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SOURCES OF VALUE IN TAKEOVERS: SYNERGY OR RESTRUCTURING—IMPLICATIONS FOR TARGET AND BIDDER FIRMS

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Advocates of the market for corporate control argue that takeover bids should be accepted because unsuccessful targets tend to lose market value. Other researchers argue that takeover bids should be rejected because the combined firms often perform poorly. However, missing in this debate is the influence of the source of takeover gains on the decision to reject or accept takeover bids. This study posits that value from takeovers can be created by synergy or restructuring. The study suggests that only if the synergy component is dominant should the target firm agree to be taken over. The study then tests the dominance of the source of value in takeovers by examining takeovers that were unsuccessful. The study concludes that, first, restructuring, not synergy, motivated the sample studied and target firms can create the same value independently. Second the need for restructuring was industry-wide. However, even if restructuring is the motive behind a takeover, the target firm has to carry out the restructuring, failing which it does not create any value. The study also suggests reasons for the ambiguous findings in the strategic management merger literature.

INTRODUCTION

‘A legal victory for the long term’ was how *Fortune* magazine summed up the Delaware court decision to back the strategic plan proposed by the directors of Time and Warner, allowing them to reject the hostile tender offer made by Paramount. The basic assumption behind the ruling was that the management/directors are in the best position to judge what creates shareholder value over the long term. Thus the management, in the court’s opinion, has the higher probability of creating shareholder value and its decision should not be questioned.

Proponents of free markets have long maintained that takeovers are value-increasing events and the target firms’ shareholders are on average better off by accepting a tender/merger offer

than by raising defenses to prevent a takeover. If the Delaware ruling helps to legitimize such defenses it would be a blow for free markets and would be to the detriment of stockholders of the target firm.

The free market school has some support. Easterbrook and Jarrel (1984) cite three case studies of failed tender offers where, they claim, the target firms’ stockholders suffered by management’s refusal to accept the takeover offer. Bradley, Desai, and Kim (1983) (BDK) also suggest that firms that refuse a tender offer lose value in the long run. Another school of thought led by industrial organization (IO) economists states that takeovers, on average, do not create value (Ravenscraft and Scherer, 1987; Herman and Lowenstein, 1988). They point to post-takeover performance of the combined firm and generally find their performance to be poor. Porter (1987) echoes the same theme when he finds that many of the acquired firms are subsequently divested and some quite soon after

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the acquisition. This group of studies investigating the post-takeover period thus comes up with the conclusion that the expected gains from takeovers seldom materialize. The implicit conclusion is the target firm might have been better off by itself. Recent anecdotal examples like Kodak/Sterling Drugs seems to support this point of view.

It is possible that sample characteristics may have led to the different findings by the two groups of studies cited above (the BDK study consists entirely of tender offers). Whether or not that is the case, the more interesting questions are: (1) what is the process by which the gains from takeovers are realized, and (2) should this process dictate the acceptance or rejection of takeover offers by target firms? If the only way to create value is to physically consolidate the assets of the target firm with the bidder, then there is no way that the target management can create more value for their shareholders by remaining independent. However, if a takeover offer is motivated by a desire to restructure the target firm, independent of the acquiring firm, it is quite likely that the target firm would be able to extract the same gains by remaining independent. The recent wave of restructuring, with or without a LBO, suggests that the source of value often resides with the target firm. In fact, quite often such restructuring is not limited to the target firm but spreads to the entire industry as seen in the oil, pharmaceutical and supermarket industries.

BDK is the only study that has investigated the capital market's assessment of the process by which takeover gains are realized. BDK hypothesized that the capital market expects that most takeovers are undertaken for 'synergy.' Since synergy can only be derived by the physical consolidation of the resources of the two firms, if the target management refuses to be taken over it loses the value of the synergy. BDK studied a sample of target firms which initially resisted a tender offer. Splitting the sample into those that were subsequently taken over and those that remained independent, BDK found that only where a second bidder acquired a controlling interest in the target firm did it manage to hold on to the increase in stock price resulting from the original bid. BDK concluded that to create value in tender offers, the control of the target firm must, on average, pass to the acquiring firm.

While the BDK findings are interesting, in order to accept their conclusions completely one needs to establish that the subsequent transfer of control of the target shares was designed to extract the value signaled by the original failed bid and not an independent event. If for example, the original bid was motivated by disciplining the target management, and not for synergistic gains, we would expect that target managements who disciplined themselves subsequent to the failed bid would retain the stock-price gains from the takeover bid irrespective of a future transfer of control.¹ This possibility finds support from Morck, Shleifer and Vishny (1988) who conclude that friendly acquisitions are likely to be synergistic, whereas hostile ones are likely to be disciplinary involving restructuring of the target firm typically in the form of liquidation of assets.² A failed takeover bid is more likely to be hostile than a successful one. We need to examine if the target firms in failed takeover bids tried to restructure themselves and, whether that had any impact on their stock-price performance subsequent to the failed takeover bid. If we can identify the dominant process by which takeover gains are realized—synergy or restructuring—it may be possible to argue the merits or demerits of rejecting a takeover offer.

In this paper I re-examine the process by which gains are realized in takeovers and their implications after the rejection of takeover bids. I study the performance of a sample of target firms that rejected a tender offer and continued to remain independent (traded on the stock exchanges). I focus on tender offers because they have been one of the more common methods used by outsiders to gain control of the resources of the target firm. To investigate the effect of self-disciplining, I split the sample by target firms which had or had not disinvested, after rejecting

¹ Also, a simple transfer of control without the physical consolidation of the assets of the two firms is unlikely to bring about any synergistic gains. These gains typically arise out of a rationalizing of the different functions—marketing, manufacturing etc—of the consolidated entity. Thus Unisys, notwithstanding their current situation, initially managed to extract substantial operating efficiencies by the physical consolidation of Burroughs and Sperry. Same is true for Kraft and General Foods.

² The fact that a large number of takeover offers come from individuals like Ron Perlman and T. Boone Pickens suggests that the 'synergy' that arises out of the consolidation of the resources of two firms is not a primary factor in many takeovers.

the tender offer. Finally, I examine the impact of the takeover offer on the rivals of the target firm to cross-validate the implications of the stock price reactions of the target firms.

Based on testable implications about the process by which gains are realized in takeovers, I find evidence that, on average, the source of value resides with the target firm. However, to extract this value requires a proactive target management who implements the needed changes. Target firms which did not restructure lost value in the period after rejecting the initial bid. I also find evidence that the initial takeover offer acts as a signal for hidden value in the industry of the target firm and not just specifically to the target firm.

THE NATURE OF INFORMATION REGARDING THE VALUE FROM TAKEOVERS AND TESTABLE IMPLICATIONS OF THE PROCESS OF REALIZATION OF TAKEOVER GAINS

A takeover bid releases information to the capital market about one of several processes by which the future cash flow of the target can be increased. We can broadly classify these processes as takeovers where the value can be created only through an organizational mechanism and those where market transactions, whether in the real goods and services or capital markets, can also extract the value. Organizational mechanism is needed when the gains can only be obtained from a physical consolidation following a takeover. Since organizational mechanisms are necessary because markets fail (Williamson, 1985), these gains typically come from the conventional notions of synergy, whether it is collusive, operating or financial (Chatterjee, 1986; Lubatkin, 1983).³ On the other hand, market trans-

actions typically involve divesting some assets and/or people and sometimes acquiring others. Such divestments can be for strategic re-orientation of the firm to improve its competitiveness or simply because the assets are worth more to someone else and the best way to create shareholder value is to sell the asset.⁴ These market mechanisms fall under the broad rubric of restructuring. If we can establish that the organizational mechanism, or synergy, is the dominant process for realizing values in takeovers, then it might well behoove target firms to agree to be taken over. On the other hand, if market transactions, or restructuring, can also be used to realize the same value then target stockholders should be indifferent between the takeover and staying independent. The preceding arguments are summarized in Figure 1.

