each of the groups in calendar time for each month  $t$ ;  $R_{f,t}$  is the risk-free rate, measured as the one-month treasury bill rate;  $R_{m,t}$  is the market portfolio return, measured using the CRSP value weighted index;  $SMB_t$ ,  $HML_t$ ,  $UMD_t$  are the size, market-to-book, and momentum factor returns, respectively. The intercept (Jensen's alpha) is the abnormal return unexplained by the four factors. Portfolio and factor returns are measured for the 12, 24, 36, 48, and 60 month periods starting one month after the failure date.

[Insert Table 4 about here.]

Table 4 reports the alphas from estimating the Fama-French four-factor regressions. For the rejection group, we do not find any significant alphas except in the 36-month window, where the alpha is marginally significant (t-statistic of 1.76) but not economically meaningful (an average annual abnormal return of 3.6 percent). For the non-rejection group, none of the alphas are significantly different than zero.

Overall, our results indicate that the revaluations documented during the proposal period for both groups do not reverse over the long-term, consistent with market efficiency. According

to the synergy hypothesis, a positive revaluation for the rejection group stems from the expectation that these firms will be acquired in the future. Since our long-term returns are calculated only for firms that remain independent during the various horizons (12, 24, 36, 48, and 60 months) and since the positive revaluation over the proposal period does not reverse for these firms, we find no support for the synergy hypothesis. Rather, our results support the information hypothesis. In contrast, the evidence that the negative revaluation for the non-rejection group does not reverse in the long-term supports the synergy hypothesis. Having established that the revaluations over the proposal period for both groups are permanent, we further investigate the information versus synergy hypotheses by testing for changes in the future financial performance of both groups.

### *3.2.2 Future financial performance*

In this subsection we test for changes in future financial performance. In contrast to stock returns that are conditional on market efficiency, firms' future financial performance provides an additional insight for differentiating between the two hypotheses. Our tests pertain to firms that remain independent in the various horizons (12, 24, 36, 48, and 60 months). Thus, for target firms in our rejection group, we expect financial performance to improve, consistent with the permanent positive revaluation and supportive of the information hypothesis. Furthermore, an improvement of the target's future operating, investing, and financing performance will offer support for the kick-in-the-pants. In contrast, for target firms in our non-rejection group, we expect financial performance to deteriorate, consistent with our finding of negative permanent revaluation.

[Insert Table 5 about here.]

To test these predictions, we measure the future changes in target firms' operating, investing, and financing policies. We proxy for the changes in these policies using net income, sum of short- and long-term debt, number of employees, capital expenditures, R&D expense, and logarithm of total assets. For each of these variables, we compute the cumulative change starting one fiscal year prior to the acquisition announcement year and up to five years after. All measures, except for logarithm of total assets, are scaled by the firm's total assets as of the end of the fiscal year prior to the acquisition announcement year. Using the Propensity Score Matching (PSM) process with replacement, we then match each target firm to its closest match based on industry (Fama-French 48 industry classification), year, total assets, and return on assets.<sup>12</sup> We investigate the matched-adjusted changes in each of these variables for the rejection and non-rejection groups, separately.

Table 5, panel A reports the changes in the long-term financial performance for our rejection group compared to a matched sample. Focusing on changes in net income, we find that the rejection group performs similarly to a matched sample up to five years following the acquisition announcement year. However, as reported earlier, the rejection group exhibits a positive revaluation during the proposal period that does not reverse over the next five years. We therefore interpret these results as an indication of the market perceiving that during the acquisition process, firms in the rejection group are undervalued irrespective of future improvement in their accounting performance, supporting the information hypothesis. Next, we find a significant decrease in the target firm's debt level starting two years and up to five years

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<sup>12</sup> The matched sample includes the entire COMPUSTAT database after excluding our final sample of 1,195 failed acquisition offers.



following the acquisition announcement year compared to a matched sample. We also observe a significant reduction in operating and investing activities. In particular, we observe for the target firm a significant reduction in the number of employees up to five years following the acquisition announcement year, in capital expenditure up to four years following the acquisition announcement year, and in firm size for up to five years following the acquisition announcement year, all in comparison to their matched sample. Overall, these results support the kick-in-the-pants hypothesis, as firms improve their financing, operating, and investment decisions following a failed acquisition offer without experiencing a decrease in net income. Interestingly, the improvement in operating efficiency for the rejection group is mainly concentrated in variables that are under management control such as number of employees, debt level, and capital expenditure. This indicates that although the market's perception of the undervaluation over the proposal period is correct, the undervaluation is unlocked due to the acquisition attempt. Specifically, in response to the acquisition attempt, management aggressively acts to reduce costs and increase firm efficiency, justifying investors' positive revaluation during the proposal period.

Table 5, panel B reports the results for the non-rejection group. Focusing on changes in net income, we find a significant and consistent deterioration in net income relative to a matched sample up to five years following the acquisition announcement year. This result provides strong support for the synergy hypothesis and strengthens our earlier finding that firms in the non-rejection group exhibit a negative revaluation during the proposal period that does not reverse over the next five years. Moreover, the result provides corroborating evidence that these firms are not attractive on a stand-alone basis. Next, we find no change in the target firm's total

debt and R&D expense up to five years following the acquisition announcement year. We do, however, find a significant reduction in the number of employees and capital expenditure for up to two years following the acquisition announcement year and firm size up to five years following the acquisition announcement year, all in comparison to their matched sample. Overall, while firms in the non-rejection group attempt to improve their operational efficiency, similar to target firms in the rejection group, they are unable to increase their earnings relative to a matched sample and in untabulated results to the rejection group.

To summarize, the results in Table 5 support our previous conclusion that only the synergy hypothesis is applicable for the non-rejection group. With regard to the rejection group, our results are again consistent with the previous findings that the information hypothesis dominates the synergy hypothesis while adding that the kick-in-the-pants explanation applies for this group.

### *3.3 Corporate governance*

Prior literature has been unable to reach a consensus whether commonly used corporate governance measures promote managerial incentive alignment or rent extraction. Failed acquisition offers provide a unique setting that is susceptible to conflict of interest between managers and shareholders. In this setting, we limit ourselves to the rejection group because only for this group, target's management, particularly the CEO, plays a prominent role in deciding whether to accept or reject an acquisition offer. Furthermore, an acquisition offer strongly impacts the CEO's career prospects and wealth and thus presents an ideal setting to examine whether managers act in shareholders' best interests or diverge from those of shareholders. By concentrating on the rejection group, we test for incentive alignment and rent extraction using four

commonly applied corporate governance measures (i.e., staggered board, poison pill provision, CEO share ownership, and CEO option ownership). Ideally, we would prefer commonly used comprehensive corporate governance measures (e.g., G-index and E-index); however, only a few of the firms in our sample are covered by these measures. In Section 3.3.2, we examine the consequences to shareholders' wealth using the five-day CAR around the rejection date for each of the four measures. In section 3.3.3, we further test for shareholders' wealth using future accounting performance.

