SHAREHOLDERS, MANAGERS AND EMPLOYEES: RENT TRANSFER OR RENT SHARING IN CORPORATE TAKEOVERS

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Abstract

This paper investigates whether M&A transactions allow managers to create shareholder value at the expense of employees by analysing the relative importance of labour variables in explaining merger-related shareholder gains. The results show that in the short-run shareholder gains are inversely related with employee gains. This implies that at least some corporate restructuring might have been triggered by shareholder value creation requirements. However, the results also show that both employment and wage changes are positively associated with acquirers' long-run share price abnormal returns. This positive association suggests that shareholders and employees share rent during post-merger period. Overall, our results suggest that the wealth transfer theory may not be the full story in explaining power relations among shareholders, managers and employees around takeover transactions. Therefore, we conclude that both rent transfer (immediately after takeovers) and rent sharing (in the longer run) may co-exist within an M&A framework.

Key words: M&A, shareholders, labour, management, wealth transfer

1 INTRODUCTION

Whether managers create shareholder value at the expense of employees is one of the key issues of the contemporary corporate governance research (Lazonick and O'Sullivan, 2000, Froud *et al.*, 2000). Specifically, it has been argued that the market for corporate control transactions may facilitate labour cost cuts (Conyon et al., 2002, Lehto and Bockerman, 2008) to benefit shareholders (Shleifer and Summers, 1988, Appelbaum et al. 2013). Consequently, takeovers that negatively affect jobs and wages may discourage employees from investing in firm-specific human capital (Blair, 1995). To contribute this debate this paper investigates whether shareholders gain when employees suffer from corporate takeovers through job losses or lower wage payments.

Several perspectives suggest a negative relationship between shareholder and employee gains around takeovers. One influential view, labelled as the "breach of trust" hypothesis (Shleifer and Summers, 1988), suggest that managers take the sides of shareholders and facilitate wealth transfer from employees to shareholders. Under this view, ownership change allows shareholders to renege on intrinsic contracts with employees, such as promises of extra-marginal wage payments. By breaching such long-term implicit contracts shareholders may be able to capture some future cash flows at the expense of workers. For example, such transactions may lead to dismissals of more senior workers, whose wage exceeds their marginal product and who were underpaid when they were young. In other words, takeovers may be undertaken with the purpose of rent transfer from employees to shareholders.

An alternative view, which is based on the agency theory, suggests that takeover related shareholder gains come from the disciplining of underperforming managers. Managers could form coalitions with workers and may pursue those strategies that diverge from shareholder value maximisation (Pagano and Volpin, 2005, Wang and Xie, 2013). Such private benefits could be derived by exercising insufficient monitoring effort or paying high wages to workers (Bertrand and Mullainathan, 2003, Pagano and Volpin, 2005). Thus, managers could select those labour policies that fit best in their own interests, even if these policies are not in the best interests of shareholders. Removal of the entrenched managers in the acquired firms improves efficiency and this is one of the main sources of shareholder gains. Thus, according to this view, corporate takeovers are 'welfare neutral' and both shareholder and employee wealth effects of takeovers are determined by acquisition performance (success).

Another view is that takeovers could be undertaken by over-confident managers who pay high premiums to target firm shareholders. In this case, acquiring firm shareholders suffer, while target firm shareholders earn positive abnormal returns. Subsequently, the need to recoup a high premium and the need for shareholder value creation may drive labour cost cuts (Krishnan et al., 2007).

In contrast to these perspectives, some recent studies highlight the importance of human capital and employee satisfaction for shareholder value creation (Edmans, 2011). In particular, these studies suggest employee friendliness and looking after employees could be a driving force of shareholder value. For example, Ertugrul (2013) report positive relation between employee friendliness and acquisition performance.

The extant evidence on the association between post-takeover changes in shareholder value and labour variables is mixed: there is evidence both rejecting and supporting the rent transfer hypothesis (Rosett, 1990, Becker, 1995, Gokhale *et al.*, 1993, Beckmann and Forbes, 2004). This paper provides new evidence on the association between M&A related shareholder gains and employment variables. Particularly, we investigate whether the association between the shareholder gains and employee wealth is negative or positive: whether the association is different in hostile versus friendly acquisitions and what are the roles of managers in the rent (loss) distribution or sharing.

The paper is based on a study of 235 takeovers taking place between 1990 and 2000 in the UK. We measure shot-run takeover announcement shareholder Cumulative Abnormal Returns (CAR) for both target and acquiring firm shareholders and long-run Buy-and-Hold Abnormal Returns (BHAR) for acquiring firm shareholders. Employee wealth change is measured by the percentage changes in the number of employees and average wages during the three post-takeover years. We use managerial equity ownership and awarded options to proxy for their preferences and interests.

Univariate analysis shows that the target firm shareholders earn significant abnormal returns when employees suffer from job loss or wage decline. This suggests rent transfer. Furthermore, when acquiring firm shareholders earn significant negative abnormal returns, then during the post-takeover period employment declines or wages fall. This suggests that the need to create shareholder value may drive post-merger workforce reductions. Similarly, the acquiring firm shareholders earn significant negative abnormal returns, in the long-run

when takeovers involve job losses and wage cuts. In contrast, when the post-merger workforce grows or wages increase faster, the acquiring firms shareholders' performance does not differ from the non-merging control firms' performance.

Multivariate analysis also shows that post-merger workforce and wage growth are inversely associated with the takeover premium, but not with the target CAR. Again this is consistent with the rent transfer argument. However, in the longer term, employee wealth concessions and shareholder gains are positively associated, meaning that in acquisitions with low shareholder returns, wage and employment growth is also low. Thus, in the longer run post-takeover jobs and wages depend on the value created by takeovers; if shareholders gain from takeovers, then employees also benefit from such transactions; if shareholders lose from the acquisitions, then employees also suffer from them[1].

The contribution of this paper is that it provides new evidence on the relative importance of labour variables in explaining takeover-related shareholder gains. Our results suggest that wealth transfer and rent sharing behaviour may coexist. Rent transfer may operate in the short run, whereas rent sharing could operate in the longer run. Most of the time, shareholder and employee gains are positively correlated. However, occasional corporate restructuring events, such as hostile takeovers, may facilitate wealth transfer from employees to shareholders.

2 LITERATURE REVIEW

2.1 Breach of trust in implicit contracts as a source of shareholder gains

It has been argued that the long-term success of organisations depends on the labour management practices which are built on implicit contracts and trust within the organisation. As employment contracts cannot be completely specified taking into consideration all contingencies, firms rely on institutional norms of reciprocity and trust between shareholders and employees to achieve higher productivity (Shleifer and Summers, 1988, Appelbaum et al. 2013).

However, in the contemporary financial capitalism era, capital may use various mechanisms that impact labour management strategies. For example, corporate restructuring is often

[1] The conclusion is that although shareholder gains and employee gains are positively correlated in the longer run, M&A transactions facilitate wealth transfer from employees to shareholders. The question is whether it is the shareholder's "breach of trust" initiative or whether it is due to the need to cover high premiums paid by managers?

initiated with the purpose of maximising shareholder value which may involve labour cost cuts (Lazonick and O'Sullivan, 2000, Froud *et al.*, 2000). Under strong market pressure, managers favour shareholders' interests over labour's interests and their actions will be dictated by the capital markets. Ownership change transactions may facilitate such labour cost cuts. Shleifer and Summers (1988) propose the "breach of trust" hypothesis to explain the power relations among shareholders and employees around M&A, according to which at least partial shareholder gains come at the expense of labour, in the form of job losses, wage cuts and other forms of rent reductions for employees. Under the 'nexus of contracts' view of the firm, long-term contracts between shareholders and employees could be implicit, providing a trust-based framework to employees for investing firm-specific capital. Such implicit contracts are held by incumbent managers, who are selected and "entrenched" by shareholders especially for developing such contracts. Although *ex ante* such contracts are valuable for both shareholders and employees, *ex post* shareholders may derive some benefit from reneging on such contracts by firing more senior workers, whose wage exceeds their marginal product and who were underpaid when they were young. As these implicit contract holders are mainly incumbent managers, shareholders can breach these contracts by replacing the incumbent management through ownership change[2]. An implication of this is that as shareholder gains may come from other stakeholders, hostile takeover acts or even threats may lead to long-term inefficiencies.

By breaching such long-term implicit contracts shareholders may be able to capture some of future cash flows at the expense of workers. For example, such transactions may lead to dismissals of more senior workers, whose wage exceeds their marginal product and who were underpaid when they were young (Gokhale *et al.*, 1993, Neumark and Sharpe, 1996). Furthermore, managers may cut labour costs not only by dismissing employees, but also by reducing wages or slowing wage growth.[3]

Hostile takeovers have been identified as one mechanism for breaching such long-term implicit contracts. These usually lead to management replacement (Franks and Mayer, 1996).

[2] Chemla (2005) suggests that even friendly mergers may involve breach of trust between shareholders and other stakeholders, and hence the existence of a takeover threat reduces the ex-ante investments of other stakeholders.

[3] Lazear (1979) suggests that it is preferable for both firms and workers to agree to a long-term wage stream that pays workers less than the value of their marginal product when they are young and more than the value of their marginal product when they are older. Such an extra-marginal wage provides long-term incentives, urging workers to make firm- specific human capital investment. However, it may be beneficial for shareholders to reverse such payments through ownership change that facilitates the renegotiation of such extra-marginal wage payments.

According to Shleifer and Summers (1988) the main reason for this replacement is the removal of "entrenched" managers who were responsible for developing and holding long-term implicit contracts with employees through large scale corporate restructuring activities. Franks and Mayer (1996) argues that hostility arises precisely as a result of disagreement by the incumbent management on such restructuring plans. However, removal of such managers and overhaul of labour management practices may facilitate wealth transfer (Shleifer and Summers, 1988, Appelbaum et. al. 2013).