To directly establish which of the two processes is more prevalent we need to clinically examine a large sample of takeovers. In the following sections I develop testable implications which can identify the dominant process for takeover gains from the stock price changes of the target and rival firms after an *unsuccessful* takeover bid. I demonstrate that if we simultaneously consider the stock price reactions of the rival and target firms, both during the takeover bid and in the period after its rejection, then we can uniquely determine the capital market's expectations about the motive behind the original takeover bid. This research design allows me to study a much larger sample than is feasible using a clinical study and allows me to investigate additional implications for some other controversial issues regarding takeovers.

Testable implications if takeover gains arise from synergy

Synergistic gains arise from efficiencies generated by exploiting scale and scope economies. Synergy may also provide the merged firm with increased bargaining power *vis-a-vis* buyers and suppliers. Consider the takeover of Kraft by Phillip Morris. Phillip Morris can pay top dollar for Kraft because of the near perfect manner in which the

³ Under perfect markets (lack of market failure) one can always get the synergistic benefits by market transactions, at least for financial and operating synergies. In other words, a firm with excess resources, be it physical, financial or managerial, can always sell such capacity in the open (perfect) market. In an imperfect market that is, of course, impossible. Even for financial synergy involving funds transfer to one party in a takeover, a physical consolidation is needed unless capital markets are informationally efficient in the strong form—i.e., the exact value of all projects are known to everyone and they all value the projects similarly. Financial synergy that leads to reduction of bankruptcy risk is of course impossible without a physical consolidation. Collusive synergy,

by definition, can only arise in an imperfect market under small numbers conditions.

⁴ An extreme example of such divestiture would be voluntary liquidation of the firm (see Kim and Schatzberg, 1987).

Nature of information regarding value from takeover			
Value realized by:	Industry-wide Restructuring	Firm-specific Restructuring	Synergy
Physical Consolidation of the assets of the target and bidder	Usually not needed	Usually not needed	Usually needed
Transactions in the goods and capital market	Usually available	Usually available	Usually not available

Figure 1. The nature of information released at the time of the first takeover bid and its implications on the process by which the gains from the takeover are realized.

products of the General Food subsidiary of Phillip Morris and Kraft complement each other. Kraft has Velveeta cheese, Miracle Whip toppings, Breyer's ice cream and Seven Seas salad dressing, while General Foods markets Jell-O desserts, Oscar Mayer meats, Maxwell House coffees, and Post cereals. Opportunities for joint marketing and the associated efficiencies are evident. Similarly, Kraft with its focus on dairy products has one of the largest refrigerated distribution systems of all U.S. food companies. So does Oscar Mayer. The combined bargaining power of the merged firm will thus be enormous in the most sought after distribution space—refrigerated freshly prepared foods. Thus while Kraft initially resisted the takeover, it could not independently create the value that the combination of General Foods and Kraft could generate: the marketing efficiencies and the distribution power could not be attained through transactions in the goods and services markets. In other words, if a takeover is motivated by synergy, physical consolidation of the bidder and target assets is necessary to create value.

If the capital market perceives that synergistic gains from a takeover can only arise from the unique combination of two specific firms, then it will bid up the price of the target, expecting it to be a stronger firm post-takeover. Further, if the proposed takeover is a unique combination that is not replicable by the rivals of the target, the rivals should suffer a reduction in market value.⁵ On the other hand, if the proposed

takeover fails to be consummated, then the rivals should gain back the value lost during the announcement period while the targets should lose the announcement period gains.

Testable implications if takeover gains arise from restructuring

Industry-wide restructuring

A restructuring involves alternate use of the target firm's resources, independently or in combination with outside resources, which can lead to increased value. Such restructuring would often apply not just to the target firm but the entire industry of the target firm. Consider the case of multinational oil companies. They indiscriminately funneled the free cash flow from their past successes into new exploration resulting in a dramatic drop in exploration productivity. The same oil firms also heavily integrated into downstream industries even though there was a chronic overcapacity. This behavior predicated by the Jensen's (1986) free cash flow theory was possible because the oil companies felt that they were immune from the market for corporate

other rivals of the target and bidding firms. Thus the gains that Phillip Morris saw in the combination of General Foods and Kraft were seen to be greater than that between General Foods and Sara Lee or between Sara Lee and any other food company. If, however, the rivals can also benefit from similar combination then the takeover offer by the first bidder may lead to a merger wave in that industry (see Jarrel and Bradley, 1980). The value of the rival firms will increase in anticipation of such mergers but under this scenario the rivals can not stay independent. The empirical analysis controls for this possibility.

⁵ For the purpose of developing the testable implications I am assuming that synergies can not be readily duplicated by

control—that is until the arrival of T. Boone Pickens. The restructuring of the oil industry is now part of history.

Similar examples of restructuring can be found in many other industries. Further, while the method of restructuring may vary, there are quite a few success stories like Safeway or Kroger (with or without a LBO) which have created value for the shareholders. The preceding exposition illustrates the fact that while an acquiring firm can extract value by restructuring the acquired firm, such restructuring can also be carried out independently by the target firm without the takeover. This is only to be expected because a restructuring essentially involves realignment of a target firm's existing resources which can be done by transactions in the goods and services market and does not need a takeover. Further, if the need for such restructuring applies to the industry of the target, then the rivals of the target firms should also benefit from the takeover bid. This implies that at the time of the announcement of the takeover bid the stock price of both the target and its rival firms should increase. If, however, the takeover deal falls through then the stock price of the target and its rivals should not decrease. This is because the potential benefits signalled by the takeover for *all* the firms in the industry can be realized by transactions in the goods and services market and do not necessarily need a takeover. Therefore, in the period after a failed deal the market value of both the target and its rival firms should retain the announcement period gains and show no change. (The research design assumes that there are no other major events in the period examined which necessitates a reasonably large sample to test the predictions. For more details of this research design see BDK; Eckbo, 1983; Chatterjee, 1986; Chatterjee, 1991).

There is a major caveat to the preceding argument. It assumes that the majority of target firms which receive a takeover bid are willing and capable of undertaking the restructuring to extract the value. This may not be true and it is quite possible entrenched management may simply reject a takeover offer to save their own jobs but not take any actions to extract the value implicit in the takeover bid. In such cases the target firms would lose all the stock price gains from the takeover announcement. If the need for restructuring was industry-wide, the rivals of such targets should retain the increase value.

Target firm-specific restructuring

If the need for restructuring is specific to a target firm and not industry-wide then the testable implications are different. A takeover bid in such a case indicates that the bidding firm has identified a target firm which is not being optimally managed. By taking over the target firm, the bidding firm may restructure and thus increase the value of the target firm. However, even if the need for restructuring is firm-specific, there is no need for the physical consolidation of the bidding and target firms post-takeover—the target firm's management can independently take steps to realize the value. The takeover announcement thus acts as a 'kick in the pants' for the target management and the market for corporate control should step in to rectify the situation, either through the intervention of the board or a proxy fight. In sum, if the target shareholders have confidence in its board and/or management, the value lost through inefficient management can be recovered internally or by transactions in the goods and services market.

If the capital market perceives the takeover bid as a means to restructure a specific target firm then the announcement of a takeover is expected to make the target firm a stronger competitive entity and the market value of the rivals should decrease. However, unlike the industry wide restructuring the takeover bid does not imply that the majority of the rival firms are also inefficiently managed. There should not, therefore, be any offsetting positive news which can increase the value of the rival firms at the time of the takeover announcement. In the event of the failure of the takeover to go through, the market for corporate control is going to ensure that inefficiencies in the target firm be removed and, because a takeover is not a prerequisite for removal of the inefficiencies, the market value of the target should stay up close to its bid price.⁶

⁶ Clearly, there will be situations where target management is incapable of undertaking the change themselves or the market for corporate control does not operate perfectly. I suggest, that such targets are unlikely to stay independent and will likely not form a part of my sample. However, to the extent that these possibilities cannot be totally eliminated the empirical tests would tend to favor the synergy hypothesis (the target firms would lose the announcement period gains) against the industrywide restructuring hypothesis. Thus we can have more confidence in the findings if the synergy hypothesis is rejected than if it is supported.