### *3.3.1 Descriptive statistics*

We obtain information on the four corporate governance measures from several sources. Using proxy statements, we manually obtain information on staggered board for 273 observations, on CEO share ownership for 258 observations, and on CEO option ownership for 260 observations. Additionally, using the Factset Shark Repellent Database, we obtain information on poison pill provisions for 295 observations. The main reason for the decrease in the sample size of 635 target firms in the rejection group is our inability to obtain proxy statements prior to 1993. Table 6 reports the statistics regarding the corporate governance measures, showing that 137 target firms (50 percent) have a staggered board and 147 target firms (50 percent) have a poison pill provision. With regard to CEO ownership (shares and options), we find that CEOs hold, on average, a significant ownership of their firm's outstanding shares (7.88 percent). Interestingly, CEO ownership is mainly comprised of shareholdings (6.07 percent) compared to option ownership (1.81 percent). Hence, our sample consists of CEOs who hold a significant amount of undiversified wealth.

[Insert Table 6 about here.]

### 3.3.2 Short-term stock returns

If weak corporate governance increases the probability that managers act in their own interest at the expense of shareholders, we expect that a rejection decision would be associated with a reduction in shareholders' value. Hence, observing a negative price reaction to the rejection decision is consistent with rent extraction. Alternatively, if the corporate governance strength is unrelated to the decision to reject an offer, then we expect no significant price reaction to the rejection decision. To investigate the two conjectures, we estimate the following regression:

$$\begin{aligned} CAR_j(R - 2, R + 2) & \qquad \qquad \qquad (3) \\ & = Gov_{j,g} + Cash_j + Stock_j + Mix_j + Target\_size_j + Offer\_premium_j + \varepsilon_j, \end{aligned}$$

where  $GOV_{j,g}$  represents corporate governance  $g$  for firm  $j$  a year before the acquisition announcement date. These measures include staggered board, poison pill provision, CEO share ownership, and CEO option ownership. Table 7 reports the results of these regressions. Columns 1 through 4 show that the results for staggered board, poison pill provision, CEO share ownership, and CEO option ownership are all not significantly associated with the five-day CAR around the rejection date. These insignificant results are consistent with a contention that shareholders perceive neither antitakeover provisions (i.e., staggered board and a poison pill provision) nor CEO compensation as measures that promote managerial rent extraction.

[Insert Table 7 about here.]

### 3.3.3 Long-term accounting performance

The evidence in Section 3.3.2 provides little support for the rent extraction hypothesis. Therefore, to validate these results, we also examine long-term accounting performance. If corporate governance measures are negatively associated with future accounting performance, this

result would lend support for managerial rent extraction and would indicate that these measures are of weak corporate governance. Alternatively, if corporate governance measures are associated with either no change or an improvement in future accounting performance this would lend support for incentive alignment and would indicate that these measures are of strong corporate governance. To test these conjectures, we estimate the following regression:

$$\begin{aligned} & (\Delta_{j,y-1}^{y+k}(NI)/TA_{j,y-1})_j & (4) \\ & = Gov_{j,g} + Cash_j + Stock_j + Mix_j + Target_{size_j} + Offer\_premium_j + \varepsilon_j. \end{aligned}$$

Panels A through D of Table 8 report the results of this regression for the four corporate governance measures. As shown in panel A, there is no significant association between firms with a staggered board and long-term accounting performance. This result is consistent with the five-day window returns around the rejection date. Overall, we find no evidence that staggered board enhances rent extraction when a CEO decides to reject an acquisition offer. Panel B shows that for firms with a poison pill provision, future accounting performance deteriorates significantly two years after the acquisition failure date and continues to deteriorate for up to five years, consistent with managerial rent extraction. Specifically, after two years the accounting performance is 4.4 percent lower for firms with a poison pill provision compared to those without, while after five years it is 6.3 percent lower. These results are in contrast to the contemporaneous returns around the rejection date, indicating that investors ignore the possibility that poison pill provisions enhance management entrenchment.

Panel C reports the results for CEO share ownership. As shown in this panel, in the first year following the acquisition failure, we find a significantly negative association between share ownership and accounting performance. This negative performance slowly reverses and turns

insignificant between two and five years following the failure date. Overall, these results provide mixed evidence regarding CEOs with large share ownership.

Panel D examines CEO option ownership. A priori, higher CEO option ownership should be associated with incentive alignment. In contrast to shares, options as they carry no voting rights do not provide CEOs with control rights. Therefore, option holdings are only valuable if the firm's future stock price increases. Hence, if the acquisition offer is properly valued, the CEO and shareholders maximize their wealth by agreeing to the acquisition. However, if the CEO has private information that the acquisition offer undervalues the firm, a rejection of the offer maximizes shareholders' value. Thus, higher CEO option ownership should coincide with incentive alignment. Consistent with this conjecture, the results in panel D show that CEO option ownership is positively and significantly associated with an increase in accounting performance up to four years following the acquisition failure year. This positive relation is consistent with our conjecture that option ownership promotes incentive alignment. Furthermore, these results indicate that investors should not ignore CEO option ownership in rejected acquisition offers.

[Insert Table 8 about here.]

#### *4. Summary*

In this paper we show that the revaluation of target firms in failed acquisition offers is fundamentally dependent on the reason for the acquisition failure. Specifically, we document a permanent positive revaluation if the failure is due to rejection by either the target's board of directors or by its management. In addition, we document a permanent negative revaluation if the failure is due to other reasons that are not under the direct control of the target. Prior literature documents a positive revaluation only for firms that are subsequently acquired, supporting the

synergy hypothesis. In contrast, we find that the information hypothesis dominates in the rejection group, while the synergy hypothesis dominates in the non-rejection group irrespective of subsequent acquisitions.

Our paper also contributes to the extant literature that investigates managerial incentive alignment versus rent extraction in various settings. Specifically, by focusing on failed acquisitions that are due to management rejection, we offer a new setting that is conducive to a conflict of interest between management and shareholders. We find that the existence of a poison pill provision exacerbates the rent extraction problem. In contrast, we find that the existence of a staggered board does not promote rent extraction and that higher levels of CEO option ownership enhance incentive alignment.

Our results are limited to conclusions pertaining to our sample of failed acquisitions. We are unable to conclude whether targets that were successfully acquired are purchased due to their synergetic value to the acquirer or because they are undervalued. Unfortunately, acquired target firms are rarely kept as a separate subsidiary with publicly available financial information, and hence, post-acquisition performance of successful acquisitions is impossible to evaluate. Despite this caveat, we believe that our comprehensive database of failed acquisition offers will generate future research on new topics and revisit and test prior literature.