2.2 Prior evidence on the breach of trust

It is well known that on takeover announcement, target firm shareholders earn large abnormal market returns, although acquiring firm shareholders' wealth does not change much (Andrade and Stafford, 2001, Betton et al., 2008). The question is whether shareholder gains come at the expense of employees. Direct evidence on this association is limited.

As shareholders earn large gains, evidence on job losses and wage cuts following ownership change would indicate wealth transfer from employees to shareholders. However, the extant evidence provides mixed findings on this issue. Some authors have found that M&A transactions lead to substantial job losses (Lichtenberg and Siegel (1992), Conyon *et al.* (2001, 2002), Gugler and Yurtoglu (2004) and Lehto and Bockerman (2008)), while other authors have concluded their employment impact is positive (McGuckin and Nguyen (2001), Oberhofer (2010) and Karpaty (2011)), still other studies report that employment consequences of takeovers depend on deal or acquirer characteristics (Kuvandikov et al., 2013). Regarding post-merger wage growth, some authors conclude that the impact of generally positive (Brown and Medoff, 1988, McGuckin and Nguyen (2001), Conyon *et al.*, 2004, Beckmann and Forbess, 2004)[4].

Similarly, the evidence on the labour impact of hostile takeovers is also mixed. Bhide (1989) and Bhagat *et al.* (1990) report that hostile takeovers lead to higher employee layoffs than the layoffs in no-takeover cases. However, cost savings from these layoffs only cover 10-20% of the premium. Gokhale *et al.* (1993) analyse whether the extra-marginal wage payments (employer-specific wage differentials and steeper-than-average seniority wage payments) predict hostile takeovers and post-merger changes in excess payments. Extra-marginal wage

[4] Beckmann and Forbes (2004) suggest that higher wage growth could be due to the fact that ex-target employees having their wages raised to the higher level of ex-bidder employees.

payments do not predict hostile takeovers, but, in contrast, wage differentials rise after a hostile takeover. However, their results show that hostile takeovers appear to reduce extra-marginal wage payments to more senior workers by flattening their wage-seniority profile for firms with an initially high concentration of senior workers. So, they conclude that, hostile takeovers may target such extra-marginal wage payments.

Neumark and Sharpe (1996) also provide only weak evidence of wealth transfer: hostility is not related to industry-related variation in wage premia or wage profile slopes. However, smaller, less diversified, firms with high industry-related wage premia are more likely to be hostile takeover targets.

Other studies look at the association between labour union wealth concessions and takeover premiums. Rosett (1990) shows that union wage concessions caused by changes in wage growth explain only a small fraction of shareholder gains: in hostile takeovers 6-year wealth concessions account for 3 per cent of shareholder gains. This figure could rise up to 10 per cent over a period of 18 years[5]. However, their results also suggest that in extreme cases (shown by the standard errors associated with the point estimates) union losses could account for a fourth of shareholder gains. Further developing this research, Becker (1995) argues that union 'rents' may include overstaffing, constraints on managers' discretion and flexibility in their control of workforce, in addition to the wage premium. Therefore, Becker (1995) compares shareholder returns in unionised and nonunionised target firms[6]. He finds that, on takeover announcement, shareholders in unionised targets earned 5-6 percent higher returns than the shareholders in nonunionised targets, which was statistically significant and economically large enough to support the rent expropriation theory. Such differential effects ('rent transfers') eliminated about 50 per cent of the wage premiums associated with union coverage or accounted for 8 percent reduction in an employee's annual earnings. Similarly, Pontiff *et al.* (1990) report that pension fund revisions are higher after hostile takeovers (15%) than after friendly takeovers (8%), consisting of on average 11% of target shareholders' takeover announcement gains.

[5].

[6] Baker (1995) uses two broadly defined union-related variables (Firm Union Status dummy, indicating whether any of the firm's employees were represented by a union and Firm Union Percentage, indicating the percentage of total employment enrolled in union-sponsored pension plans)

In the UK, using a sample of 60 takeovers, Beckmann and Forbes (2004) conclude that job loss and wage change do not explain shareholder gains. However, on the basis of four case studies, Appelbaum et al. (2013) conclude that private equity takeovers clearly represent a "breach of trust" in implicit contracts.

2.3 Manager-worker coalitions and management disciplining

A related perspective, which is based on the agency theory, suggests that hostile takeovers target underperforming firms, where managers could be inefficient due to agency problems (Manne, 1965). Similar to the 'breach of trust', negative employment consequences could be initiated by the shareholders to discipline "entrenched" managers. However, this time managers could be entrenched due to manager – worker coalitions or due to their 'quiet life' preferences. Pagano & Volpin (2005) argue that when target firm managers have small equity stakes, they offer employees long-term contracts and pay them high wages in order to make the firm unattractive to outsiders. Employees value their long-term contracts and high wages and therefore fight again hostile takeovers. Thus, employment policies could be used to resist against disciplinary takeovers and this may create hostility in takeovers. Overall, manager – worker coalitions may could harm shareholders.

Some recent studies highlight the significance of the shareholder-employee agency conflicts. For example, Fayele et al. (2006) show that when employees have a large equity ownership managers diverge from shareholder value maximisation. Wang and Xie (2013) argue that employee friendly acquirers (where employees own large equity stakes) make value destroying acquisitions and they are also less likely to receive takeover bids, as large employee ownerships protect them from takeover disciplining. John et al. (2013) conclude that acquirers in weak labour rights states systematically select targets with weak labour rights and in such deals shareholders of both acquirer and target firms earn significantly larger combined CAR. These results suggest that when labour rights are strong, shareholder earn significantly negative abnormal returns, while when labour rights are weak, shareholders earn significantly positive abnormal returns.

Hostile takeovers might happen to break-up such manager-worker coalitions or to discipline otherwise underperforming managers. Pagano & Volpin (2005) predict that shareholders gain after such ownership and subsequent management change. However, empirical evidence on the disciplinary role of hostile takeovers is inconclusive. The Franks and Mayer (1996) results show that hostile takeovers do not play a disciplinary role as their targets are better

performing firms. They conclude that managerial resistance to takeovers (hostility) arises due to opposition to the post-merger corporate restructuring which may also involve employee layoffs. Prior evidence shows that hostile takeovers lead to higher board turnover (Franks and Mayer, 1996) and higher workforce reductions (Conyon et al., 2001), relative to friendly mergers. At the same time, there is some evidence showing that hostile takeovers generate higher takeover announcements returns for shareholders (as well as premium) and long-run abnormal returns (Franks and Mayer, 1996, Sudarsanam and Mahate, 1996).

2.4 Overpayment

In contrast, the overpayment perspective suggests that the negative employment consequences of the M&A are initiated by over-confident managers. This view suggests that over-confident managers overestimate the expected synergies from the business combinations and pay high premiums to target firm shareholders (Roll, 1986, Hayward and Hambrick, 1997, Sirower, 1997). In this case, high premiums may benefit target firm shareholders but acquiring firm shareholders may earn negative abnormal returns and therefore the acquiring firm managers will be under increasing pressure to create shareholder value. One way of covering these overpayments and creating shareholder value is cutting labour costs. Thus, such high premiums may lead to post-takeover employee layoffs and wage cuts (Krishnan et al., 2007)

2.5 Rent sharing argument (employee friendliness and subsequent operating performance as determinants of stakeholder gains)

The above perspectives suggest a zero-sum relationship between shareholder gains and labour costs: minimising labour costs leads to higher firm profitability and better shareholder value. However, more recent studies emphasize the importance of human capital for shareholder value creation (Edmans, 2011). This strand of the research sees employees as important organisational assets who can create substantial shareholder value especially when they are satisfied.

In support of this view, several recent studies provide evidence showing that employee satisfaction and labour friendliness practices positively affect shareholder value. Edmans (2011) show that employee satisfaction is positively correlated with shareholder returns, while Faleye and Trahan (2011) report that announcement of labour friendly policies are

associated with positive shareholder returns. Ertugrul (2012) conclude that employee friendly acquirers outperform other acquirers[7].

A related question is whether 'labour friendliness' leads to better shareholder value or whether both shareholder and employee gains are determined by underlying acquisition performance (success), which in turn is determined by the managerial preferences. In other words, managerial preferences could play an important role in determining M&A success, which may subsequently determine both shareholder and employee wealth changes.

In this regard, favourable or unfavourable change in the underlying operating performance during the post-merger period could be an important determinant of both shareholder value and employee wealth concessions. A recently emerging strand of literature argues that managers are passive agents of shareholders does not fully represent the reality of labour management in liberal market economies (Deaking, 2005). According to this literature, directors' statutory duties require them to exercise their own judgement in management and to promote the success of the company, considering the interests of all stakeholders (Deakin, 2005, Pendleton, 2009). Thus, it is expected that managers make those strategic choices in order to provide the success of their businesses and both shareholder wealth and employee wealth concessions depend on the degree of this success (performance change during post-acquisition period).

This paper investigates whether there is any relationship between takeover-related shareholder returns and employee gains. We are particularly interested in whether at least some part of shareholder gains comes from employee wealth concessions or whether the gains of these stakeholder groups are determined by the underlying performance changes of acquiring firms. We also analyse the role of managers in this process.

[7] Edmands (2011) discuss alternative theory on the association between shareholder gains and employee wellbeing. Traditional theories (including agency theory) see employees as a cost and minimising this cost improves the firm profitability and subsequently shareholder value. In contrast, more recent theories (including human relations theory) see employees as important assets. Faleye and Trahan (2011), Edmans (2011) and Ertugrul (2012) results highlight the importance of employee friendliness in providing firm success and enhancing shareholder value

3 RESEARCH METHODS

Sample

We analyse the association between shareholder gains and employee wealth concessions in hostile versus friendly acquisitions using data on UK public takeovers that took place during 1990-2000. Sudarsanam and Mahate (2003) report that during this period 25 per cent of all takeovers were hostile deals. Therefore, we concentrate on this sample period. Transaction related data, including the names of merging firms, takeover announcement dates, takeover completion dates, premiums, takeover mode and payment mode, were collected from *Acquisitions Monthly*. Then we complement these data with financial (operating and share price performance variables) and labour (employment and wages) data retrieved from *Datastream* and company accounts. Furthermore, we collect some qualitative data from screening national newspapers, including the *Financial Times*.