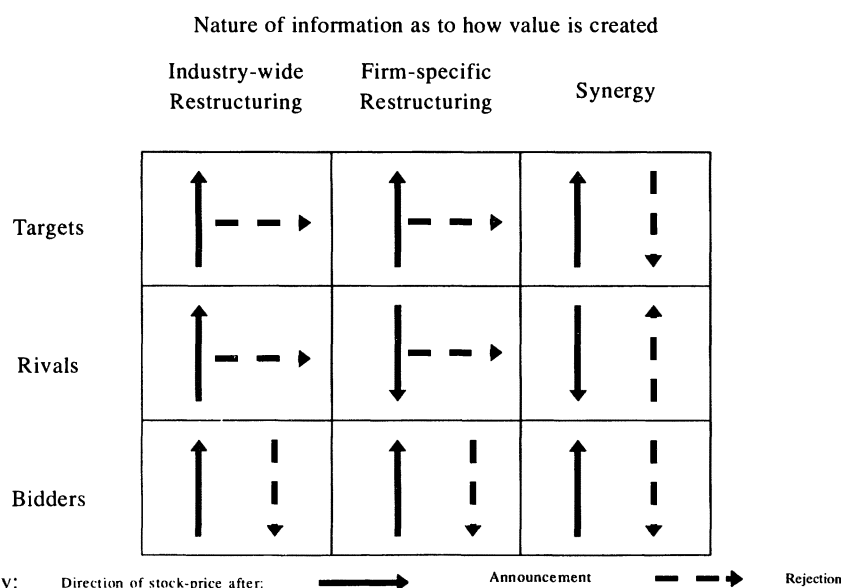


Figure 2. Expected stock-price reactions of targets, rivals and bidders during a takeover announcement and after the takeover attempt fails, under different classes of information about the source of value in the takeover.

What this implies is the target firm remains an increased competitive threat to the rival firms, and, therefore, we should see no change in the market value of the rivals when the proposed takeover fails.

The preceding arguments suggest that if we simultaneously consider the stock price reactions of the rival and target firms, both during the takeover bid and in the period after its rejection, then we can uniquely determine the capital market's expectations about the motive behind the original takeover bid.

The stock price change of the bidding firms

Since the takeover related gains are expected to be capitalized around the time of the takeover, we would expect the stock price of a portfolio of successful bidders to be stable after the takeover announcement period irrespective of the motive behind the takeover. On the other hand the unsuccessful bidders should lose all the announcement period gains and then their stock price should stabilize. The testable implications for the bidder, target and rival firms are summarized in Figure 2.

METHODOLOGY

This study is based on 577 tender offers between 1963 and 1986. Following BDK, I define successful tender offers as those where the bidder holds less than 70 percent of the target shares outstanding and is attempting to increase its holdings by at least 15 percentage points. BDK demonstrated that this process successfully identifies target firms which did not lose control of day to day management to an outside party.

The data reported in Table 1⁷ show no significant difference in percentage of target shares sought by the bidder between the successful and the unsuccessful target samples, 70 percent and 60 percent respectively. However, the data show a marked difference in the percentage of target shares purchased by the bidders in these two samples; 46.8 percent for the successful targets and 0.4 percent for the unsuccessful targets. These data suggest that my outcome criterion is appropriate. The mean percentage of target

⁷ The data reported in Table 1 has 115 unsuccessful tender offers and 240 successful tender offers for which the percentage of shares held, sought and purchased by the bidder were all available and the target firms traded in the New York Stock Exchange. The 108 target firms and 203 bidding firms used in the study come from these two samples.

Table 1. Mean percentages of shares held, sought and purchased by outcome in the period 1963–86 (standard deviations in paranthesis)

	Successful N = 240 Mean	Unsuccessful N = 115 Mean
% of target held by bidder	18.8 (26.2)	1.2 (2.6)
% of target sought by bidder	60.0 (115.4)	70.8 (29.7)
% of target purchased by bidder	46.0 (32.5)	0.4 (2.0)

shares held and sought for all the subsamples in Table 1 are well within my definition of control-oriented tender offers.

Of the 577 tender offers, 436 were successfully taken over and 141 were unsuccessful. Of the 141 unsuccessful tender offers, data were available in the Center for Research on Security Prices (CRSP) monthly tapes for 108 target firms for which the market model could be estimated (see later) and the targets remained independent for 5 years after the rejection of the initial tender offer (traded in NYSE). Of the 141 unsuccessful tender offers, 49 bidding firms met the data requirements of the market model and the 5-year period following the takeover attempt. The rivals of the target firms of the unsuccessful takeover attempts were identified as the firms in the CRSP tape whose primary (4-digit) SIC code is the same as that of the target firm at the time the takeover announcement was made.⁸ A total of 418 rival firms were identified which meet the estimation criteria for the market model and traded on the exchanges for 5 years after the announcement period.

Of the 436 successful tender offers I could identify 203 bidding firms for which the market model could be estimated and which remained independent for 5 years after the successful offer. For these 436 successful tender offers I also

identified 706 rivals of the targets which met the data criteria. Note that by ensuring that the rival firms remained independent in the study period I eliminate the possible confound of a merger-wave as discussed in footnote 5.

Next I tried to identify firms which restructured to benefit from the information released in the takeover bid. Since in most cases it is impossible to determine which of the management actions reported in the business press were actually a result of the takeover bid, I tried to split up the sample into those where the management was active in divesting assets and those where they were not. The first group of 57 target firms constituted those that had restructured and the second group of 51 as those that took 'no actions'.

Following Hoskisson and Turk (1990) I used asset sale to measure restructuring. Asset sale is a costly signal that indicates management is committed to change. It has also been observed that almost all the firms that restructured in the 1980s, undertook some degree of asset sales, especially in connection with hostile tender offers whether in defense or as a consequence (Morck *et al.*, 1988). Finally, asset sales represent an objective replicable measure. I, therefore, classified all firms which had undertaken significant asset sales from the year of the announcement to the next 3 years as the sample of restructured targets. The sources for the sample classification were *Wall Street Journal Index*, *Mergers and Acquisitions*, or *Corporate Restructuring*.⁹ The asset sales included were operating

⁹ The advantage of this procedure is it makes replication easy because it is completely objective. The disadvantage is there would certainly be firms which strategically re-aligned themselves without undertaking any asset sales. Similarly all asset sales need not necessarily be a direct result of a restructuring move. To the extent such firms are present in large numbers, the classification scheme using asset sales may be biased against finding the effect of restructuring, if any, on the target firm. In an effort to reduce this possible misclassification, an earlier version of this paper subdivided the sample as follows. In the 5-year period following the failed tender offer, if the target firm took actions which can have strategic implications then such targets were classified as the subsample of targets that took 'positive actions.' Examples of actions that were selected were increase in leverage, lumpsum dividends or increase/decrease in dividends, divestment of a division, change in CEO or top management, joint venture and acquisition initiated by the management or anything else that could constitute as a strategic realignment. Facts like receipts of defense contracts or other sales orders were not included as positive actions. I used published reports about these firms for the 3 years following the rejection of the tender offers. Firms that did not

⁸ I feel that the CRSP SICs are not the most reliable in terms of identifying rivals even though they have been used in the past (Chatterjee, 1991; Chatterjee, 1986; Eckbo, 1983; Stillman, 1983). However, if I subjectively decide which rivals to keep in the sample it becomes very difficult to replicate the study. Since errors in identifying the rivals would only tend to dampen any abnormal stock-price changes of the portfolio of rivals, the selection of rival portfolios using CRSP SICs offers a more conservative test.

assets (like plants) or divisions reported in the *Wall Street Journal*. The other sources were used since they sometimes directly identified firms that have restructured. I did not include sales of office buildings in some instances when it was clear that it was simply a relocation decision. The asset sales also included spin-offs and swaps.