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**APPENDIX 1**  
**Variable Definitions**

Variable	Definition
Rejection	A indicator variable equal to 1 if an acquisition is rejected by either the target's board of directors or its management and 0, otherwise
CAR [A-25, A-2]	CAR of the target starting 25 trading days and up to 2 trading days before the acquisition announcement date
CAR [A-2, A+2]	CAR of the target over the five-day acquisition announcement window (termed as announcement period)
CAR [A+2, F-2]	CAR of the target starting 2 trading days after the acquisition announcement date and ending 2 trading days before the acquisition failure date (acquisition failure date is defined as the first press release discussing the details of the acquisition failure)
CAR [F-2, F+2]	CAR returns of the target over the five-day acquisition failure window
CAR [F+2, F+25]	CAR of the target starting 2 trading days and up to 25 trading days following the acquisition failure date
CAR [A-25, F+25]	CAR of the target starting 25 trading days before the acquisition announcement date and ending 25 trading days after the acquisition failure date (termed as proposal period)
Cash	An indicator variable equal to 1 if the consideration for the acquisition consists of 100% cash and 0, otherwise
Stock	An indicator variable equal to 1 if the consideration for the acquisition consists of 100% stock and 0, otherwise
Mix	An indicator variable equal to 1 if the consideration for the acquisition consists of both stock and cash and 0, otherwise
Target_size	Logarithm of the market value of equity of the target as of 26 trading days prior to the acquisitions announcement date
Offer premium	The ratio of the initial offer price to the stock price of the target as of 26 trading days prior to the acquisition announcement date, minus one. For acquisition offers with missing initial offer prices, the initial offer price is approximated as the target's stock price two trading days after the acquisition announcement date
$\Delta_{y-1}^{y+k}(NI)/TA_{y-1}$	The cumulative change in the target's net income starting in the fiscal year before the acquisition announcement year $y$ ( $Year_{y-1}$ ) and ending in the $k^{th}$ fiscal year ( $Year_{y+k}$ ) after the acquisition announcement ( $k$ is from +1 to +5), scaled by the target's total assets as of $Year_{y-1}$
$\Delta_{T,M}\Delta_{y-1}^{y+k}(NI)/TA_{y-1}$	The difference between the cumulative change in the target $T$ 's net income starting in the fiscal year before the acquisition announcement year $y$ ( $Year_{y-1}$ ) and ending in the $k^{th}$ fiscal year ( $Year_{y+k}$ ) after the acquisition announcement ( $k$ is from +1 to +5), scaled by the target's total assets as of $Year_{y-1}$ and the same variable calculated for a matched firm $M$ . The matched firm is based on a Propensity Score Matching (PSM) with replacement based on industry (Fama-French 48 industry classification), year, total assets, and return on assets.
$\Delta_{T,M}\Delta_{y-1}^{y+k}(Debt)/TA_{y-1}$	The difference between the cumulative change in the target $T$ 's sum of short- and long-term debt starting in the fiscal year before the acquisition announcement year $y$ ( $Year_{y-1}$ ) and ending in the $k^{th}$ fiscal year ( $Year_{y+k}$ ) after the acquisition announcement ( $k$ is from +1 to +5), scaled by the

Variable	Definition
	target's total assets as of $Year_{y-1}$ and the same variable calculated for a matched firm $M$ . The matched firm is based on a Propensity Score Matching (PSM) with replacement based on industry (Fama-French 48 industry classification), year, total assets, and return on assets.
$\Delta_{T,M}\Delta_{y-1}^{y+k}(Emp)/TA_{y-1}$	The difference between the cumulative change in the target $T$ 's number of employees starting in the fiscal year before the acquisition announcement year $y$ ( $Year_{y-1}$ ) and ending in the $k^{th}$ fiscal year ( $Year_{y+k}$ ) after the acquisition announcement ( $k$ is from +1 to +5), scaled by the target's total assets as of $Year_{y-1}$ and the same variable calculated for a matched firm $M$ . The matched firm is based on a Propensity Score Matching (PSM) with replacement based on industry (Fama-French 48 industry classification), year, total assets, and return on assets.
$\Delta_{T,M}\Delta_{y-1}^{y+k}(CapEx)/TA_{y-1}$	The difference between the cumulative change in the target $T$ 's capital expenditure starting in the fiscal year before the acquisition announcement year $y$ ( $Year_{y-1}$ ) and ending in the $k^{th}$ fiscal year ( $Year_{y+k}$ ) after the acquisition announcement ( $k$ is from +1 to +5), scaled by the target's total assets as of $Year_{y-1}$ and the same variable calculated for a matched firm $M$ . The matched firm is based on a Propensity Score Matching (PSM) with replacement based on industry (Fama-French 48 industry classification), year, total assets, and return on assets.
$\Delta_{T,M}\Delta_{y-1}^{y+k}(R\&D)/TA_{y-1}$	The difference between the cumulative change in the target $T$ 's R&D expense starting in the fiscal year before the acquisition announcement year $y$ ( $Year_{y-1}$ ) and ending in the $k^{th}$ fiscal year ( $Year_{y+k}$ ) after the acquisition announcement ( $k$ is from +1 to +5), scaled by the target's total assets as of $Year_{y-1}$ and the same variable calculated for a matched firm $M$ . The matched firm is based on a Propensity Score Matching (PSM) with replacement based on industry (Fama-French 48 industry classification), year, total assets, and return on assets.
$\Delta_{T,M}\Delta_{y-1}^{y+k}\log(TA)$	The difference between the cumulative change in the target $T$ 's logarithm of total assets starting in the fiscal year before the acquisition announcement year $y$ ( $Year_{y-1}$ ) and ending in the $k^{th}$ fiscal year ( $Year_{y+k}$ ) after the acquisition announcement ( $k$ is from +1 to +5), and the same variable calculated for a matched firm $M$ . The matched firm is based on a Propensity Score Matching (PSM) with replacement based on industry (Fama-French 48 industry classification), year, total assets, and return on assets.
Staggered board	An indicator variable equal to 1 if the target has a staggered board in the year prior to the acquisition announcement date and 0, otherwise
Poison pill provision	An indicator variable equal to 1 if the target has a poison pill provision in the year prior to the acquisition announcement date and 0, otherwise
CEO share ownership	The percentage of shares held by the target's CEO divided by the target's number of shares outstanding as of 25 trading days prior to the acquisition announcement date
CEO option ownership	The percentage of vested and unvested options held by the target's CEO divided by the target's number of shares outstanding as of 25 trading days prior the acquisition announcement date