We select a sample of domestic takeovers, excluding takeovers with the following characteristics: (1) takeovers by foreign companies; (2) acquisitions of less than 50 per cent of target shares; (3) takeovers by private or newly established companies, including management buy-outs and acquisitions by private equity or venture capital firms; (4) takeovers involving property management, financial (banks, investment trusts etc) and utility companies[8]; (5) takeovers undertaken by serial or multiple acquirers. Only one acquisition per acquirer within any three consecutive years has been included in the sample. Consequently, any employment growth observed in the sample can be attributed to organic growth rather than acquisitions.

The exclusion described above reduces the number of takeovers included in the sample to 235, approximately 30 per cent of UK takeovers involving public companies. *Hostile acquisitions* are defined on the basis of whether an initial bid was rejected by the target firm management (Franks and Mayer, 1996), and coded 0,1. The sample includes 52 transactions (22 per cent of the sample) classified as hostile transactions by *Acquisitions Monthly*[9]. The number and distribution of hostile takeovers are very similar to the statistics reported by

[8] Takeovers of these companies were excluded from the sample because they have different asset characteristics and different requirements for financial statements. Furthermore, as these companies are in a highly regulated industry and subject to more regulatory oversight, their takeover processes are subject to different takeover regulations.

[9] Thus, hostile takeovers include all deals described as 'contested' and 'later agreed', by the *Acquisitions Monthly* journal. To distinguish friendly and hostile takeovers we use *Acquisitions Monthly* journal information. In addition to this, we undertake some content analysis using online resources of the *Financial Times* and *Times* to check the mode of takeovers.

Deakin et al. (1997). Table 1 shows the distribution of sample companies by year and by takeover mode.

In the empirical part of the paper we directly test the association between shareholder gains and employee wealth changes by using both univariate analysis and multivariate regressions analysis. In these analyses the dependent variables are shareholders' short- and long-run abnormal returns and the main independent variables are post-merger employment and wage change in years 1, 2 and 3 after the merger event.

[INSERT TABLE 1 ABOUT HERE]

Dependent variables: shareholders' short- and long-run abnormal gains

Shareholders' short-run (takeover announcement) gains are measured by the takeover premium and target and acquiring firm shareholders' abnormal share price returns around takeover announcement dates. Prior studies usually use a one-month premium used to control for the rumours about takeovers and to determine the true size of the premium paid to target firm shareholders. Similarly, the acquisition *premium* is defined as the percentage difference between the purchase price and the market price of the acquired firm shares 30 days before takeover, divided by the price 30 days before the first announcement of the takeover (Hayward and Hambrick, 1997, Sirower, 1997, Krishnan et al., 2007). In this sample, acquirers paid a premium of 38.57 per cent on average for their targets. This is similar to the premium reported in other UK studies.

We use daily stock price return data to calculate short-term abnormal returns and monthly stock price return data to calculate long-term abnormal returns. Daily stock returns are calculated using Stock Returns Index data, downloaded from *Datastream*. For this purpose, 300 daily Stock Return Indexes for both target and buyer firms have been downloaded around the takeover announcement date: 294 days before the announcement date and 5 days after the announcement date. Similarly, FTSE All-Share Index data for 300 days have been downloaded for each takeover's announcement dates. Consistent with the previous research, daily stock returns from -300 days to -60 days have been used to estimate the market model parameters and to calculate the variance for abnormal returns.

To calculate long-term abnormal returns, for each acquirer the monthly stock return index for the period of 37 months (0, +37 months) following the takeover completion month has been

downloaded from *Datastream*. Similarly, for each matching firm (selected on the basis of industry, size and performance) the corresponding 37 monthly return index figures have been downloaded. We estimate short-run stock price abnormal returns using the Cumulative Abnormal Returns (CAR) calculation methodology, and long-run abnormal returns using Buy-and-Hold Abnormal Returns (BHAR) methodology (REF).

Main independent variables: employment and wage change and employee layoffs

We use three variables as the main independent variables in the multiple regressions: employment change, wage change and employee layoffs. Employment change variables are created by combining the workforce of acquired and acquiring firm prior to takeover (i.e. the figures reported in the annual reports immediately prior to the takeover event) and then subtracting employment in the combined firm one and three years after the transaction. Specifically, we compute the employment change one year (three years) after the transaction by subtracting the pre-takeover employment from the post-takeover employment in Year 1 (Year 3) and by dividing the difference between post- and pre-takeover employment with their average value, to create a measure of percentage change that is symmetric either side of zero (Davis *et al.* 2011).[10]

Similarly, we create wage change variables based on *Datastream* which provides aggregate firm level staff costs data. Average wage data is computed by dividing these staff costs data by total annual average employment data. Then we create the Wage change (in percentage) variable by deducting acquirers post-merger average wage from the average wage of acquired and acquiring firm immediately prior to takeover and dividing the difference with their average value.

Furthermore, we collect merger-related employee layoffs data by searching the national press up to two years period after the transaction completion date[11]. For this purpose we collect data on merger-related employee layoffs in the two years following the transaction collected

[10] Employment / wage change variables can take both positive and negative values, as they defined as percentage changes based on Davis et al. (2011).

[11] We collect data on employee layoffs searching the press for a two year period after the takeover completion month. We search for a two year period to provide comparability of this press-based layoffs data with the employment change variable obtained from *Datastream*. The reason is that if takeover transaction is undertaken at the beginning of a financial year, then *Datastream*-based employment change after one year measures the change almost within two year period (the takeover completion year plus a full financial year after the takeover). In addition to this pres-based employee layoffs analysis shows that most layoff announcements were made immediately after the takeovers and almost in all cases within a one year period.

from the national press and downloaded via the *Nexis*® database, following the methodology adopted in prior research (Krishnan et al., 2007). We found media reports of employee layoffs in 101 (43 per cent) out of 235 sampled acquisitions[12]. During the media search process we noted that most of these lay-offs were announced immediately after the transaction and nearly all were announced within one year[13]. Data on announced employee layoffs do not include workforce reductions related to divestments or other sell-offs. We create a dummy variable that takes 1 if an acquirer report a merger-related employee layoff and 0 otherwise.

Control variables

We control for target and acquiring firm characteristics, their ownership variables and deal characteristics. Target (acquirer) firm characteristics include size, growth prospects, operating performance, leverage, capital intensity and pre-takeover wage levels. It has been shown that large acquirers are more likely to overpay and more likely to underperform: largest bidders or "large loss deal" making bidders significantly underperform (Harford, 2005, Moeller et al., 2005). Therefore, we control for acquirer size. Firm size is measured with the logarithm of the number of employees in the year before the acquisition completion. Firm growth prospect is measured with Market-to-Book (M/B) ratio (John et al., 2013, Wang and Xie, 2013). Rau and Vermaelen (1998) confirm these results and also show that underperformance in mergers is mainly caused by the deals made by low book-to-market "glamour" firms. Such underperformance could be due to the fact that the acquirers tend to have high pre-merger share price followed by low post-merger performance, as reported by Rosen (2006). As a measure of pre-takeover operating performance of target (acquirer) firm we use Return on Assets (ROA), defined as Earnings before Interest, Taxes and Depreciation divided by book value of Total Assets at the beginning of the year. In order to control for industry-wide performance changes, we adjust this measure for each firm using their industry median performance. Analysis of the data indicates this variable is not normally distributed, but negative values arising due to the adjustment process preclude application of data transformation techniques, such as logarithmic transformation. Therefore, to compensate and

[12] In these acquisitions on average 7.5% (median =5.6%) of the combined workforce was laid off. The correlation coefficient between press-reported employee layoffs and *Datastream*-reported workforce reduction in the WFR sub-sample is 0.34, which is significant at $p<0.05$. *Datastream*-reported workforce reduction also include changes due to unrecorded divestments, other unrecorded acquisitions and unannounced layoffs

[13] Other sources used include the *Times and Sunday Times, Guardian, Daily Mail, Independent, Lloyd's List, Observer, Evening Standard* and other regional newspapers.

control for the effect of unusual values, we use median ROA for the period of three pre-takeover years. Given that underlying performance appear to be the key to what happens to shareholders and labour, we also include post-takeover operating performance change in the regressions. Acquirer ROA change in Year 1 (Year 3) is computed as the difference in the industry adjusted performance between pre-takeover year and in Year 1 (Year 3). *Leverage* is defined as the ratio of total debt to total assets at the end of the takeover completion year. Similarly, employment and wage changes may have differential effects in the capital intense versus labour intense industries. Therefore, we control for capital intensity of acquired firms. As discussed, takeovers may happen to sort extra-marginal wage payments and therefore pre-takeover wage levels may be negatively associated with shareholder gains.

Deal characteristics include relative size, hostility, payment method and industry relatedness. Prior research suggests that incumbent managers may create coalitions with workers that may lead to over-staffing (Bertrand and Mullainathan, 2003). Removal of such inefficiencies may create shareholder value. So, we expect negative relation between target size and shareholder returns. In this relation we control for the *Relative employment size,* which is the ratio of employment in the acquired firm to the acquiring firm in the year immediately prior to takeover. Loughran and Vijh (1997) show that acquirer post-acquisition returns are related to the mode of acquisition and form of payment: mergers financed through share swaps (exchanges) earn significantly negative abnormal returns (-25 per cent), while tender offers financed with cash payments significantly positive abnormal returns (61.7 per cent). *Cash-paid acquisition* refers to 100 per cent cash paid deals. The remaining mixed or share-based deals are classified as non-cash-funded acquisitions and coded 0. In the sample 29 per cent of deals were cash-paid acquisitions. Megginson et al. (2004) conclude that the change in the degree of corporate focus (industry relatedness) is the primary driver of acquirers' long-term performance. *Related acquisitions* are defined as those acquisitions where both acquired and acquirer firms are in the same *Datastream* Level 4 (Industrial Classification Benchmark (ICB) Sector), as is used in Cosh *et al.* (2006).