The asset sales were tracked for 3 years after the announcement date for the following reasons. First, I felt any asset sales 3 years after the announcement, without any intervening actions, is unlikely to be linked to the tender offer. Second, like all rational expectations hypotheses, I am assuming that, on average, the asset sales were undertaken because they would create shareholder value. However, if, on average, such asset sales were not appropriate then they would show up as a value reduction in the next 2 years. Typically asset sales are associated with increase in stock prices but the long-term effect can be studied only by looking after the fact. Finally, if some firms did undertake their first asset sales after the first 3 years, my classification scheme would put them in the 'no action' group. If such asset sales created shareholder value for the no action targets it would tend to blur the difference in performance between the two groups. In other words, any difference in performance between the two groups using the classification scheme of this study would represent a conservative finding. The years of the takeover bids and the names of the 'restructured' and 'no action' targets are reported in the Appendix.

The percentage gain in market value of a firm is directly available from the CRSP daily tapes. However, a firm's market value can change for reasons other than a particular event. To control for these economy wide factors I use the cumulative abnormal return (CAR) to measure the changes in market value. The abnormal return (AR) (market risk adjusted percentage

change in market value) of a firm 'i' on any given month 't' is the following.

$$AR_{it} = R_{it} - (a + bR_{mt}),$$

a and b are estimated from the market model regression,

$$R_i = a + bR_m + e_i$$

where,

R_i = monthly returns of the individual firm

R_m = monthly returns of the market portfolio

The market model is estimated for a period 60–11 trading months before the first announcement of the tender offer in the *Wall Street Journal*. The CAR is computed for each firm for a period starting 10 trading months before the announcement month to 60 months after. The announcement month is taken to be month zero.

$$CAR = \sum_{-10}^{+60} AR_{it}$$

The CARs for the rival firms for each target firm were averaged over the same interval. The cumulative average abnormal return for a portfolio of firms is given by

$$CAAR = \sum_{-10}^{+60} \frac{1}{N} \sum_{i=1}^N AR_{it}$$

The standard error of the CAAR statistic is given by $\sigma(CAAR) = \sigma(AR_p) \sqrt{K}$, where AR_p is the abnormal return of a portfolio of p firms on day t and K is the number of days over which the CAAR is computed.

RESULTS

Figure 3 presents the graphs of the cumulative abnormal average returns (CAAR) for all 108 targets that rejected the initial tender offer, the rivals of these targets, the 203 successful bidding firms and the 49 unsuccessful bidding firms. Figure 4 contrasts the CAAR of the subsamples of the target firms which restructured and those which did not. Figures 5 and 6 contrast the CAAR

take any of these actions were categorized as those that took 'no actions'. This method of subdividing the sample is, however, subjective and may be difficult to replicate because it involved the researcher's judgement to ascertain whether the strategic actions reported in the press had anything to do with the rejected tender offer. This classification highlighted the performance difference between the restructured (positive action) targets and those that did nothing much more dramatically than the ones reported in the text. These results are available from the author. However, the classification scheme used in the text materially reaches the same conclusion and is preferable because it is easily replicable.

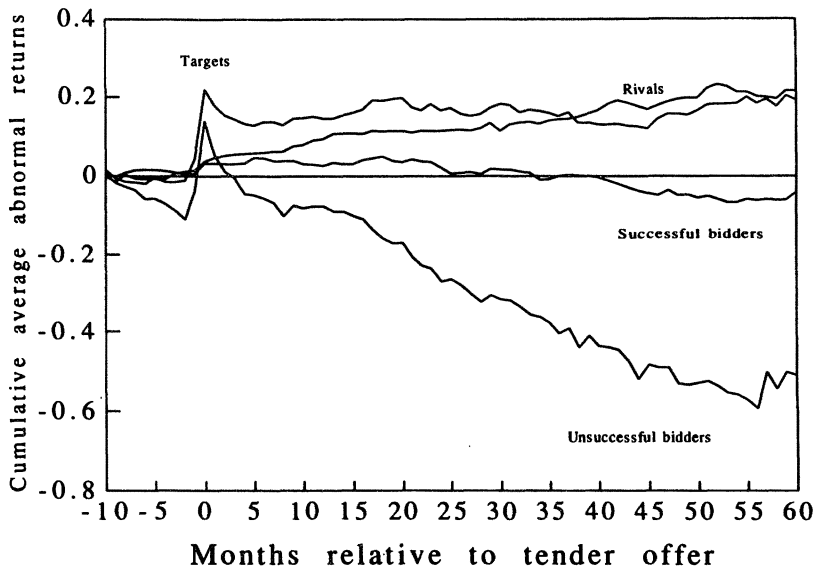


Figure 3. Cumulative average abnormal returns for targets in unsuccessful takeovers, their rivals, the unsuccessful bidders and successful bidders over the period 1962-86.

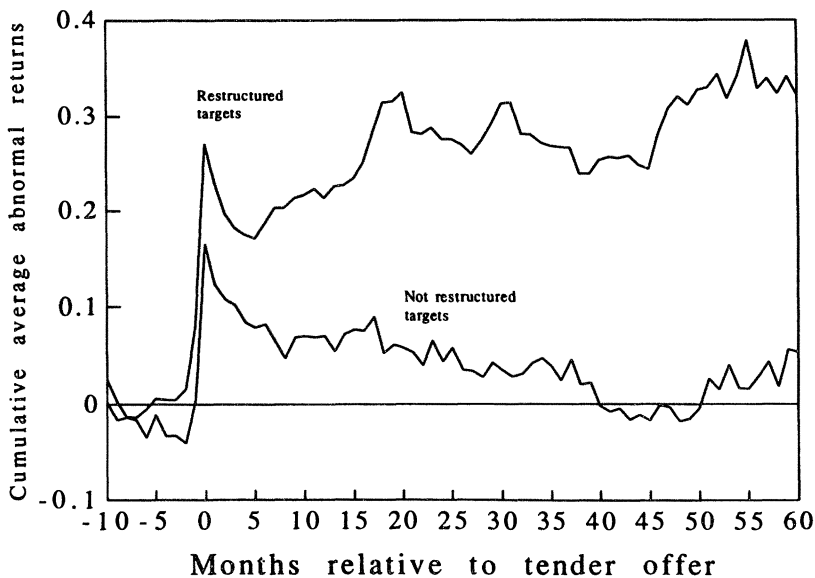


Figure 4. Cumulative average abnormal returns for targets that did and did not restructure after the failed takeover attempt.

of the restructured targets and those that did not against their respective rivals. Figure 7 presents the CAAR of the 203 successful bidders and the rivals of the targets of successful tender offers.

Table 2 presents the CAAR for the (-10 to -2) preannouncement, (-1 to 0) announcement, (+1 to +5) rejection,¹⁰ and (+6 to +60) post-

rejection period (+49 to +60 presented in the Table) for the full sample of the 108 targets and

¹⁰ The 5 month (+1 to +5) rejection period was arbitrarily decided after scanning the graphs which show a distinct levelling off of the decline following the announcement month after month 5.