**APPENDIX 2**  
**Sample Construction**

<b>Step 1 –Filtering using SDC information</b>	<b>Number of observations</b>
Thompson Reuters Securities Data Company (SDC) Mergers and Acquisitions database sample that satisfies the following criteria: (1) the merger or acquisition is announced between January 1, 1979 and December 31, 2012, (2) the target is a U.S. company, and (3) the target is a publicly traded company	58,327
Excluding successful acquisitions (keeping observations that have the status of withdrawn or non-missing withdrawn date)	-52,596
Excluding observations in which the acquirer sought to acquire less than 50% (keeping observations with missing values)	-709
Excluding observations whose target’s market value is less than \$10 million as of 25 trading days prior to the acquisition announcement date	-416
Excluding observations that are classified by SDC as "Seeking Buyer Withdrawn" or "Dis Rumor"	-408
Excluding observations with missing CRSP permanent number	-380
Excluding observations in which the target is not traded as of 25 trading days prior to the acquisition announcement date	-379
Excluding observations with missing COMPUSTAT gvkey	-147
Excluding observations classified as share repurchase	-145
Excluding observations in which the target and the acquirer are the same firm	-65
Excluding observations in which the target’s stock price is less than \$1 as of 25 trading days prior to the acquisition announcement date	-64
<b>Total observations after filtering using SDC information</b>	<b>3,018</b>
<b>Step 2 - Manual Filtering using news articles information</b>	
Excluding observations that we identified as acquirers seeking less than 50%	-104
Excluding observations that we identified as seeking buyer and their intention was withdrawn	-72
Excluding observations that we identified as delisted during the acquisition process	-71
Excluding observations that we identified as rumors	-59
Excluding observations that we identified as going through a recapitalization/spin off/restructuring	-57
Excluding observations that we identified as successful acquisitions	-35
Excluding observations that we identified as duplicates	-27
Excluding observations that we identified as no formal offer was made	-24
Excluding observations that we identified as the acquirer already owning more than 50% of target	-8
Excluding observations that we identified as sales between different shareholders	-6

Excluding observations that we identified as private targets	-2
<b>Total observations that we identified as inconsistent with SDC</b>	<b>465</b>
Excluding failed acquisition offers with multiple bidders where one bidder successfully acquired the target	-593
Combining multiple bidders for the same target into one observation if all bidding parties fail in acquiring the target	-241
Excluding observations where we could not find a press release regarding the acquisition process	-192
Excluding observations with missing information on COMPUSTAT or CRSP	-105
Excluding observations where the acquisition process exceeds two years	-87
<b>Total observations with a failure reason</b>	<b>1,335</b>
Excluding observations with multiple reasons for the acquisition failure	-140
<b>Final sample</b>	<b>1,195</b>

**TABLE 1**  
**Classification of failure reasons**

Code	Reason	N
<b>Rejection Group</b>		
1	Target board rejected the offer stating that the offer price is too low	189
2	Target board rejected the offer without providing any specific reason	168
3	Target board rejected the offer stating it is not in shareholders' best interest	136
4	Target Board and target shareholders rejected the offer	77
5	Target board rejected the offer citing inability of the acquirer to get financing	32
6	Target board rejected the offer citing an anti-takeover mechanism	21
7	Target board rejected the offer citing regulation	8
8	Target board rejected the offer stating managers' concern for their personal fate	4
<b>Total Rejection Group</b>		<b>635</b>
<b>Non-Rejection Group</b>		
<b>Acquirer withdrew offer due to:</b>		
1	Acquirer's shareholders objected	43
2	Acquirer stated that the target has poor performance	41
3	Acquirer loss of interest	34
4	Acquirer stated that the target stock price became too high	20
5	Acquirer stated deterioration in industry conditions	19
6	Acquirer stated due diligence	10
7	The acquirer became a target	8
8	Acquirer stated that the acquisition is not in the acquirer shareholders' best interest	5
9	Acquirer was unable to receive a pooling treatment	5
10	Acquirer stated that the target is purchasing another firm	2
11	Acquirer's lenders objected	2
<b>Total</b>		<b>189</b>
<b>Mutual consent of acquirer and target to terminate the offer:</b>		
12	Mutual consent of termination (not citing specific reasons)	55
13	Disagreement over price	44
14	Recent stock market activity / decline in both companies' share prices	15
15	Acquirer and target offer differing views about the failure	9
16	Delay in regulation	4
17	Bad synergy	4
<b>Total</b>		<b>131</b>
<b>Regulatory obstacles that led to the failure of the acquisition offer:</b>		
18	Antitrust	15
19	Acquirer decided that regulation is excessive	5
20	Other regulatory obstacles	5

<b>Code</b>	<b>Reason</b>	<b>N</b>
	<b>Total</b>	<b>25</b>
	<b>Miscellaneous reasons</b>	
21	Chapter 11, capital infusion to prevent insolvency, restructuring agreement with creditors	49
22	News reports indicating that the acquirer is unable to obtain financing	34
23	Acquirer poor performance	28
24	Other reasons	19
25	Unable to complete deal on time	9
26	No reason provided for withdrawal	76
	<b>Total</b>	<b>215</b>
<b>Total Non- Rejection Group</b>		<b>560</b>
<b>Total number of failed proposed deals</b>		<b>1,195</b>

This table presents the distribution of failure reasons for our sample of 1,195 failed acquisition offers. We identify the failure reason for each deal by reading related press releases and news articles using the Factiva database over the period starting six months prior to the SDC acquisition announcement date through one year after the SDC withdrawn date. We classify the 1,195 failed acquisitions into two groups – wither target board or management rejected the acquisition offer (rejection group), and failed acquisitions due to other reasons (non-rejection group).