Prior research suggests that market reactions to employee layoffs should depend on the underlying reasons for such events, the information provided to investors and pre-layoff performance: layoffs undertaken to respond to adverse market effects should generate a negative market reaction, while layoffs undertaken to improve efficiency should cause a positive market reaction (Elayan *et al.*, 1998). Chen *et al.* (2001) also show that markets react

negatively to layoffs caused by product demand decline, but react positively to efficiency improvement layoffs. The Hillier *et al.* (2007) results indicate that layoffs following poor operating performance generate more negative market reaction than layoffs caused by restructuring or cost cutting. Therefore, we also analyse the motives for takeovers and control for acquiring firm managerial preferences. A detailed search of newspaper articles in the *Financial Times* in a three-month period around the takeover generated information on the reasons for the takeover. Based on managers' accounts, and the newspaper's interpretation of these, the data were classified by the research team into four types of mergers: diversification (11 per cent), horizontal growth (46 per cent), horizontal efficiency (27 per cent), and vertical integration (16 per cent)[14]. These reasons are coded into three dummies with diversification as the reference category.

We use the some of these control variables in the regressions on the determinants of acquirers' long-run abnormal returns. Rau and Vermaelen (1998) show a positive relationship between M/B and stock price performance. Megginson et al. (2004) show that the change in the degree of corporate focus (industry relatedness) to be the primary determinant of long-term stock performance. It has also been shown that the target firm managers' attitude towards the merger (hostility) is also an important determinant. The method of payment chosen for acquisitions has been show as a significant determinant of post-merger stock price performance: Loughran and Vijh (1997) show that cash acquirers perform better than the stock acquirers.

[INSERT TABLE 2 ABOUT HERE]

4 RESULTS

4.1 Shareholder wealth effects of takeovers: univariate analysis

Consistent with the extant evidence, our results show that acquired firm shareholders earn significant abnormal returns on takeover announcements while acquiring firm shareholders' wealth do not change much on takeover announcement (Andrade and Stafford, 2001).

Panel A of Table 3 reports the mean CARs for both acquiring and acquired firms and associated t-statistics for the full sample as well as for the workforce reduction and workforce

[14] Each researcher independently classified the takeovers according to these criteria, and then jointly agreed the classification.

growth sub-samples and wage growth and wage decline sub-samples. Panel A reports the market model estimates. Target firm shareholders gain significant abnormal returns in the full sample, whereas acquiring firm shareholders' wealth does not change significantly. On the takeover announcement date target shareholders gain on average 17%[15]. On the takeover announcement date acquirers suffer small negative abnormal returns, which are significant at 10% level only.

The results show that although target firm shareholders in both workforce reduction and workforce growth sub-samples earn positive significant abnormal returns, in the former case their gains are 3-5% lower than in the latter case. This supports the rent transfer argument, because shareholders earn large abnormal returns, while some employees lose their jobs and suffer from slower wage growth.

In contrast, the workforce growth acquirers earn very small and insignificant positive abnormal returns, while the workforce reduction sub-sample acquirers earn significantly negative CARs[16]. This suggests that employee suffer from shareholder value creation requirements.

Panel B reports the market-adjusted model estimates of CARs, which are very similar to the above discussed market model estimates. Under both models, acquisitions involving workforce reductions produce negative short-run abnormal returns for acquirer shareholders. Announcement of takeovers that may lead to layoffs may reveal a decline in earnings and therefore markets may negatively adjust prices to take account of this new information. Consistent with this, the results show that the workforce reduction sub-sample acquirers earn negative abnormal returns around takeover announcement.

[INSERT TABLE 3 ABOUT HERE]

Target firm shareholders earn significant abnormal returns in both workforce decline and wage decline sub-samples, although these gains are lower than the abnormal gains earned by

[15] We calculate CARs for 11 days (5 days before the announcement date and 5 days after the announcement date) and for 3 days (1 day before the announcement date and 1 day after the announcement date) in addition to the announcement date alone. These results show that target shareholders gains increase up to 25% within the 11 days window, while acquirer shareholders' wealth does not change during this time. Furthermore, the results show that WFR sub-sample acquirers earn significantly negative CARs during the 3-day event window.

[16] The results are similar when we divide the full sample into workforce growth and workforce reduction sub-samples using the employment change during a 1-year period after takeovers.

the workforce and wage growth sub-sample target firm shareholders, respectively. On one hand this contradicts with the rent transfer argument, according to which shareholders should have earned higher abnormal returns after acquisitions where employees suffer more. However, although target shareholder gains in the workforce reduction and wage decline sub-samples are lower, they earn substantial and significant gains on takeover announcements, whereas some employees lose their jobs and earn lower wages. Therefore, this could be considered as a form of wealth transfer.

The univariate results also suggest that employees may suffer from the shareholders wealth creation requirements, rather than wealth transfer. Acquiring firm shareholders in both workforce reduction and wage decline sub-samples earn significant negative abnormal returns, whereas in the workforce growth and wage growth sub-samples their returns are not distinguishable from zero. This difference suggests that acquirers who earn significant negative abnormal returns will be under pressure to create shareholder value, as their acquisitions announcements are disapproved by the market. Therefore, those acquirers who earn negative abnormal returns will be under increased market pressure to create shareholder value in the short-run by either labour cost cuts (layoffs or wage cuts) or asset divestments. In fact, our analysis shows that (as reported in the Table 2) employee layoffs and asset divestments are larger in the WFR sub-sample. Such restructuring activities, presumably undertaken for short-term shareholder value creation, leads to contrasting results in the WFR and WFG sub-samples in terms of employment and output growth. Effectively, this may indicate wealth transfer in the WFR and wage decline sub-samples, as employees suffer from these M&A.

In sum, the above discussion suggests that the need to create shareholder value may drive post-merger corporate restructuring: low CAR may predict future output and employment decline. Markets correctly forecast unsuccessful M&A, which lead to employee layoffs and even to company bankruptcy, and therefore, negatively react to the announcement of such events. In our sample, 29 acquirers themselves were taken over or become bankrupt during the second or third year after takeovers, leading to 100 percent employment reductions. The results show that firms making layoffs earn significant negative abnormal returns at the time of the takeover announcement. These results suggest that on announcement of a takeover markets distinguish layoff-making acquisitions from those acquisitions that do not make

employee layoffs.[17] These results are also consistent with prior research which shows that short-run market reaction to layoff announcements is negative in general, as markets consider such events as reactions to poor operating performance (Hillier *et al.*, 2007).

Panel C of Table 3 reports the long-term share price performance of acquiring firms. It also shows differences in the long-run abnormal returns in the workforce reduction and workforce growth sub-samples as well as wage growth and wage decline sub-samples. The long-run stock price abnormal returns are computed on the basis of BHAR methodology using industry, size and pre-takeover performance-matched firms.

Consistent with previous research, the results indicate that during the post-takeover 12 months acquiring firms earn 6% less than their matching firms and this underperformance increases to 24% in a 36-month period. Thus, the full sample results indicate that an average acquirer shareholder's wealth significantly declines during post-takeover years. The results are consistent with the 'under-performance' puzzle, documented by the prior research (Agrawal and Jaffe, 2003). For example, on the basis of the BHAR approach using size and B/M matched firms, Conn *et al.* (2005) report that in the period of 36 post-takeover months domestic public firm acquisitions result in significantly negative returns of 20 %.

Further analysis reveals that there is a clear difference in the long-run stock price performance of the workforce reduction and workforce growth sub-samples acquirers, indicating that much of the underperformance could be linked to the employee layoff-making acquirers. The workforce growth acquirers' performance does not significantly differ from the non-merging firms' performance. In contrast, the workforce reduction sub-sample acquirers earn 8% less after 12 months, 22% less after 24 months and 29% less after 36 months in comparison to the non-merging firms.

Thus post-takeover workforce reductions could be suggested as one explanation for the acquiring firms' long-run 'under-performance' puzzle. On the one hand, these results imply that those acquirers who make excessive employee layoffs earn significant negative abnormal returns, because such layoffs may destroy human resource capital of acquired firms. On the other hand, the results suggest that acquirers may lay-off employees after performance

[17] Some takeover announcements include information about future expected redundancies. However, it is in managers' interests to minimise such information about negative labour effects of mergers. Thus, the results support the market efficiency hypothesis, given the fact that employee layoffs may occur well after takeovers

deterioration. Chen *et al.* (2001) report that although layoff-making firms' prior performance is poor, during the post-layoff period their share price returns are not different from market returns. In contrast, Hillier *et al.* (2007) report significant long-run share price underperformance for employee layoff-making firms.

4.2 Determinants of target and acquiring firm shareholders' short-run abnormal returns

Target firm shareholder returns

Table 4 reports the results of regressions of target firm shareholders' short-run takeover announcement returns (premium and target CAR) on employment and wage change in Years 1 and 3 as well as on employee layoffs dummy, controlling for acquiring firm, target firm and deal characteristics.[18] The idea is that whether premiums (or CAR) include some expectations of future expected cash flows from labour costs savings.

Models 1 to 5 reports that employment and wage change variables are inversely associated with premium, meaning that the higher the premium, the lower the employment or wage growth. In some models the associations are significant. This suggests that when high premiums are paid, managers try to recoup them back though cutting labour costs (Froud et al., 2000). However, models 6 to 10 show that target firm 3-day CAR do not include any expectations of labour costs cuts.