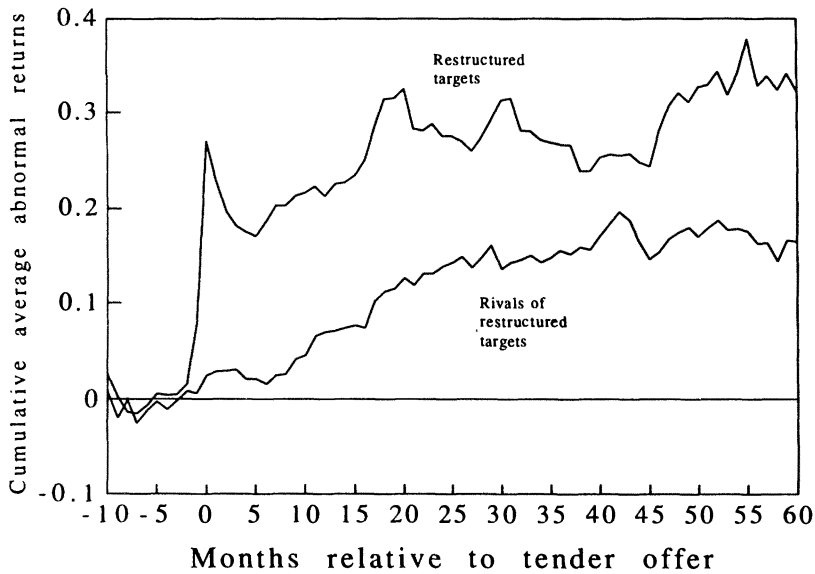


Figure 5. Cumulative average abnormal returns for targets that did restructure after the failed takeover attempt and the rivals of such target firms.

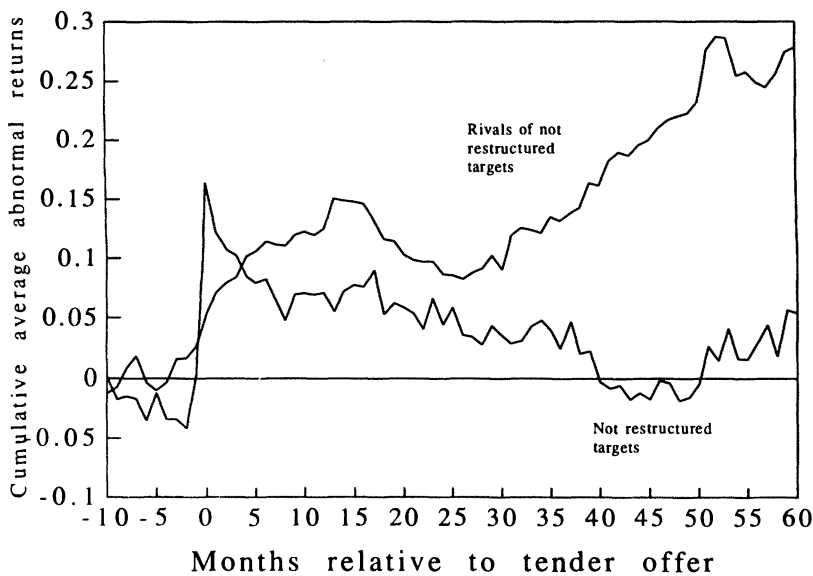


Figure 6. Cumulative average abnormal returns for targets that did not restructure after the failed takeover attempt and the rivals of such target firms.

their rivals, the unsuccessful bidders and the sample of the successful bidding firms. Table 3 reports the same findings for the two subsamples of target firms along with their rivals.

The results reported in Table 2 suggest that, at the end of the 5-year period following the takeover announcement, the target firms that refused to be taken over created 20 percent

more value ($CAAR_{+60} - CAAR_{-2}$) for their shareholders compared to the preannouncement level. However, their value was slightly below the original tender offer. The targets lost 9% ($CAAR_0 - CAAR_{+5}$) of the 23 percent ($CAAR_0 - CAAR_{-2}$) announcement period gains in the 5 month period following the announcement (henceforth the rejection period) but they recov-

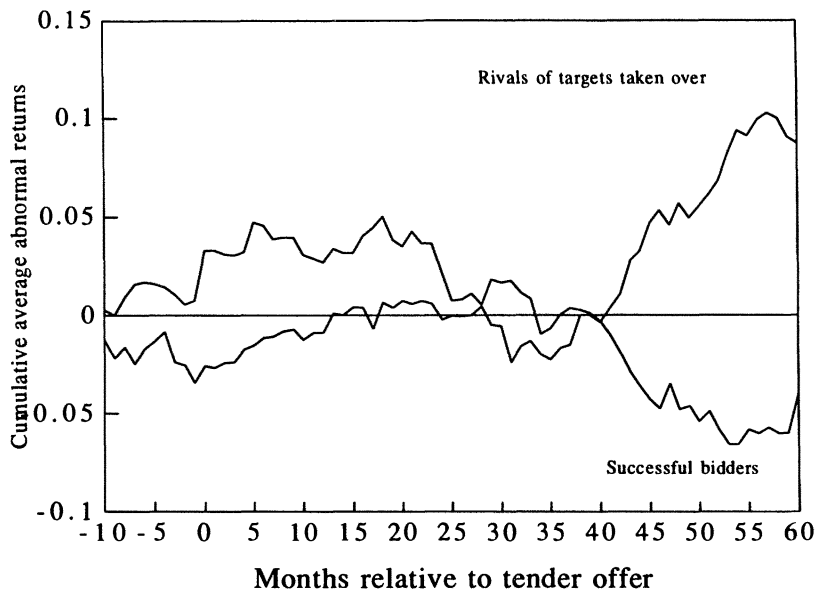


Figure 7. Cumulative average abnormal returns to the full sample of successful bidders and the rivals of the taken over targets for the period 1963–86.

ered 7 percent of this loss in the postrejection period ($CAAR_{+60} - CAAR_{+5}$). The successful bidding firms show a loss of 7 percent ($CAAR_{+60} - CAAR_0$) (marginally significant at the 10 percent level) in the post-takeover period while the bidders who were rejected by the target firms lost 46 percent of their value in the postrejection period ($CAAR_{+60} - CAAR_0$). The rivals of the targets that were successfully taken over showed a gain of 7 percent (marginally significant at the 10% level) over the 5-year period (the detailed CAARs for this portfolio are not reported).

When the sample was split up into the two subsamples according to those that had restructured and those that had not, a marked contrast is noted as reported in Table 3. Firms that had restructured managed to increase their value by 31 percent from the preannouncement levels ($CAAR_{+60} - CAAR_{-2}$) or by 5 percent over the initial takeover bid ($CAAR_{+60} - CAAR_0$) at the end of the 5-year period. On the other hand firms that took 'no actions' completely lost their initial offer related gains. The rivals of the firms that restructured (159) increased their value by 16 percent from the preannouncement levels ($CAAR_{+60} - CAAR_{-2}$). The rivals to the 'no actions' target firms (259) increased in value

by 26 percent from preannouncement levels ($CAAR_{+60} - CAAR_{-2}$).

DISCUSSIONS AND IMPLICATIONS

The results for the full sample of target firms (a loss of 9 percent (significant at $p < 0.01$) from the peak announcement period gains) provide some support for the Easterbrook and Jarrel (1984) or BDK findings that the target firms may have been better off in accepting the tender offer. However, the fact that the targets retained most of the announcement period gains suggests that the potential for the gains, in the main, lay within the target firms. This seems to reject the synergy hypothesis for the majority of the firms in the sample (also see footnote 6).