**TABLE 2**  
**Descriptive statistics and univariate results**

	Rejection group				Non-rejection group				p-value
	N	Mean	Median	STD	N	Mean	Median	STD	
CAR [A-25, A-2]	635	4.12%***	2.63%***	17.96%	560	2.06%**	0.93%*	21.31%	0.07*
CAR [A-2, A+2]	635	14.24%***	11.66%***	16.56%	560	13.56%***	10.63%***	23.12%	0.55
CAR [A+2, F-2]	635	-6.15%***	-6.30%***	20.41%	560	-15.65%***	-15.40%***	28.94%	0.00***
CAR [F-2, F+2]	635	0.46%	-0.59%	14.32%	560	-11.87%***	-10.09%***	20.28%	0.00***
CAR [F+2, F+25]	635	-4.21%***	-4.55%***	15.94%	560	-4.12%***	-4.55%***	25.61%	0.94
CAR [A-25, F+25]	635	7.06%***	5.18%***	31.82%	560	-16.02%***	-16.65%***	40.43%	0.00***
$\Delta_{y-1}^{y+5}(NI)/TA_{y-1}$	389	0.035	0.010	0.295	294	-0.022	0.012	0.413	0.04**
$\Delta_{y-1}^{y+5}(Emp)/TA_{y-1}$	362	0.003	0.000	0.021	275	0.005	0.000	0.020	0.10*
$\Delta_{y-1}^{y+5}(Debt)/TA_{y-1}$	386	0.297	0.075	1.283	291	0.260	0.006	0.844	0.67
$\Delta_{y-1}^{y+5}(CapEx)/TA_{y-1}$	362	0.030	0.000	0.203	272	0.051	0.003	0.204	0.19
$\Delta_{y-1}^{y+5}(R\&D)/TA_{y-1}$	160	0.039	0.000	0.251	111	0.069	0.005	0.256	0.34
$\Delta_{y-1}^{y+5} \log(TA)$	389	0.179	0.220	0.826	295	0.182	0.259	0.987	0.96
Cash	635	42.99%	0.00%	49.55%	560	22.14%	0.00%	41.56%	0.00***
Stock	635	8.98%	0.00%	28.61%	560	21.79%	0.00%	41.32%	0.00***
Mix	635	12.28%	0.00%	32.85%	560	15.54%	0.00%	36.26%	0.10*
Target MV in \$ billions	635	0.85	0.12	3.05	560	0.69	0.08	2.84	0.34
Offer premium	635	31.21%	27.78%	32.98%	560	30.06%	25.00%	40.34%	0.59

This table provides descriptive statistics for variables used in the paper for the rejection and non-rejection groups. All variables are defined in Appendix 1. The last column presents the p-value for difference in means between the two groups. The sample period spans 1979 through 2012. \*\*\*, \*\*, \* denote significance at the 1%, 5%, and 10% level for a two-tailed test, respectively.



**TABLE 3**  
**Returns for different windows during the proposal period for**  
**the rejection and non-rejection groups**

	(1) CAR [A-25, A-2]	(2) CAR [A-2, A+2]	(3) CAR [A+2, F-2]	(4) CAR [F-2, F+2]	(5) CAR [F+2, F+25]	(6) CAR [A- 25, F+25]
Rejection	0.015 [1.40]	-0.005 [-0.48]	0.102*** [6.93]	0.123*** [11.31]	0.012 [0.90]	0.213*** [10.19]
Cash	-0.012 [-0.97]	0.024* [1.78]	0.015 [0.84]	-0.055*** [-4.17]	-0.014 [-0.88]	-0.022 [-0.87]
Stock	-0.010 [-0.63]	-0.019 [-1.09]	-0.042* [-1.87]	-0.032* [-1.88]	0.043** [2.10]	-0.088*** [-2.71]
Mix	-0.011 [-0.71]	-0.019 [-1.13]	-0.014 [-0.63]	-0.039** [-2.36]	-0.008 [-0.39]	-0.101*** [-3.13]
Target_size	0.002 [0.61]	0.002 [0.64]	0.014*** [3.05]	0.010*** [3.01]	0.004 [0.99]	0.030*** [4.63]
Offer premium	0.285*** [20.35]	0.248*** [16.74]	-0.024 [-1.17]	-0.001 [-0.06]	0.030* [1.70]	0.332*** [11.93]
Constant	-0.036 [-0.21]	-0.082 [-0.45]	-0.209 [-0.70]	-0.273 [-1.55]	-0.107 [-0.50]	-0.548 [-1.62]
Industry FE	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y	Y
No. of observations	1,195	1,195	928	1,195	1,195	1,195
Adjusted R <sup>2</sup>	27.9%	21.8%	14.8%	12.7%	-1.5%	23.6%

This table reports the estimated coefficients for regression:  $CAR_j(X_i) = Rejection_j + Cash_j + Stock_j + Mix_j + Target\_size_j + Offer\_premium_j + \varepsilon_j$ , where  $CAR_j(X_i)$  covers the six different return windows for firm  $j$ . detailed in the column headings and described in Appendix 1. All other variables are also defined in Appendix 1. The sample period spans 1979 through 2012. All regressions include Fama and French 48-industry dummies and year dummies. Below each coefficient value is the corresponding t-statistics. \*\*\*, \*\*, \* denote significance at the 1%, 5%, and 10% level for a two-tailed test, respectively.

**TABLE 4**  
**Long-run abnormal returns following the acquisition failure date**

	(1)	(2)
	Rejection group	Non-rejection group
<b>12-months</b>		
Alpha	0.002 [0.76]	-0.001 [-0.39]
Adjusted R <sup>2</sup>	0.599	0.393
<b>24-months</b>		
Alpha	0.002 [1.38]	-0.003 [-1.04]
Adjusted R <sup>2</sup>	0.654	0.560
<b>36-months</b>		
Alpha	0.003* [1.76]	-0.001 [-0.28]
Adjusted R <sup>2</sup>	0.708	0.648
<b>48-months</b>		
Alpha	0.002 [1.25]	-0.002 [-1.02]
Adjusted R <sup>2</sup>	0.748	0.651
<b>60-months</b>		
Alpha	0.002 [1.36]	0.002 [1.38]
Adjusted R <sup>2</sup>	0.757	0.654

This table reports the alphas of estimating the monthly regression of a four-factor Fama-French model:

$R_{p,t} - R_{f,t} = \alpha_j + \beta_j(R_{m,t} - R_{f,t}) + \delta_j SMB_t + \sigma_j HML_t + \phi_j UMD_t + \varepsilon_{j,t}$ , where  $R_{p,t}$  is the return of an equally-weighted portfolio  $p$  formed for each month  $t$  between January 1979 and December 2012;  $R_{f,t}$  is the risk free rate, measured as the one-month treasury bill rate;  $R_{m,t}$  is the market portfolio return, measured using CRSP value weighted index;  $SMB_t$ ,  $HML_t$ ,  $UMD_t$  are the size, market-to-book, and momentum factor returns, respectively. For brevity, the coefficient estimates of these variables are not tabulated. The intercept (Jensen's alpha) is the abnormal return unexplained by the four factors. Portfolio and factor returns are measured for the 12, 24, 36, 48, and 60 month periods starting one month after the failure date. Column 1 reports the results for the rejection group, while column 2 reports the results for the non-rejection group. Below each alpha value is the corresponding t-statistic. \*\*\*, \*\*, \* denote significance at the 1%, 5%, and 10% level for a two-tailed test, respectively.