A number of the control variables are significantly associated with premium. Acquirers pay lower premium, when targets have larger leverage and also when their relative size is larger. However, the results show that in hostile takeovers target firm shareholders get higher premium, which is consistent with prior research (Sudarsanam and Mahate, 2006). Franks and Mayer (1996) suggest that targets reject takeover offer in order to get higher premiums. Target CAR are higher when acquisitions are made by better performing and also when targets have good growth opportunities. Acquirer pre-takeover performance again significant predictor of acquirer CAR, but this time it is negatively associated with takeover announcement abnormal returns, suggesting that if pre-takeover performance is good investors expect performance decline after mergers.

[18] There is some possibility that there may be reverse causality between share price changes and workforce changes. For example, Hillier *et al.* (2007) report that firms experience significant negative abnormal returns (-0.81%) after employee layoffs. However, it makes more sense to think that economic factors drive share prices, not that share prices lead to changes in economic factors. Thus, we assume that poor operating performance leads to stock price decline and then acquirers undertake employee layoffs to arrest further performance deterioration.

The results show that acquiring firm managerial ownership plays an important role in determining target firm shareholder gains. There is some evidence showing that target fir CEO options, negatively affect the size of premium, possibly due to the power concentrated by the CEO. When acquiring firm managers have large equity stakes, target shareholders earn smaller gains. All modules consistently show that CEO share ownership is negatively associated with target firm CAR, which is consistent with Moeller (2005) conclusions: powerful CEOs with large equity stakes trade shareholder value (premium) for their own private benefits (jobs, bonuses, board seats) (Hartzell, 2004, Wulf, 2004).

In contrast, acquirers where CEOs own large equity stakes pay less premium and possibly therefore, target firm shareholder earn lower CAR. The negative coefficient of the CEO ownership variable may indicate two points. First, when CEO own large equity there is less wealth transfer from acquiring firm shareholder to target firm shareholders. Secondly, when CEO has larger equity ownership, they pay higher wages, as they can derive private benefits from this (REF), and therefore, shareholders earn lower abnormal returns. In contrast, there is some indication of positive association between other executive directors' share ownership and premium, although their impact on target firm shareholder gains is not significant. When other executive directors own larger equity stakes, target firm shareholder gain higher premium and some models show that they also earn higher CAR. Other executive director ownership may proxy for the extent of labour's control in the acquiring firm. Prior research suggests that when firms are controlled by labour they deviate from shareholder value maximisation (Faleye et al, 2006, John et al. 2013).

[INSERT TABLE 4 ABOUT HERE]

Only target firm CEO is positively associated with the acquirer firm shareholders abnormal returns. Acquirer ownership and target other executive ownership, non-executive ownership, large ownership and CEO options do not impact CAR.

Acquiring firm shareholder returns

We also analyse the association between acquiring firm shareholder gains and labour variables. The results are reported in Table 5. Again the results show that post-merger wage growth is inversely associated with shareholder gains. This suggests that wages in target firm employee could decline during post-merger period and this may create some shareholder gains.

Other control variables behave as expected. Shareholders earn high abnormal returns, when growth opportunities (M/B) takeover announcements (growth) create higher shareholder value. These results do not provide any evidence of wealth transfer from employees to shareholders: the main variables of interest – employment change and wage change in Year 1 or Year 3 are not significantly associated with either premium or takeover announcement CAR. However, consistent with the univariate results, these regressions show that those M&A that result employee layoffs generate lower target CAR: employee layoffs dummy has negative coefficients in all models and it is significant in model 5b.

[INSERT TABLE 5 ABOUT HERE]

Difference between hostile versus friendly acquisitions

Table 6 repeat the same regressions models, but including the interactions of the employment and wage change variables with the hostility dummy to check whether changes in these variables are differently associated with shareholder gains in hostile takeovers. In most models the interaction terms are not significant, except in model 5a, where the interaction of the Year 3 wage change with hostility dummy is significant at $p<0.05$. This suggests that there is more negative association between post-merger wage growth in Year 3 and premium after hostile takeovers, suggesting that upon announcement of deals those targets earn higher returns, where employee wages grows slower. These results suggest that when high premium is paid in hostile takeovers, wage growth is significantly lower that the wage growth after friendly mergers. So, this result provides some evidence of wealth transfer from employees to shareholders in hostile takeovers.[19]

[INSERT TABLE 6 ABOUT HERE]

4.3 Determinants of acquiring firm shareholders long-run abnormal returns

Table 7 reports the results where we test whether post-merger employment and wage change variables explain long-run shareholder abnormal returns (12, 24 and 36 months BHAR). In terms of control variables, there is some weak evidence showing that cash paid acquisitions and acquirers with higher leverage perform better. In contrast, acquirers who pay larger premium are more likely to underperform in the longer-run. However, acquirer ROA change

[19] In our view these estimates are very conservative, as we compute wage change using the combined target and acquired firm staff costs data. Using only target firm (unit or plant level) data may show stronger association

is only significant in one model, although this variable has positive and relatively large coefficient in all models. Also to some extent, target prior performance plays an important role in determining shareholder gains.

All modules show that both employment change and wage change variables in years 1 and 3 are positively associated with acquirers 36 months BHAR. This suggests that employment and wage changes in Year 1 could predict long-run success of mergers. In other words these results suggest that if acquiring firm managers are more labour friendly in Year 1, then their shareholders could earn significant positive abnormal returns in Year 3. This positive association is consistent with the view that the takeover related gains of the stakeholders are positively correlated.

[INSERT TABLE 7 ABOUT HERE]

In Table 8 we report the results where the above models also include the interactions of the employment and wage change variables with the hostility dummy. Models 1 (3) shows that the interactions terms of Employment change in Year 1 (Year 3) and hostility dummy is positive and significant. These results suggest that the association between shareholder gains and labour wealth changes come from the hostile sub-sample, not from the friendly mergers sub-sample. These results suggest that employee friendliness (employment and wage growth) in hostile acquisitions significantly predicts acquiring firm shareholders long-run abnormal returns.

These results are consistent with the previous research. For example, Cascio *et al.* (1997) report a significant positive association between stock returns and employment change, interpreting this as evidence that firms with employment growth produce higher abnormal returns during the three years after the workforce adjustment. The results are also consistent with the recent literature that stress the importance of employee friendliness of the

[INSERT TABLE 8 ABOUT HERE]

4.4 Discussion and conclusions

It has been suggested that takeovers may be motivated by the objective of wealth re-distribution from employees to shareholders (Shleifer and Summers, 1988, Appelbaum et al., 2013). Takeovers could create shareholder value, but may negatively affect labour. However, both shareholder gains and job/wage growth in the longer-run could be determined by the

success of mergers where managerial preferences and strategies play an important role (ref). The results suggest that in the short-run (around takeover announcements) shareholder and employee gains are inversely associated while in the long-run shareholder and employee gains are strongly related.

The results show that both target and acquirer shareholder gains are lower in the WFR sub-sample than in the WFG sub-sample. In particular, the WFR sub-sample acquirers earn significantly negative abnormal returns while the WFG sub-group acquirers' wealth does not change much. This suggests that post-acquisition corporate restructuring activities might have been undertaken with the market pressure to create shareholder gains immediately after the mergers. Further analysis shows that the WFR sub-sample acquirers undertake more asset sales and employee layoffs, suggesting that when shareholders suffer, employees also suffer. Therefore, we interpret the lower CAR in the WFR sub-sample as an evidence of wealth transfer from employees to shareholders.

We regress target firm shareholders' short-run abnormal returns and premium on post-takeover workforce and wage changes, controlling for other relevant variables. The results show that workforce reductions and wage cuts are inversely associated with the takeover premium. This supports the wealth transfer hypothesis: a higher premium is associated with lower wage growth while in hostile takeovers this association is stronger in comparison to friendly acquisitions.

However, the regressions show no association between employment (wage) change variables and target firm CAR. The regressions show only weak evidence of the lower target CAR in acquisitions that result in employee layoffs. Interactions of the employment (wage) change with the hostility dummy variables are significant in one model only.

These regressions also show that when acquiring firm managers' own large equity stakes, they do not pay large premiums and possibly, therefore, target firm shareholders earn lower CAR. Other ownership and governance variables do not play any role in explaining stakeholder gains.

However, the analysis of the acquirer's long-run performance shows that post-takeover workforce and wage growth are positively associated with the acquirers' long-run abnormal returns. In the long run, the WFG sub-sample acquirers earn zero abnormal return, while the workforce reduction sub-sample acquirers underperform. The regressions show a strong

positive association between acquirers' long-run abnormal returns and post-takeover workforce and wage changes. Thus, better performing firms do not make employee layoffs, while firm performance deterioration may lead to workforce reduction. This is consistent with the view that firm under-performance is one of the main factors that may lead to employee layoffs (Hillier *et al.*, 2007). These results imply that if takeovers benefit shareholders, labour also gains from such transactions; if shareholders suffer from a takeover, labour also suffers from such transactions. This is consistent with the recent empirical findings that highlight the importance of employee friendly labour management practices.

These results suggest that both rent transfer (in the short-run) and rent sharing (in the longer run) may co-exist within an M&A framework. We conclude that takeovers affect both shareholders and employees in the same direction. We argue that employment growth and wage growth depend on the success of the merger, measured by the long-run abnormal returns of acquiring firms. If BHAR is negative, then the employment change is negative, if BHAR is positive then the employment change is also positive. Thus, managers may act for the success of the companies, not only for the best interests of shareholders as discussed in Pendleton (2009).

The WFG sub-sample acquirers' long-run share price performance does not differ from the non-merging firms' performance, while the workforce reduction sub-sample acquirers significantly underperform their non-merger matching counterparts. The regression results indicate a significant positive relationship between BHARs and post-takeover workforce changes as well as between BHARs and wage changes. This means that post-takeover workforce and wage changes depend on acquirers' performance: if shareholders' long-run abnormal returns are low, the workforce growth and wage growth are low. Thus, wage growth does not depend on the rent expropriating behaviour of shareholders but on how managers promote the success of their company. This means that if shareholders gain from takeovers, then employees earn higher salaries. If shareholders suffer from the acquisitions, then employees also suffer from them.