The positive abnormal gains of the rival firms around the announcement period leads to two inferences. First, it also rejects synergy and favors restructuring as the predominant process for creating value. Second, the results suggest that the need for restructuring is industry-wide and not specific to a particular firm. Taken together, the stock price changes of the targets and rivals suggest that the capital market perceives that

Table 2. Percentage cumulative average abnormal returns of full sample of targets, bidders and rivals in failed tender offers and successful bidders in successful tender offers

Months relative to tender offer	CAARS for all targets	CAARS for all rivals of the targets	CAARS for all successful bidders	CAARS for all unsuccessful bidders
-10	0.0145	-0.0015	0.0024	-0.0069
-9	-0.0067	-0.0137	-0.0003	0.0081
-8	-0.0139	0.0034	0.0090	0.0095
-7	-0.0154	-0.0054	0.0155	0.0017
-6	-0.0195	-0.0078	0.0170	-0.0101
-5	-0.0023	-0.0056	0.0160	-0.0365†
-4	-0.0137	-0.0072	0.0141	-0.0394*
-3	-0.0134	0.0063	0.0107	-0.0315†
-2	-0.0111	0.0121	0.0054	-0.0289†
-1	0.0436†	0.0154	0.0075	-0.0139
0	0.2204**	0.0378†	0.0333†	-0.0044
1	0.1791**	0.0475†	0.0334†	-0.0148
2	0.1545**	0.0515*	0.0313†	-0.0414*
3	0.1443**	0.0547*	0.0306†	-0.0505*
4	0.1324**	0.0569*	0.0323†	-0.0156
5	0.1275**	0.0592*	0.0475*	-0.0144
49	0.1548**	0.1995**	-0.0463	-0.4157**
50	0.1667**	0.1983**	-0.0540	-0.4403**
51	0.1812**	0.2235**	-0.0487	-0.4364**
52	0.1827**	0.2333**	-0.0583	-0.4216**
53	0.1829**	0.2282**	-0.0658	-0.3971**
54	0.1846**	0.2135**	-0.0658	-0.3948**
55	0.2012**	0.2135**	-0.0582	-0.3857**
56	0.1843**	0.2024**	-0.0603	-0.3992**
57	0.1966**	0.2007**	-0.0571	-0.4101**
58	0.1762**	0.1955**	-0.0601	-0.4473**
59	0.2039**	0.2161**	-0.0599	-0.4508**
60	0.1922**	0.2170**	-0.0396	-0.4589**

† $p < 0.1$; * $p < 0.05$; ** $p < 0.01$.

The levels of significance are based on the assumption of serially uncorrelated standard errors of the monthly abnormal returns to the indicated portfolio.

most takeovers are motivated by a need for industry wide restructuring.

An interesting feature about the rivals is they continue to gain market value in the postrejection period when, under the industry-wide restructuring hypothesis, they are expected to show no change in value. It could be that the full value of the information, as it pertains to the rivals, was not capitalized at the time of the announcement of the tender offer. It is also possible that more information about the need for restructuring is released in the postrejection period. However, if that is so the target firms as a group do not seem to exploit this added information as effectively as the rivals, gaining only 7 percent

in the postrejection period ($CAAR_{+60} - CAAR_{+5}$) as compared to 16 percent for the rival firms. Some insights into this finding are obtained from the two subsamples of target firms which either did or did not restructure after rejecting the tender offer.

The effect of restructuring on target firms

Before discussing the findings in detail it might be instructive to summarize the findings reported in Table 3. Firms that restructured actually created 5 percent more value than the original offer price and 31 percent more than the preannouncement level. In contrast to the targets that

Table 3. Cumulative average abnormal returns of restructured and 'no-action' targets and rivals in failed tender offers

Months relative to tender offer	CAARS for no-action targets	CAARS for restructured targets	CAARS of the rivals of restructured targets	CAARS of the rivals of no-action targets
-10	0.0017	0.0254†	0.0074	-0.0121
-9	-0.0169	0.0024	-0.0190	-0.0071
-8	-0.0142	-0.0135	-0.0010	0.0087
-7	-0.0167	-0.0143	-0.0249	0.0186
-6	-0.0351	-0.0056	-0.0112	-0.0037
-5	-0.0115	0.0059	-0.0024	-0.0094
-4	-0.0338	0.0042	-0.0106	-0.0031
-3	-0.0336	0.0047	-0.0015	0.0159
-2	-0.0412†	0.0157	0.0085	0.0166
-1	-0.0029	0.0799**	0.0063	0.0267†
0	0.1643**	0.2705**	0.0244†	0.0543*
1	0.1221**	0.2300**	0.0283†	0.0712*
2	0.1073**	0.1967**	0.0291†	0.0792*
3	0.1021*	0.1818**	0.0308†	0.0842**
4	0.0846*	0.1750**	0.0205	0.1019**
5	0.0792†	0.1706**	0.0211	0.1062**
49	-0.0157	0.3118**	0.1799**	0.2228**
50	-0.0048	0.3279**	0.1694**	0.2326**
51	0.0264	0.3296**	0.1793**	0.2761**
52	0.0148	0.3436**	0.1870**	0.2871**
53	0.0410	0.3188**	0.1771**	0.2862**
54	0.0163	0.3424**	0.1785**	0.2543**
55	0.0158	0.3787**	0.1756**	0.2578**
56	0.0296	0.3291**	0.1623**	0.2492**
57	0.0441	0.3394**	0.1627**	0.2450**
58	0.0182	0.3241**	0.1436**	0.2561**
59	0.0567	0.3418**	0.1660**	0.2746**
60	0.0538	0.3218**	0.1640**	0.2788**

† $p < 0.1$; * $p < 0.05$; ** $p < 0.01$.

The levels of significance are based on the assumption of serially uncorrelated standard errors of the monthly abnormal returns to the indicated portfolio.

restructured, the value of the sample of 'no action' targets fell sharply from the offer price back to zero gains. Further, the rivals of both groups of targets gained in value in the 5-year study period but the rivals of the no-action targets gained much more than the rivals of the restructured targets.

The difference in value between the two groups of targets suggests that, on average, restructuring is needed to create the value implicit in the takeover offer. One might argue that the no-action targets were sought by the bidding firms for synergistic gains and the lack of physical consolidation with the bidder resulted in the loss of value. However, if that were indeed the case the rivals

to these target firms would not gain in value at the time of the takeover announcement ($CAAR_0 - CAAR_{-2}$). Further, since the rivals as a group managed to create value by staying independent (see footnote 5 and the methods section), lack of a merger partner is not the likely cause of the failure of the 'no action' targets.

If restructuring is the source of value, as the data suggest, then the next important question is how does restructuring create value and if it is specific to the target firm or has implications for the industry as a whole? The strong (0.85) positive correlation between the gains of the restructured target and its rivals (which is apparent from Figure 5 but not reported) under-

scores the industry-wide¹¹ nature of the information contained in the takeover bid. Further, it is highly unlikely that all the firms in the industry had unused assets which they can sell to make a one time gain. It is much more likely that the restructuring improved the efficiency of all the firms and the firms that did not undertake such restructuring would be less competitive. Typically, any move that will improve efficiency of one firm in an industry is liable to be adopted by others or else they will suffer a competitive disadvantage. This inference is borne out by the rapid decline in value of the 'no-action' targets.

If we now turn to the magnitude of gain recorded by the four different samples of targets and rivals the evidence suggests that not only did restructuring lead to efficiency gains but the firms that moved early to take advantage of the information released in the takeover bid tended to gain the most. Note that the gains to the rivals of the restructured targets (16%) were much less than the restructured target firms (31%). On the other hand, the rivals to the no-action targets gain 26 percent over the same period which is statistically indistinguishable from 31 percent—the gains to the restructured targets. Since the no-action targets did not restructure, the rivals of these targets had the first mover advantage by default even if they actually did not initiate any restructuring. The capital market seems to have anticipated this as evidenced by the rival firms' gain of a significant 10 percent ($CAAR_{+5} - CAAR_{-2}$) by the end of the rejection period.¹²

In contrast, the rivals of the restructured targets show a barely significant 2 percent gain ($CAAR_{+5} - CAAR_{-2}$) by the end of the rejection period. This suggests that the capital market did not yet capitalize future restructuring

by the rivals which in turn suggests that the rivals did not yet act on the information released by the tender offer. In fact the sustained upturn for both the rivals and the targets occurred after month +5 and the rivals increased in value at a slightly higher rate than the targets though the actual values were much higher for the targets.

I am of the opinion that the rivals of both groups of target firms were late in acting on the information but the capital market rewarded the rivals to the no action targets because of their lack of conviction about these targets (see footnote 12). In any case the first movers—the restructured targets and the rivals of the no action targets—seemed to have benefitted comparably in the 5 years following the tender offer. Future studies can investigate this issue in more depth by splitting up the sample of rivals into those that did and did not restructure. If the efficiency increase argument is valid then the difference between the restructured targets and the restructured rivals are likely to be less than that between the restructured targets and rivals that did not restructure.