**TABLE 5**

**Long-term changes in the financial performance of the rejection and non-rejection groups**

**Panel A: Rejection group**

	Match-adjusted change in operating metrics from Year $y-1$ to Year $y+k$					
	-1 to 0	-1 to 1	-1 to 2	-1 to 3	-1 to 4	-1 to 5
$\Delta_{T,M}\Delta_{y-1}^{y+k}(NI)/A_{y-1}$	0.004 [0.50]	-0.007 [-0.67]	0.020 [1.10]	0.004 [0.24]	0.022 [0.96]	0.003 [0.12]
$\Delta_{T,M}\Delta_{y-1}^{y+k}(Debt)/A_{y-1}$	0.009 [0.85]	-0.010 [-0.49]	-0.076** [-2.28]	-0.112*** [-2.60]	-0.139** [-2.30]	-0.130* [-1.82]
$\Delta_{T,M}\Delta_{y-1}^{y+k}(Emp)/A_{y-1}$	-0.001*** [-4.26]	-0.002*** [-3.77]	-0.003*** [-3.33]	-0.004*** [-3.26]	-0.004*** [-2.87]	-0.005*** [-2.76]
$\Delta_{T,M}\Delta_{y-1}^{y+k}(CapEx)/A_{y-1}$	-0.012*** [-2.73]	-0.016** [-2.33]	-0.023** [-2.41]	-0.020 [-1.61]	-0.031* [-1.92]	-0.029 [-1.54]
$\Delta_{T,M}\Delta_{y-1}^{y+k}(R\&D)/A_{y-1}$	-0.005 [-0.92]	-0.009 [-1.22]	0.009 [1.08]	-0.012 [-0.96]	-0.025 [-1.21]	-0.031 [-1.03]
$\Delta_{T,M}\Delta_{y-1}^{y+k}\log(A)$	-0.046*** [-2.76]	-0.104*** [-3.56]	-0.152*** [-3.83]	-0.209*** [-4.11]	-0.226*** [-3.82]	-0.288*** [-4.20]

**Panel B: Non-rejection group**

	Match-adjusted change in operating metrics from Year $y-1$ to Year $y+k$					
	-1 to 0	-1 to 1	-1 to 2	-1 to 3	-1 to 4	-1 to 5
$\Delta_{T,M}\Delta_{y-1}^{y+k}(NI)/A_{y-1}$	-0.038*** [-3.40]	-0.017 [-1.09]	-0.003 [-0.14]	-0.044* [-1.90]	-0.033 [-0.98]	-0.070* [-1.90]
$\Delta_{T,M}\Delta_{y-1}^{y+k}(Debt)/A_{y-1}$	-0.017 [-1.28]	-0.014 [-0.51]	-0.029 [-0.74]	-0.044 [-0.80]	-0.054 [-0.84]	-0.094 [-1.09]
$\Delta_{T,M}\Delta_{y-1}^{y+k}(Emp)/A_{y-1}$	-0.001*** [-3.07]	-0.001** [-2.21]	-0.002*** [-2.75]	-0.002 [-1.63]	-0.002 [-1.02]	-0.002 [-0.91]
$\Delta_{T,M}\Delta_{y-1}^{y+k}(CapEx)/A_{y-1}$	-0.015*** [-3.00]	-0.029*** [-4.15]	-0.023** [-2.23]	-0.017 [-1.30]	-0.017 [-1.01]	-0.031 [-1.32]
$\Delta_{T,M}\Delta_{y-1}^{y+k}(R\&D)/A_{y-1}$	-0.005 [-0.92]	-0.028* [-1.88]	-0.024 [-1.00]	-0.014 [-0.69]	-0.039 [-0.90]	-0.042 [-0.55]
$\Delta_{T,M}\Delta_{y-1}^{y+k}\log(A)$	-0.096*** [-4.69]	-0.136*** [-3.96]	-0.175*** [-3.59]	-0.193*** [-3.05]	-0.227*** [-2.87]	-0.232** [-2.39]

This table presents the mean of the cumulative match-adjusted changes of six financial performance measures. Panel A reports the long-term changes for the rejection group, while panel B reports them for the non-rejection group. All variables are defined in Appendix 1. The sample period spans 1979 through 2012. Below each coefficient value is the corresponding t-statistics. \*\*\*, \*\*, \* denote significance at the 1%, 5%, and 10% level for a two-tailed test, respectively.

**TABLE 6**  
**Descriptive statistics for the corporate governance sample**

	N	Mean	Median	STD
Staggered board	273	50.18%	100.00%	50.09%
Poison pill provision	295	49.83%	0.00%	50.08%
CEO share ownership	258	6.07%	0.82%	11.65%
CEO option ownership	260	1.81%	1.03%	3.08%
Staggered board CAR [R-2, R+2]	273	4.36%	1.56%	17.16%
Poison pill provision CAR [R-2, R+2]	295	3.92%	1.16%	16.09%
CEO share ownership CAR [R-2, R+2]	258	4.47%	1.86%	17.10%
CEO option ownership CAR [R-2, R+2]	260	4.29%	1.71%	17.15%
Staggered board $\Delta_{y-1}^{y+5}(NI)/TA_{y-1}$	148	0.0424	0.0143	0.2684
Poison pill provision $\Delta_{y-1}^{y+5}(NI)/TA_{y-1}$	214	0.0465	0.0174	0.2349
CEO share ownership $\Delta_{y-1}^{y+5}(NI)/TA_{y-1}$	136	0.0371	0.0090	0.2694
CEO option ownership $\Delta_{y-1}^{y+5}(NI)/TA_{y-1}$	137	0.0457	0.0093	0.2868
Cash	367	47.96%	0.00%	50.03%
Stock	367	8.45%	0.00%	27.85%
Mix	367	13.35%	0.00%	34.06%
Target MV in \$ billions	367	1.19	0.16	3.88
Offer premium	367	32.49%	26.32%	37.45%

This table provides descriptive statistics for target firms in the rejection group with available corporate governance information. All variables are defined in Appendix 1. The sample period spans 1993 through 2012.

**TABLE 7**  
**Five-day window return around the rejection date of target firms in the rejection group**  
**conditional on corporate governance characteristics**

	(1)	(2)	(3)	(4)
Staggered board	-0.012 [-0.53]			
Poison pill provision		-0.019 [-0.83]		
CEO share ownership			0.138 [1.05]	
CEO option ownership				-0.026 [-0.08]
Cash	-0.004 [-0.15]	0.03 [1.11]	-0.006 [-0.18]	-0.001 [-0.03]
Stock	-0.023 [-0.54]	-0.012 [-0.29]	-0.015 [-0.34]	-0.019 [-0.41]
Mix	0.023 [0.57]	0.054* [1.68]	0.024 [0.56]	0.024 [0.55]
Target_size	0.011 [1.53]	0.014** [2.21]	0.013* [1.80]	0.012 [1.61]
Offer premium	0.001 [0.04]	0.053 [1.39]	-0.013 [-0.38]	-0.017 [-0.49]
Constant	0.017 [0.19]	-0.087 [-0.97]	0.051 [0.46]	0.016 [0.20]
Industry FE	Y	Y	Y	Y
Year FE	Y	Y	Y	Y
No. of observations	273	295	258	260
Adjusted R <sup>2</sup>	5.6%	3.9%	5.0%	5.4%

This table reports the estimated coefficients for the following regression:  $CAR_j(R - 2, R + 2) = Gov_{j,g} + Cash_j + Stock_j + Mix_j + Target\_size_j + Offer\_premium_j + \varepsilon_j$ , where  $Gov_{j,g}$  represents corporate governance measure  $g$  for firm  $j$ . The sample includes all firms with available corporate governance information. All regressions include Fama and French 48 industry dummies and year dummies. All variables are defined in Appendix 1. The sample period spans 1993 through 2012. \*\*\*, \*\*, \* denote significance at the 1%, 5%, and 10% level for a two-tailed test, respectively.