Table 1 Distribution of selected sample of takeovers

Year	Takeovers of UK public companies		Takeovers by foreign companies		Takeovers by UK public companies		Sampled UK public company takeovers		Hostile takeovers		Related takeovers		Cash-funded takeovers	
	Number	TV (£m)	Number	TV (£m)	Number	TV (£m)	Number	TV (£m)	Number	%	Number	%	Number	%
1990	125	14,636	53	8,306	72	6,330	17	2,389	7	41	8	47	6	35
1991	89	8,018	29	1,802	60	6,216	22	4,884	5	23	10	45	6	27
1992	60	12,946	17	5,031	43	7,915	14	2,122	2	14	5	36	2	14
1993	58	3,711	16	1,017	42	2,694	16	1,482	4	25	11	69	4	25
1994	64	5,158	24	1,766	40	3,392	12	1,368	2	17	6	50	0	0
1995	87	41,996	29	12,041	58	29,955	26	18,216	5	19	16	62	4	15
1996	87	25,422	28	8,484	59	16,938	15	1,856	3	20	7	47	6	40
1997	123	34,502	54	15,593	69	18,909	23	5,445	3	13	11	48	5	22
1998	162	44,065	58	21,890	104	22,175	29	8,882	6	21	20	69	15	52
1999	197	74,317	41	46,595	156	27,722	34	11,510	7	21	27	79	11	32
2000	113	85,724	39	30,703	74	55,021	27	12,768	8	30	15	56	9	33
Total	**1165**	**350,495**	**388**	**153,228**	**777**	**197,267**	**235**	**70,922**	**52**	**22**	**136**	**58**	**68**	**29**

Source: *Acquisitions Monthly*, 1990 – 2000. *Notes:* TV stands for the transaction values, which are in 2003 values.

Table 2 Descriptive statistics

	Full sample			WFR sub-sample			WFG sub-sample		
	Mean	**Med**	**SD**	**Mean**	**Med**	**SD**	**Mean**	**Med**	**SD**
Panel A: Pre-takeover Labour data									
Target employment (number of employees)	3313	770	9067	4485	1096	11068	1586	623	4295
Acquirer employment (number of employees)	13088	2975	27036	16427	3285	32413	8167	2903	15000
Target matched firm employment[a]	2088	706	4729						
Acquirer matched firm employment	9214	2661	16740						
Target average wage (£000)	23.33	21.58	12.08	22.39	21.23	9.80	24.71	21.81	14.76
Acquirer average wage (£000)	23.04	22.11	9.77	22.77	21.68	10.53	23.44	22.96	8.57
Target matched firm average wage (£000)	25.30	22.80	13.85						
Acquirer matched firm average wage	23.12	22.60	9.64						
Panel B: Employment change									
Number of observations	235			127			108		
Number of acquirer that announce lay-offs	101			89			12		
Employment change (%)	2.93	-2.05	36.33	-19.53	-14.39	16.54	29.34	16.03	35.51
Matched firm employment change (%)	1.89	1.41	24.95						
Employee lay-off announcements[b] (%)	-7.54	-5.58	6.30	-5.40	-2.84	6.38	-0.75	0.00	2.79
Panel C: Pre-takeover performance data									
Target ROA (unadjusted, %)	0.17	0.15	0.13	0.16	0.15	0.09	0.19	0.15	0.19
Acquirer ROA (unadjusted, %)	0.20	0.18	0.22	0.20	0.18	0.27	0.21	0.19	0.15
Target labour productivity (unadjusted, £000)	149	98	175	135	90	125	168	104	255
Acquirer labour productivity (unadjusted, £000)	130	96	115	126	94	125	138	103	104
Target Q (ratio)	9.87	2.48	32.99	5.45	2.34	18.20	15.07	2.66	44.03
Acquirer Q (ratio)	11.65	3.72	30.94	7.84	3.47	15.94	16.11	4.34	41.89
Panel D: Synergy									
Related acquisitions (number)	132			66			66		
Relative employment size (ratio)	0.81	0.35	1.78	1.05	0.44	2.27	0.52	0.21	0.83
Panel E: Transaction data									
Hostile acquisitions (number)	52			34			18		
Cash-paid acquisitions (number)	68			43			25		
Leverage (ratio)	0.45	0.46	0.18	0.48	0.50	0.19	0.42	0.42	0.17
Premium (%)	38.57	37.00	34.53	35.77	35.00	34.05	41.50	38.00	35.07
Panel F: Ownership and governance									
Executive share ownership (%)	5.18	0.82	10.25	3.13	0.47	5.62	7.59	1.48	13.49
Executive share options (%)	0.72	0.32	1.46	0.88	0.41	1.89	0.53	0.37	0.63
Non-executive share ownership (%)	1.32	0.09	3.83	1.09	0.07	2.74	1.61	0.11	4.80
Total Board share ownership (%)	6.51	1.28	11.24	4.23	0.97	6.57	9.19	3.24	14.55
Total Board share options (%)	0.74	0.42	1.48	0.91	0.45	1.91	0.56	0.37	0.65
External largest single ownership (%)	10.53	8.85	8.99	9.77	8.81	8.63	11.43	10.30	9.06
External large combined ownership (%)	25.50	23.17	19.34	25.48	23.09	20.27	25.36	23.03	18.26
Proportion of non-exec. directors (ratio)	0.44	0.44	0.14	0.44	0.43	0.14	0.44	0.44	0.14

Table 3 Shareholders' short- and long-run abnormal returns by employment and wage change sub-samples

	Full sample	WFG sub-sample	WFR sub-sample	Wage growth sub-sample	Wage reduction sub-sample
Panel A: Market model Cumulative Abnormal Returns (CAR)					
Target CAR	0.1652***	0.2009***	0.1578***	0.1799***	0.1384***
t-stat	11.37	8.26	7.95	10.54	5.2
Acquirer CAR	-0.0043	0.006	-0.0088**	-0.0021	-0.0086*
t-stat	-1.39	0.1	-2.11	-0.55	-1.65
Panel B: Market adjusted model CAR					
Target CAR	0.1647***	0.2003***	0.1576***	0.1795***	0.1376***
t-stat	11.36	8.29	7.92	10.54	5.18
Acquirer CAR	-0.0048	0.0001	-0.009**	-0.0024	-0.0093*
t-stat	-1.54	0.01	-2.17	-0.64	-1.64
Panel C: Acquirers' long run Buy-and-Hold Abnormal Returns (BHAR)					
12 month BHAR	-0.0616*	-0.0182	-0.0798*	-0.0455	-0.1195*
t-stat	-1.84	-0.31	-1.69	-1.19	-1.73
24 month BHAR	-0.197***	-0.0174	-0.2269***	-0.0908	-0.352***
t-stat	-3.41	-0.2	-2.81	-1.45	-2.49
36 month BHAR	-0.2361***	0.0488	-0.2938**	-0.0177	-0.4948**
t-stat	-2.42	0.32	-2.19	-0.15	-2.29

Notes: This table reports the mean values of CARs and relevant t-statistics. There are 140 observations in the workforce reduction sub-sample and 95 observations in the WFG sub-sample. This analysis also includes 29 acquirers that were themselves taken over during the second or third year post-merger. In these cases, returns from these investments were considered as zero.

Table 4 Regressions of shareholder returns (premium and Target CAR) on post-merger employee wealth concessions

	Premium					Market adjusted model CAR				
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
Emp. change in Year 1	-0.094			-0.170**		0.076			0.085	
Wage change in Year 1	-0.092			-0.144*		0.072			0.112	
Emp. change in Year 3		-0.160**			-0.160**		0.081			0.071
Wage change in Year 3		-0.082			-0.058		0.021			0.035
Employee layoffs dummy			-0.023					-0.029		
Target size	-0.024	-0.052	-0.017	-0.015	-0.021	-0.065	-0.123	-0.059	-0.118	-0.104
Target Market-to-Book	0.057	0.069	0.039	0.073	0.059	0.068	0.065	0.077	0.054	0.05
Target leverage	-0.211***	-0.194**	-0.211***	-0.178**	-0.173**	-0.243***	-0.255***	-0.246***	-0.244***	-0.237***
Target pre-ROA	0.089*	0.028	0.088*	0.018	0.041	0.070*	0.046	0.066*	0.077	0.06
Target pre-wage	-0.092	-0.115	-0.075	-0.104	-0.094	0.137**	0.120*	0.129**	0.143**	0.137**
Relative emp size	-0.153**	-0.188**	-0.135*	-0.210**	-0.204**	0.139*	0.149*	0.133	0.145	0.145*
Hostile takeovers	0.208***	0.193**	0.205***	0.213**	0.209***	0.002	0.027	0.005	0.06	0.036
Cash-paid takeovers	-0.012	-0.025	0.009	-0.026	-0.011	0.198***	0.200***	0.189**	0.241***	0.214***
Industry relatedness	0.004	0.013	0.012	-0.05	-0.063	-0.089	-0.094	-0.094	-0.176**	-0.179**
Target large owners	0.059	0.027	0.042	0.018	0.008	-0.160**	-0.184**	-0.144**	-0.215***	-0.200***
Target CEO share ownership	-0.095	-0.082	-0.106	-0.075	-0.09	-0.244***	-0.215**	-0.239***	-0.160**	-0.215***
Target CEO share options	-0.126**	-0.139**	-0.122**	-0.128*	-0.118*	-0.001	-0.032	-0.007	-0.014	-0.012
Target otherexec. share ownership	0.044	0.036	0.05	0.039	0.048	0.002	-0.031	-0.006	-0.061	-0.035
Target otherexec. shareoptions	0.08	0.069	0.074	0.058	0.061	-0.075	-0.110**	-0.076*	-0.108**	-0.114**
Target nonexec. share ownership	0.056	0.051	0.046	0.048	0.055	-0.008	0.003	-0.001	0.011	0.009
Acquirer large owners	-0.021	-0.001	-0.025	0.011	0.003	-0.076	-0.041	-0.078	-0.053	-0.045
Acquirer CEO share ownership	-0.125**	-0.149**	-0.132**	-0.195***	-0.206***	-0.089	-0.119**	-0.088	-0.182***	-0.173***
Acquirer CEO share options	0.032	0.043	0.032	0.006	0.013	-0.046	-0.058	-0.053	-0.077	-0.08
Acquirer otherexec. share ownership	0.248***	0.207***	0.210***	0.234***	0.213***	0.109**	0.049	0.135***	0.024	0.057
Acquirer otherexec. shareoptions	-0.083	-0.096	-0.074	-0.066	-0.058	-0.005	-0.007	-0.005	0.022	0.021
Acquirer nonexec. share ownership	0.120**	0.098**	0.121**	0.075	0.076	0.179**	0.177**	0.177**	0.157**	0.160**
36 post-merger BHAR				-0.127*	-0.121				-0.079	-0.074
Growth motive				0.126	0.139				0.18	0.178
Efficiency motive				-0.055	-0.043				0.06	0.033
Vertical integration motive				-0.094	-0.1				-0.05	-0.048
		*				***	***	***	***	***
F-statistic	3.312***	2.650***	3.351***	3.094***	2.810***	4.161***	3.935***	4.288***	4.280***	4.013***
Adjusted R squared	0.126	0.108	0.122	0.137	0.136	0.132	0.14	0.132	0.161	0.149
Number of observations	230	202	230	202	202	225	198	225	197	198