A final point to note is that the restructured targets lost 9 percent of the peak announcement period gains in the 5 months following the rejection of the tender offer. This suggests a combination of the following possibilities. First, the capital market may be uncertain if the value can be created by restructuring. Second, the restructuring announcements typically came at least 6 months after the rejection date which left the capital market uncertain about the target management's intentions and capabilities. However, the proactive intent of this group of target management must have become apparent to the capital market soon after the rejection period as also the conviction that the value could be created independently by restructuring.¹³

¹¹ Referring back to Figure 2 it is clear that the restructuring benefits are not specific to the target firms because the rivals are gaining during the announcement periods.

¹² One might argue that the increase in price of the rivals were in anticipation of them being alternate targets when the primary takeover bid fell through. Undoubtedly this happened in some instances. I came across several stories in the *Wall Street Journal Index* of how an entire industry is the target of takeovers and not just in the 1980s. However, if that were so then why did the rivals to the restructured targets also not gain in value in the same period. After all the restructured targets had also turned down a takeover bid. It is much more likely that the capital market did not have much faith in the no-action targets to start with and the speculation centered on their rivals to take advantage of the efficiencies.

¹³ I had also compared the 5-year post-merger abnormal stock price changes for target firms where a controlling interest went to an outside party and for those targets where it did not. There was no noticeable difference between these two groups of firms at the end of the five year period and both groups managed to retain most of the announcement period gains (results available on request). In other words, I find no evidence that to realize the announcement period gains it is necessary that the target firms who rejected an initial tender offer have to give up the controlling interest to another bidder. This is not to mean that *all* targets who receive a tender offer can create the value independently. In fact, as I discuss in the section dealing with the implications for the bidding firms, the successful tender offers may have

In summary, while the overall sample seemed to be mildly supportive of the idea that tender offers should not be rejected, the more detailed investigation suggests that this advice is more appropriate for management who are not capable and/or willing to pursue the value creating opportunities revealed by the tender offer.

Is there any way of determining, *ex-ante*, which targets would be better off by accepting a takeover bid? The performance of the targets before the announcement period may provide some clue. If the capital market had confidence in the target management's ability then the performance of the firm in the preannouncement period should be neutral, or mildly positive to allow for leakage of the forthcoming tender offer. However, if the capital market was not confident of the target management then such target firms should be exhibiting negative abnormal returns in the absence of a takeover initiative. Note that the sample of restructured targets had a mildly positive abnormal gain of 1.6 percent $CAAR_{-2}$ (not significant) compared to a negative 4 percent loss for the 'no action' sample in the preannouncement period $CAAR_{-2}$. The difference between the two groups is thus 5.6 percent which is significant at ($p < 0.05$). This seems to suggest that the capital market is capable of identifying target firms which are likely to be proactive and would implement the necessary restructuring steps. Such firms may stand to benefit the most from staying independent. If, however, the capital market perceives that the target is not doing the best it can even in the absence of a takeover bid, it might behoove such target management to agree to be taken over if an offer comes along.

One possibility that should be tested in future studies is whether management of the firms that 'did nothing' were acting according to agency theory and were not concerned with increasing shareholder value. It may be possible that these firms were more manager controlled than owner controlled which allowed them this leeway. If so, that might provide another indicator by which to judge whether a particular target would stand to benefit by accepting a tender offer.

At this point I need to address a possible methodological concern that has implications for

the findings of this study. Typically, the event study methodology is used for a short window around the event. Further, there is some evidence that market model parameters, especially the systematic risk, can change after mergers (Chatterjee and Lubatkin, 1990). Since, the inferences that I draw from this study were based on the differences in the CAARs of the restructured and no-action targets, any methodological problem that reduces this difference would raise questions about the validity of the conclusions. To check for this possibility I recalculated the differences between the two groups of targets using raw returns and the excess returns from the CRSP tapes for the -10 to $+60$ period. As shown in Figure 8, the differences calculated by using either raw or excess returns are very similar to that calculated by using CAAR. The correlation of CAAR differences with the other two series is better than 85 percent.

The implications for bidding firms

This study has implications for bidding firms as well. The bidding firms who successfully acquired their intended targets lost some value over the next 5-year period. This may give ammunition for the IO school which claims that, on average, in the long run takeovers do not work out. However, the findings about the unsuccessful bidders give us pause in embracing the IO school completely. If the unsuccessful bidders are representative of bidders as a whole, then the 7 percent loss for the successful bidders pales in comparison to the 47 percent value destruction for the unsuccessful bidders. I now consider this issue in depth.

Even if the unsuccessful bidders had, hypothetically, taken over the targets, they would still have had to initiate the right management actions to realize the value potential of the target. Contrasting the preannouncement performance of the successful and unsuccessful bidders, the former had a mildly positive 0.5 percent gain in this period while the latter actually lost 3 percent. The difference between the two groups is thus 3.5 percent which is significant at ($p < 0.07$). Recall that the 'no action' targets had also lost value in the preannouncement period. This seems to cast doubt on the management capabilities of the unsuccessful bidders and the fact that they failed in the takeover attempt was a reflection

been successful because the target management felt that the increased value would come about only by a physical consolidation of resources (*viz* Kraft).

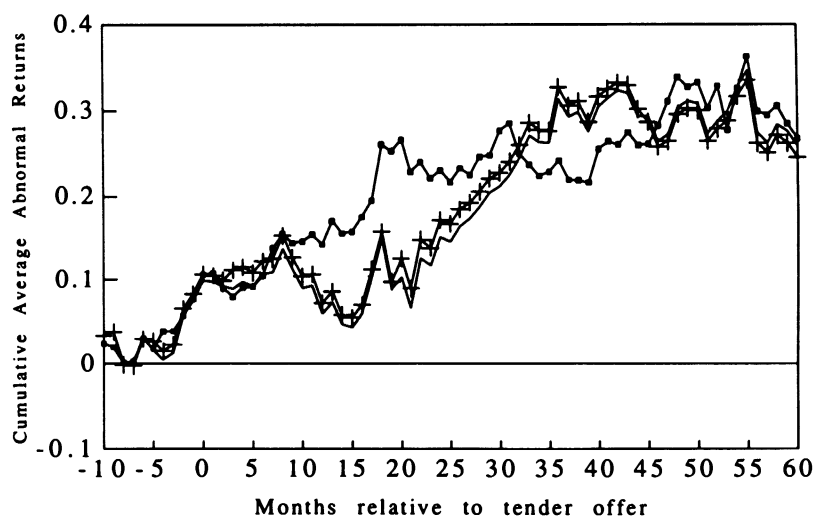


Figure 8. Difference in market value between restructured and not restructured targets using cumulative average abnormal returns (■), raw returns (+) and excess returns (-).

of the capital market's lack of conviction of their ultimate success. It seems that the stockholders of the target firms did not agree to the takeovers either because the unsuccessful bidders could not come up with a high enough bid and, in the absence of a higher offer, the stockholders felt that the target management can do as well themselves. A likely explanation for the unsuccessful takeover attempt was an effort by the bidding firms to reduce their own losses with the profits of the restructured target firms. This, incidentally, is the explanation for AT&T's recent bid for NCR as offered by NCR's management so long as they were unreceptive to the offer.

Turning to the successful bidders, I have no direct evidence that they had indeed taken the actions required to realize the targets' potential value. However, some evidence to the effect can be obtained from the performance of the rivals of the targets that were taken over by the successful bidders. As can be observed from Figure 7, these rival firms gained about 7 percent in the 5-year period after the takeovers which is somewhat smaller in magnitude than the 16 percent gains of the rivals of the restructured targets and much below the 28 percent gains of the rivals of the 'no action' targets. It is thus possible that even if the takeovers had opportunities for industry-wide restructuring the successful bidding firms took the required actions quickly and did not allow first mover advantages to the rivals.