**TABLE 8**  
**Long-term changes in the accounting performance of target firms in the rejection group conditional on corporate governance characteristics**

**Panel A: Staggered board**

	Dependent variable: $\Delta_{y-1}^{y+k}(NI)/TA_{y-1}$					
	(1)	(2)	(3)	(4)	(5)	(6)
	-1 to 0	-1 to 1	-1 to 2	-1 to 3	-1 to 4	-1 to 5
Staggered board	-0.014	0.007	-0.033	-0.020	-0.037	-0.049
	[-0.76]	[0.33]	[-0.82]	[-0.59]	[-0.87]	[-0.83]
No. of observations	267	243	212	192	168	148
Adjusted R <sup>2</sup>	11.4%	18.1%	1.3%	19.0%	14.9%	11.0%

**Panel B: Poison pill provision**

	Dependent variable: $\Delta_{y-1}^{y+k}(NI)/TA_{y-1}$					
	(1)	(2)	(3)	(4)	(5)	(6)
	-1 to 0	-1 to 1	-1 to 2	-1 to 3	-1 to 4	-1 to 5
Poison pill provision	-0.014	-0.018	-0.050*	-0.049*	-0.071**	-0.073*
	[-0.74]	[-0.90]	[-1.76]	[-1.75]	[-2.19]	[-1.89]
No. of observations	292	280	263	247	229	214
Adjusted R <sup>2</sup>	11.6%	15.8%	13.1%	21.3%	23.0%	12.3%

**Panel C: CEO share ownership**

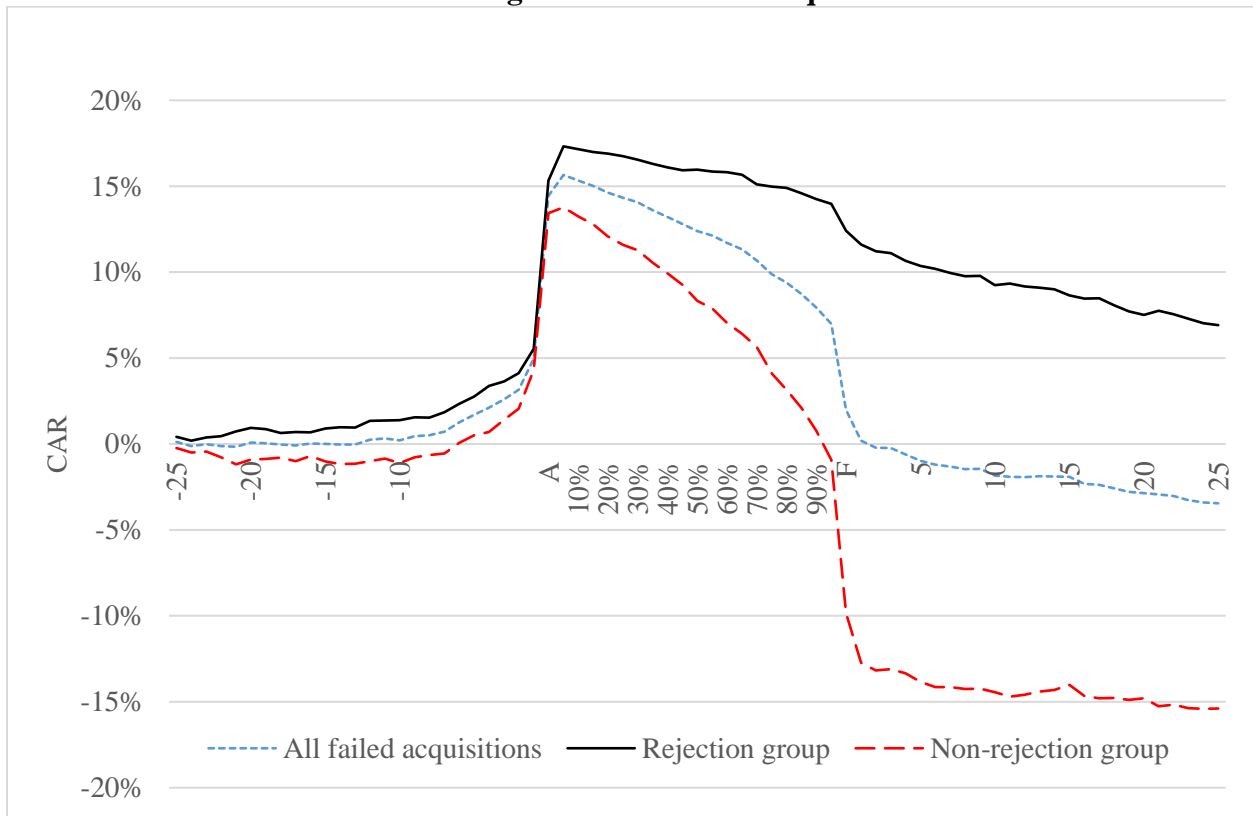
	Dependent variable: $\Delta_{y-1}^{y+k}(NI)/TA_{y-1}$					
	(1)	(2)	(3)	(4)	(5)	(6)
	-1 to 0	-1 to 1	-1 to 2	-1 to 3	-1 to 4	-1 to 5
CEO share ownership	-0.212**	-0.273**	-0.210	-0.177	0.100	0.342
	[-2.31]	[-2.47]	[-1.03]	[-1.05]	[0.51]	[1.36]
No. of observations	252	230	199	180	156	136
Adjusted R <sup>2</sup>	14.4%	20.8%	1.4%	20.8%	14.3%	17.1%

**Panel D: CEO option ownership**

	Dependent variable: $\Delta_{y-1}^{y+k}(NI)/TA_{y-1}$					
	(1)	(2)	(3)	(4)	(5)	(6)
	-1 to 0	-1 to 1	-1 to 2	-1 to 3	-1 to 4	-1 to 5
CEO option ownership	0.894***	0.613*	1.075*	0.818	0.902	1.180*
	[2.87]	[1.74]	[1.73]	[1.58]	[1.55]	[1.72]
No. of observations	254	232	201	182	157	137
Adjusted R <sup>2</sup>	15.8%	19.8%	7.2%	21.1%	21.5%	27.8%

This table presents the coefficient estimates for the following regression:  $(\Delta_{j,t-1}^{t+k}(NI)/TA_{j,t-1})_j = Gov_{ji} + Cash_j + Stock_j + Mix_j + Target_{size_j} + Offer\_premium_j + \varepsilon_j$ . For brevity, coefficient estimates of deal and firm characteristics are not included. All regressions include Fama and French 48 industry dummies and year dummies. All variables are defined in Appendix 1. The sample period spans 1993 through 2012. Below each coefficient value is the corresponding t-statistics. \*\*\*, \*\*, \* denote significance at the 1%, 5%, and 10% level for a two-tailed test, respectively.