Notes: The dependent variable is post-takeover workforce change. The estimation method is OLS, using heteroscedasticity-robust standard errors (White, 1980). Significance levels: *p<0.1, **p<0.05; ***p<0.01. Appendix 2 provides the definitions of the variables.

Table 5 Regressions of acquirer shareholder returns (CAR) on post-merger employee wealth concessions including interactions

	Market adjusted model CAR				
	Model 1	Model 2	Model 3	Model 4	Model 5
Emp. change in Year 1	-0.015			-0.048	
Wage change in Year 1	-0.054			-0.146*	
Emp. change in Year 3		0.102			0.130*
Wage change in Year 3		-0.133**			-0.117**
Employee layoffs dummy			0.121*		
Acquirer size	0.011	0.052	-0.005	0.072	0.084
Acquirer Market-to-Book	0.187**	0.222**	0.195***	0.231***	0.227***
Acquirer leverage	0.149*	0.192**	0.136*	0.196**	0.212**
Acquirer pre-ROA	-0.180***	-0.266***	-0.152**	-0.245***	-0.250***
Relative emp size	-0.157	-0.091	-0.190*	-0.127	-0.044
Hostile takeovers	-0.054	-0.063	-0.068	-0.06	-0.074
Cash-paid takeovers	0.133*	0.09	0.119*	0.065	0.115
Industry relatedness	0.037	0.035	0.044	0.057	0.09
Target large owners	0.055	0.097	0.046	0.096	0.086
Target CEO share ownership	0.153**	0.189**	0.160**	0.182**	0.208***
Target CEO share options	-0.023	-0.001	-0.016	-0.004	0.01
Target otherexec. share ownership	-0.118**	-0.116*	-0.103*	-0.127*	-0.111*
Target otherexec. shareoptions	0.076	0.153	0.077	0.127	0.161*
Target nonexec. share ownership	-0.006	-0.018	-0.002	-0.029	-0.008
Acquirer large owners	-0.003	-0.006	0.003	-0.002	-0.028
Acquirer CEO share ownership	0.105	0.114	0.117	0.117	0.115
Acquirer CEO share options	-0.137*	-0.166*	-0.116	-0.161*	-0.172*
Acquirer otherexec. share ownership	0.039	-0.113**	0.036	-0.056	-0.123**
Acquirer otherexec. shareoptions	0.132	0.152*	0.114	0.136	0.154*
Acquirer nonexec. share ownership	-0.007	-0.006	0.002	0.007	-0.007
36 post-merger BHAR				-0.006	-0.099
Growth motive				0.026	-0.017
Efficiency motive				-0.027	-0.048
Vertical integration motive				0.099 *	0.093 *
F-statistic	1.979***	2.381***	2.071***	2.024***	2.204***
Adjusted R squared	0.085	0.151	0.099	0.112	0.15
Number of observations	229	199	229	200	199

Notes: The dependent variables are post-takeover workforce change and wage change. The estimation method is OLS, using heteroscedasticity-robust standard errors. Significance levels: *p<0.1, **p<0.05; ***p<0.01. Appendix 2 provides the definitions of the variables.

Table 6 Interactions of the hostility dummy with the labour variables

	Premium					Market adjusted model CAR				
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
Emp. change in Year 1	-0.088	-0.09				0.09	0.074			
Wage change in Year 1	-0.093	-0.102				0.071	0.075			
Hostile * Emp. change in Year 1	-0.011					-0.028				
Hostile * Wage change in Year 1		0.026					-0.008			
Emp. change in Year 3			-0.162**	-0.166***				0.114	0.075	
Wage change in Year 3			-0.081	0.085				0.01	0.044	
Hostile * Emp. change in Year 3			0.003					-0.071		
Hostile * Wage change in Year 3				-0.220***					-0.048	
Employee layoffs dummy					-0.025					-0.033
Hostile * Employee layoffs					0.007					0.013
Target size	-0.024	-0.024	-0.052	-0.05	-0.017	-0.065	-0.064	-0.124	-0.125	-0.059
Target Market-to-Book	0.057	0.057	0.069	0.072	0.039	0.07	0.068	0.071	0.061	0.078
Target leverage	-0.212***	-0.211***	-0.193**	-0.183*	-0.212***	-0.244***	-0.242***	-0.261***	-0.252***	-0.246***
Target pre-ROA	0.087*	0.086*	0.028	-0.019	0.088*	0.066	0.071*	0.035	0.051	0.065*
Target pre-wage	-0.092	-0.093	-0.114	-0.140**	-0.075	0.136**	0.137**	0.117	0.118*	0.129**
Relative emp size	-0.153**	-0.155**	-0.188**	-0.145*	-0.135*	0.139*	0.140*	0.151*	0.155*	0.133
Hostile takeovers	0.206***	0.202**	0.193**	0.197**	0.200*	-0.003	0.004	0.019	0.03	-0.004
Cash-paid takeovers	-0.011	-0.015	-0.025	-0.015	0.009	0.199***	0.199***	0.202***	0.202***	0.189**
Industry relatedness	0.003	0.002	0.013	0.018	0.011	-0.092	-0.088	-0.105	-0.09	-0.094
Target large owners	0.059	0.058	0.028	0.039	0.041	-0.161**	-0.160**	-0.189**	-0.186**	-0.145**
Target CEO share ownership	-0.096	-0.096	-0.082	-0.036	-0.106	-0.245***	-0.243***	-0.219***	-0.215**	-0.239***
Target CEO share options	-0.127**	-0.124**	-0.139**	-0.131**	-0.121**	-0.003	-0.002	-0.032	-0.029	-0.006
Target otherexec. share ownership	0.045	0.045	0.036	0.033	0.051	0.003	0.002	-0.028	-0.032	-0.005
Target otherexec. shareoptions	0.08	0.078	0.069	0.059	0.074	-0.074	-0.074	-0.108**	-0.109**	-0.076*
Target nonexec. share ownership	0.056	0.057	0.052	0.074	0.046	-0.009	-0.008	-0.005	0.002	-0.001
Acquirer large owners	-0.021	-0.024	-0.001	-0.016	-0.024	-0.076	-0.076	-0.045	-0.037	-0.076
Acquirer CEO share ownership	-0.124**	-0.125**	-0.149**	-0.167***	-0.132**	-0.085	-0.089	-0.106*	-0.123**	-0.087
Acquirer CEO share options	0.031	0.032	0.043	0.025	0.033	-0.047	-0.046	-0.053	-0.06	-0.052
Acquirer otherexec. share ownership	0.248***	0.245***	0.207***	0.236***	0.210***	0.108**	0.110**	0.05	0.052	0.135***
Acquirer otherexec. shareoptions	-0.083	-0.081	-0.095	-0.089	-0.075	-0.006	-0.006	-0.017	-0.008	-0.006
Acquirer nonexec. share ownership	0.122**	0.125**	0.098*	0.110**	0.121**	0.182**	0.177**	0.184***	0.176***	0.178***
F-statistic	3.202***	3.144***	2.522***	2.902***	3.199***	4.001***	4.000***	3.758***	3.778***	4.092***
Adjusted R squared	0.121	0.122	0.103	0.137	0.118	0.128	0.128	0.138	0.137	0.127
Number of observations	230	230	202	201	230	226	226	199	199	226

Table 7 Regressions of shareholder long-run abnormal returns on post-merger employee wealth concessions