A more careful examination of Figure 7, however, suggests that the successful tender offers were influenced more by firm-specific synergy/restructuring rather than industry-wide restructuring. Note from Figure 7, that the stock price changes of the rival firms are almost a mirror image of the stock price changes of the successfully merged firms (the correlations are significantly negative 0.83). Since firm-specific takeovers (synergy or restructuring) are likely to adversely affect the rivals more than that motivated by industry-wide restructuring, the negative correlation between the rivals and the successfully merged firm seems to be more indicative of firm-specific synergy/restructuring. Further, between synergy and restructuring a case can be made for synergy because then the target firm could not have independently created the value and, therefore, acceding to a physical consolidation is most beneficial to their shareholders and, therefore, the target managers may have agreed to be taken over. One way to check this possibility is to see if the target firms remained autonomous after the takeover or merged with the bidder. The latter instances would be more indicative of synergy. I found that 154 target firms from the full sample of 436 successful tender offers remained autonomous 5 years after the announcement. Thus two-thirds of the successful tender offers ended up with physical consolidation which provides some descriptive basis for accepting synergy as the primary motive in successful

takeovers. This interpretation supports Morck *et al.*, (1988) who conclude that friendly acquisitions are likely to be synergistic, whereas hostile ones are likely to be disciplinary involving liquidation of assets and management turnover. While it is beyond the scope of this paper, investigating the kind of actions the successful bidding firms took after taking over the target firms may shed some more light on the motives behind the successful takeover.

The finding that the rivals ultimately gained in value coupled with the fact that the successful bidders lost value in the long run may have to do with too high a premium for the target. If so, this bears investigation because one would expect that by its nature a synergistic takeover is a unique combination which lessens the number of potential bidders as contrasted with the restructuring motivated takeover where anyone who has the management capabilities to restructure the target firm (including an awakened target management) can bid for the target. In summary, without a more in-depth investigation it would be premature to conclude that synergy is indeed the dominant motive behind successful takeovers but if a bidder has the right managerial capabilities and refuses to be drawn into a bidding war then it *might* manage to create value by acquisitions. The answer to both these conditions will have to await further research into the process of target selection. We have to identify factors that enable the acquiring firms' management to be realistic about the magnitude of takeover integration problems and factors that instill self-discipline which restrain the bidding firm from offering too much for the target.

This study also has implications for strategic management research on takeovers which tries to determine if related takeovers outperform unrelated takeovers. A basic premise behind this belief is that related takeovers can lead to all three types of synergies—collusive, operational and financial while the first two are not obtainable from unrelated takeovers. The empirical studies, however, have not been able to conclusively support this expectation. A possible reason for the contradictory findings may be the following. If the source of the value resided with the target firms used in a study, rather than the combination, then there is not much advantage of being a related bidder. In other words, if the takeovers studied happen to be motivated primarily by

restructuring then it may not be possible to find much difference between related and unrelated takeovers. To properly study the relatedness hypothesis the research design must eliminate restructuring takeovers. One possible way of doing this would be to eliminate from the study sample all target firms that were not physically consolidated with the bidder post-takeover. In the remaining sample of takeovers where physical consolidation has taken place one can justify the assumption that the rational bidding firm must have been trying to extract some synergies. One can then test if the synergies are higher for relatively related takeovers in such a sample.

Finally, this study provides some clues to the debate about whether takeovers are good for the economy or are a speculative excess. The proponents point to the takeover premium and claim that since the bidding firms do not lose value during the takeover announcement everyone comes out ahead. However, very rarely do we see the rival firms brought in this calculation even though practitioners are well aware of the effect takeovers have had on all firms in the industry of the target firm—case in point the 1980s' bull market. Judging by the *long-term* performance of the rival firms from this study, I suggest that the impact of takeovers is not at all speculative in nature. Even though the unsuccessful bidding firms lost value in the long run, there was a compensating gain for the targets and the rival firms of the targets. Since the latter are much larger in number the dollar value of the net long-run gains is likely to be positive. The long-term gains are even higher when tender offers are refused. In these cases the rival and target firms gain even more which clearly compensates for the losses to the unsuccessful bidders besides the transaction costs saved. This study does not support the notion that everyone gains from takeovers, but it suggests there is a net gain to the economy.

CONCLUSION

Takeovers are an integral part of the U.S. economy and they are likely to continue and they are also likely to be controversial. This study sheds some light on this controversy by suggesting that takeovers indeed create value for the economy. Judging by the sample investigated

in this study the value comes not from the conventional notion of 'synergy', but by bringing into light unexplored opportunities within target firms which they have either ignored or were incapable of exploiting. However, while releasing this information the bidding firms may create value for firms in the target firms' industry, it is by no means clear that this information can create value for the bidding firms. To that extent, the question of diversification by acquisition is still an open question.

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APPENDIX: LIST OF RESTRUCTURED AND NOT RESTRUCTURED TARGET FIRMS

	<i>Restructured targets</i>	<i>Not restructured targets</i>
YEAR	Target name	Target name
1963	American Zinc Co. Libby McNeill & Libby Pittsburgh Coke & Chemical	McIntyre Mines Ltd.
1964	J. I. Case Co. MacAndrews & Forbes Co.	Sears Industries Inc.
1965	Allied Mills Inc. Braniff International Corp.	
1966	First National Stores Inc. Dayco Corp.	Columbia Pictures Industries
1967	Avco Corp. Carter Hawley Hale Stores Federal Paper Board Inc.	J. J. Newberry Co. Allis Chalmers Corp.
1968	American Broadcasting Co.	Raybestos Manhattan Inc. Southeastern Public Service Co. Pasco Inc. Western Air Lines Inc.
1969	Jones & Laughlin Steel Co. Chemetron Corp.	Sharon Steel Corp. Carling Okeefe Ltd.
1970		Sparton Corp.
1972		New England Telephone & Telegraph
1973	General Host Corp. Certain Teed Corp. Ronson Corp. Sonesta International Hotels Co.	Texasgulf Inc. Great Atlantic & Pacific Tea Co. G. D. V. Inc.

1974	Far West Financial Corp.	Brown Co. C. N.A. Financial Corp. Foote Mineral Co. Dictaphone Corp.
1975	Envirotech Corp. National Tea Co.	Inspiration Consolidated Copper Copperweld Corp.
1976	Foremost McKesson Inc. Twentieth Century Fox Films Dome Mines Ltd. Universal Leaf Tobacco Inc.	Fansteel Inc. Pargas Inc.
1977	Gerber Products Co.	Marshall Field & Co.
1978	Holly Sugar Corp. Rowan Companies Inc. Wurlitzer Co.	Mead Corp. Levitz Furniture Corp.
1979	Ludlow Corp. Sunshine Mining Co. F. W. Woolworth Co. Hoover Universal Inc. Harnischfeger Corp.	McGraw Hill Inc. Mission Insurance Group Inc. Morrison Knudsen Corp.
1980	Gulf Resources & Chemical Corp.	Curtiss-Wright Corp.
1981	Amax Inc. Canal Randolph Corp.	L. L. C. Corp. Compugraphic Corp. Maxxam Group Inc. Pier 1 Imports Inc. Roper Industries Inc. Harsco Corp. Simplicity Pattern Co. Grumman Corp. S. C. A. Services Inc.
1982	Brunswick Corp. American General Corp. Martin Marietta Corp. Southwest Forest Industries	
1983	G. A. F. Corp Alexander & Alexander Co.	Pogo Producing Co. Texas American Bancshares Phillips Petroleum Co. K. N. Energy Inc.
1984	Coastal Corp. National Intergroup Inc. MEI Diversified Inc. Textron Inc. Datapoint Corp.	Gearhart Industries Inc. Mesa Realty Trust Transcon Inc. Cenvill Properties Inc.
1985	Hilton Hotels Corp. Union Carbide Corp.	Potlatch Corp.
1986	Owens-Corning Fiberglas Lucky Stores Inc. Gillette Co. Goodyear Tire & Rubber Co.	Public Service Co. of Indiana
1987	Gencorp Inc.	

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