**FIGURE 1**  
**Revaluation of targets firms in failed acquisition offers**

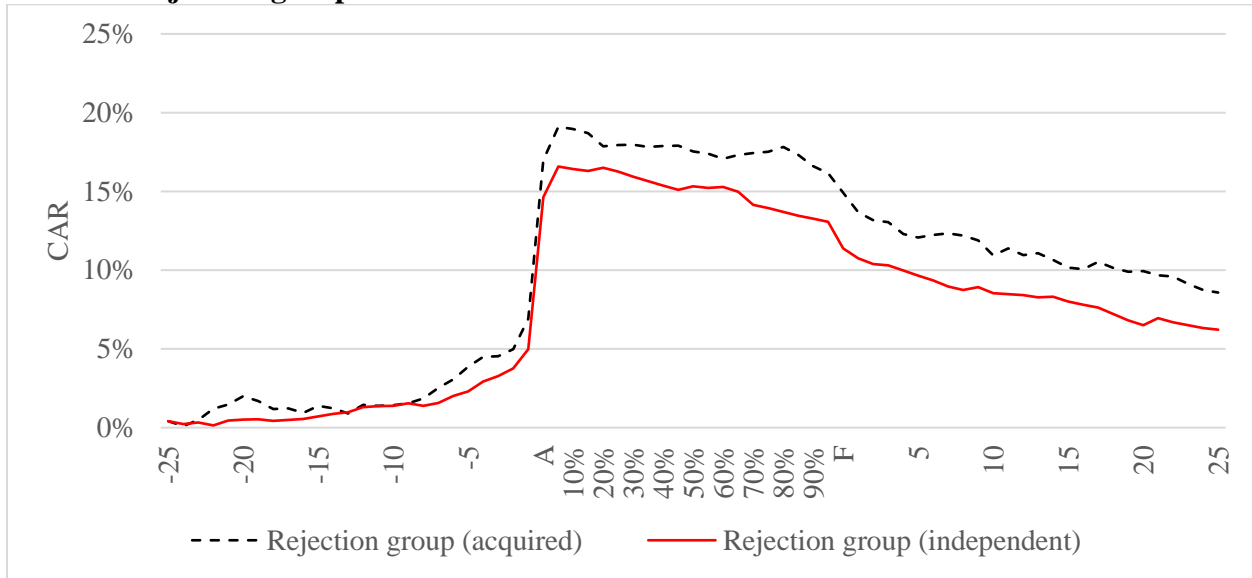


This figure plots the CAR for failed acquisition offers starting 25 trading days prior to the announcement of the acquisition offer date (A) and ending 25 trading days after the acquisition failure date (F). The sample consists of 1,195 failed acquisition offers, including 635 rejected offers (rejection group) and 560 acquisition offers that fail due to other reasons (non-rejection group). The intermediate period between the deal announcement and failure date is normalized (in percent) since it varies across deals.

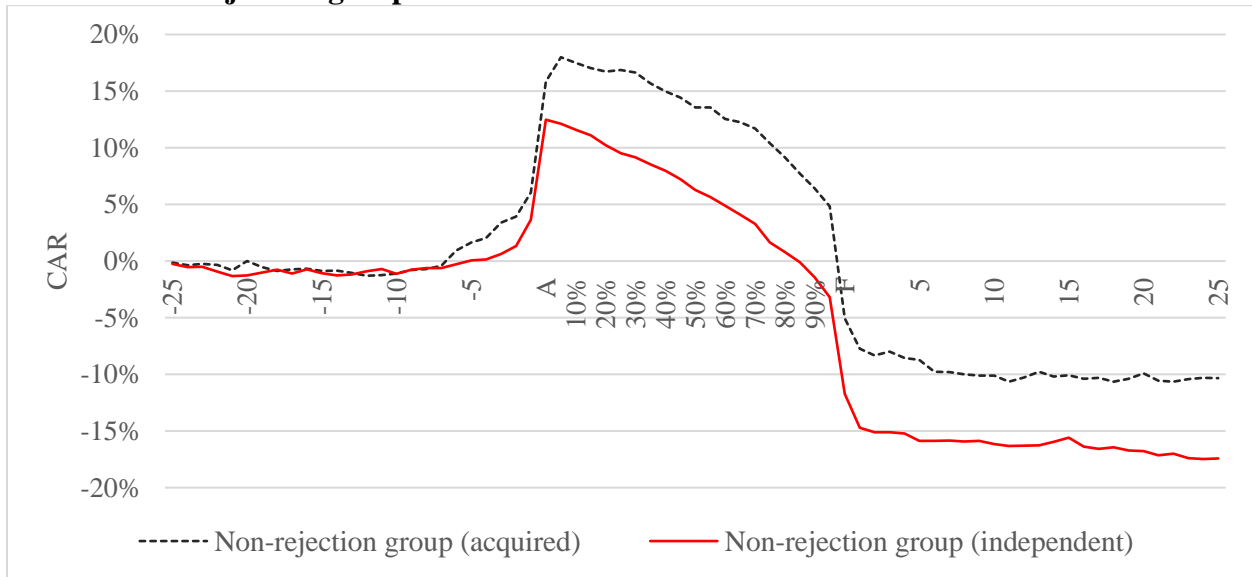
**FIGURE 2**

**Revaluation of targets firms in failed acquisition offers for the rejection and non-rejection groups conditional on future acquisition activity**

**Panel A: Rejection group**



**Panel B: Non-rejection group**



This figure plots the CAR for failed acquisition offers starting 25 trading days prior to the announcement of the acquisition offer date (A) and ending 25 trading days after the acquisition failure date (F). The intermediate period between the deal announcement and failure date is normalized (in percent) as it varies across deals. Panel A plots the returns for the rejection group and includes 186 observations (449 observations) that are acquired (remain independent) during the five-year period starting half a year after the deal failure date. Panel B plots the returns for the non-rejection group and includes 158 observations (402 observations) that are acquired (remain independent) during the five-year period starting half a year after the deal failure date. We identify firms that were subsequently acquired using CRSP codes 200 through 300.