	BHAR 12 months		BHAR 24 months		BHAR 36 months						BHAR 36 months			
Emp. change in Year 1	0.071		0.057		0.079				0.185*				0.16	
Wage change in Year 1	-0.02		0.142*			0.158*			0.228***				0.214***	
Emp. change in Year 3		0.056		0.160*			0.160**			0.231***				0.219**
Wage change in Year 3		0.072		0.190**				0.155**		0.217***				0.207**
Employee layoffs											-0.043	-0.004		
Acquirer size	0.099	0.062	0.146	0.118	0.167	0.163	0.164	0.177	0.139	0.162	0.184	0.211	0.163	0.181
Acquirer Market-to-Book	-0.095*	-0.126**	-0.04	-0.069	0.098*	0.100*	0.084*	0.078	0.071	0.031	0.102**	0.114**	0.08	0.04
Acquirer capital intensity	-0.239***	-0.235***	-0.183**	-0.180**	-0.168	-0.184	-0.185*	-0.167	-0.191*	-0.191*	-0.172	-0.18	-0.197*	-0.197*
Acquirer pre-ROA	0.134*	0.107	0.181**	0.123	0.12	0.149*	0.084	0.129*	0.125	0.056	0.119	0.128*	0.126	0.06
Target pre-ROA	0.096	0.157	0.162***	0.156	0.118	0.158*	0.11	0.147*	0.149*	0.13	0.127	0.128	0.150*	0.129
Relative emp size	0.037	0.003	0.039	0.089	0.124	0.102	0.134	0.11	0.126	0.141	0.127	0.135	0.133	0.15
Hostile takeovers	0.114	0.113	0.142**	0.144**	0.056	0.036	0.055	0.045	0.047	0.051	0.052	0.053	0.049	0.053
Cash-paid takeovers	0.127*	0.115	0.130*	0.139**	0.071	0.073	0.081	0.055	0.104	0.083	0.065	0.071	0.104	0.085
Industry relatedness	-0.01	-0.023	0.089	0.071	0.101	0.094	0.104	0.105	0.093	0.111	0.1	0.092	0.096	0.122
Premium	0.014	-0.008	-0.1	-0.088	-0.148**	-0.153**	-0.147**	-0.148**	-0.155**	-0.147**	-0.149*	-0.160**	-0.161**	-0.151**
Divestments	0.012	-0.007	-0.086	-0.086	-0.09	-0.119	-0.075	-0.128	-0.069	-0.08	-0.106	-0.098	-0.065	-0.072
Acquirer large owners	0.201***	0.200***	0.160**	0.170***	0.110*	0.099	0.105*	0.109*	0.09	0.099*	0.108*	0.111*	0.093	0.101*
Acquirer CEO share ownership	0.001	0.001	-0.069	-0.039	-0.063	-0.065	-0.064	-0.054	-0.066	-0.054	-0.069	-0.08	-0.074	-0.059
Acquirer CEO share options	-0.041	-0.015	-0.008	-0.015	-0.028	-0.005	-0.017	-0.035	-0.013	-0.034	-0.028	-0.025	-0.017	-0.038
Acquirer otherexec. share ownership	0.133	0.166**	0.132**	0.108	0.006	0.009	-0.001	0.022	-0.039	-0.015	0.019	0.022	-0.035	-0.017
Acquirer otherexec. shareoptions	0.09	0.018	0.043	-0.006	0.087	0.043	0.08	0.053	0.075	0.063	0.072	0.069	0.072	0.062
Acquirer nonexec. share ownership	-0.089*	-0.092*	-0.079*	-0.061	-0.042	-0.041	-0.051	-0.033	-0.046	-0.048	-0.04	-0.042	-0.047	-0.048
Growth motive												0.078	0.016	-0.006
Efficiency motive												-0.06	-0.069	-0.079
Vertical integration motive												0.06	0.019	0.019
Acquirer leverage at the end of Year -1	0.175**	0.161**									0.037	0.047	0.055	0.069
Acquirer leverage at the end of Year 1			-0.036	0.003										
Acquirer leverage at the end of Year 2					0.041	0.029	0.065	0.019	0.049	0.06				
Acquirer ROA change in Year 1	0.206***	0.192***												
Acquirer ROA change in Year 2			0.240***	0.197**										
Acquirer ROA change in Year 3					0.336***	0.337***	0.289***	0.324***	0.304***	0.229**	0.337***	0.334***	0.301***	0.227**
F-statistic	2.513***	3.065***	2.398***	2.422***	1.956**	2.181***	2.188***	2.075***	2.781***	2.511***	1.876**	1.713**	2.437***	2.301***
Adjusted R squared	0.106	0.108	0.128	0.143	0.085	0.103	0.1	0.103	0.12	0.136	0.082	0.081	0.111	0.129
Number of observations	235	206	218	206	206	206	206	206	206	206	206	206	206	206

Notes: The estimation method is OLS, using heteroscedasticity-robust standard errors. Significance levels: *p<0.1, **p<0.05; ***p<0.01. Appendix 2 provides the definitions of the variables.

Table 8 Regressions of shareholder long-run abnormal returns on post-merger employee wealth concessions including interactions

	BHAR 12 months					BHAR 24 months					BHAR 36 months				
Emp. change in Year 1	0.034	0.071				0.009	0.056				0.058	0.177*			
Wage change in Year 1	-0.017	-0.019				0.143*	0.145*				0.225***	0.243***			
Hostile * Emp. change in Year 1	0.075					0.094					0.221**				
Hostile * Wage change in Year 1		-0.002					-0.008					-0.045			
Emp. change in Year 3			0.035	0.036	0.079			0.154	0.163*	0.158			0.162*	0.221***	0.234***
Wage change in Year 3			0.079	0.129	0.082			0.193**	0.180*	0.190**			0.242***	0.251***	0.218***
Hostile * Emp. change in Year 1			0.049					0.016					0.155*		
Hostile * Wage change in Year 1				-0.118					0.021					-0.068	
Employee layoffs dummy					0.082					-0.011					0.018
Hostile * Employee layoffs dummy					0.014					0.014					-0.016
Acquirer size	0.088	0.099	0.057	0.053	0.043	0.133	0.146	0.117	0.12	0.12	0.104	0.135	0.148	0.157	0.159
Acquirer Market-to-Book	-0.088	-0.095*	-0.127**	-0.131**	-0.121**	-0.033	-0.04	-0.069	-0.067	-0.07	0.088*	0.072	0.027	0.027	0.033
Acquirer capital intensity	-0.227**	-0.238**	-0.226**	-0.212**	-0.230***	-0.167**	-0.182**	-0.177**	-0.184**	-0.181**	-0.148	-0.186*	-0.16	-0.179*	-0.189*
Acquirer pre-ROA	0.141*	0.134*	0.106	0.115	0.124	0.185**	0.181**	0.123	0.123	0.121	0.137*	0.127	0.054	0.059	0.061
Target pre-ROA	0.102	0.096	0.163	0.162	0.154	0.167***	0.162***	0.157	0.155	0.155	0.168*	0.150*	0.148*	0.133	0.131
Relative emp size	0.03	0.037	-0.001	0.011	-0.024	0.033	0.039	0.088	0.087	0.091	0.102	0.128	0.13	0.146	0.137
Hostile takeovers	0.127*	0.115	0.117	0.122	0.098	0.158**	0.144**	0.145**	0.142**	0.135	0.087	0.058	0.065	0.056	0.061
Cash-paid takeovers	0.126*	0.127*	0.115	0.125*	0.11	0.128*	0.131*	0.138**	0.136*	0.140*	0.095	0.109	0.08	0.089	0.081
Industry relatedness	-0.003	-0.01	-0.016	-0.017	-0.02	0.099	0.09	0.074	0.07	0.07	0.120*	0.096	0.133*	0.114*	0.112
Premium	0.014	0.014	-0.007	-0.019	-0.007	-0.102	-0.1	-0.088	-0.086	-0.088	-0.160**	-0.155**	-0.146**	-0.152**	-0.146**
Divestments	0.018	0.012	-0.006	-0.019	-0.014	-0.08	-0.085	-0.086	-0.084	-0.087	-0.056	-0.067	-0.078	-0.087	-0.08
Acquirer large owners	0.199***	0.201***	0.202***	0.205***	0.206***	0.160**	0.161**	0.170***	0.169***	0.171***	0.087	0.094	0.104*	0.101*	0.098*
Acquirer CEO share ownership	-0.008	0.001	-0.007	-0.007	0.014	-0.08	-0.069	-0.042	-0.038	-0.04	-0.098	-0.069	-0.08	-0.058	-0.053
Acquirer CEO share options	-0.038	-0.041	-0.018	-0.022	-0.001	-0.006	-0.008	-0.016	-0.013	-0.014	-0.01	-0.014	-0.048	-0.038	-0.034
Acquirer otherexec. share ownership	0.131	0.133	0.166**	0.178***	0.173**	0.127**	0.134**	0.107	0.106	0.108	-0.043	-0.031	-0.018	-0.008	-0.015
Acquirer otherexec. shareoptions	0.093	0.09	0.025	0.02	0.01	0.047	0.042	-0.003	-0.006	-0.007	0.085	0.07	0.086	0.064	0.064
Acquirer nonexec. share ownership	-0.095*	-0.089*	-0.097*	-0.093*	-0.092*	-0.085**	-0.079*	-0.063	-0.061	-0.061	-0.065*	-0.049	-0.064*	-0.049	-0.048
Acquirer leverage at the end of Year -	0.176**	0.175**	0.160**	0.165**	0.152*										
Acquirer leverage at the end of Year 1						-0.038	-0.036	0.002	0.001	0.004					
Acquirer leverage at the end of Year 2											0.038	0.048	0.053	0.067	0.058
Acquirer ROA change in Year 1	0.203***	0.205***	0.189***	0.190***	0.195***										
Acquirer ROA change in Year 2						0.230***	0.239***	0.196**	0.200**	0.196**					
Acquirer ROA change in Year 3											0.297***	0.300***	0.218**	0.226**	0.232**
F-statistic	2.568***	2.398***	3.060***	3.496***	3.031***	2.875***	2.345***	2.400***	2.255***	2.199***	3.159***	2.706***	2.541***	2.455***	2.505***
Adjusted R squared	0.106	0.102	0.104	0.112	0.103	0.129	0.123	0.138	0.138	0.133	0.145	0.116	0.148	0.135	0.127
Number of observations	235	235	206	206	206	218	218	206	206	206	206	206	206	206	206

Notes: The estimation method is OLS, using heteroscedasticity-robust standard errors. Significance levels: *p<0.1, **p<0.05; ***p<0.01. Appendix 2 provides the definitions of the variables.

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