

How do managerial incentives affect inter-firm tender offers?

Managers of U.S. corporations have responsibilities to many constituents, but above all, they have a fiduciary duty to maximize shareholder wealth. More specifically, managers have a duty of loyalty that prohibits activities, such as insider trading or self-dealing, that adversely affect shareholder interests. In addition, managers have a duty of care that guides them when making business decisions. The courts typically will not intervene in matters of business judgment following the well-established principle that ordinary business decisions should not be reviewed by courts of law (the business judgment rule). In certain circumstances, however, when the interests of shareholders and managers diverge, these simple duties of loyalty and care may not fully protect the interests of shareholders. Such conflicts between shareholders and managers may arise when a firm receives a tender offer for the firm. Indeed, during the tender offer process, managers must make a series of decisions that can significantly affect shareholder value. Initially, managers may receive preliminary inquiries from potential suitors with whom they have informal conversations which are not usually made public. Later, if managers are receptive to the bidder's overtures, or if the bidder

persists against the wishes of management, a tender offer may be announced. At that time, managers must decide to publicly support or resist the bid. This public reaction by management is crucial because it is an important determinant of a tender offer's success, [1] and the evidence indicates that successful tender offers unambiguously lead to increases in target shareholder wealth. After a failed tender offer, however, shareholder wealth decreases substantially. [2]

Although successful bids appear to universally benefit outside shareholders, they may not necessarily benefit managers. Just as shareholders, managers benefit from an increase in the value of their equity stake in the target firm. Conversely, managers may be displaced by the bidding firm after a successful tender offer, potentially suffering a loss of compensation, prestige and the intangible benefits of management. [3] As a result, the decisions made by managers in the face of a tender offer may depend on the tradeoff between their takeover gains, resulting from share ownership in the target firm and golden parachute payments, on the one hand, and their potential losses in compensation, perquisites and intangible benefits of control, on the other hand. Of course, there may also be positive aspects of managerial resistance during a tender offer. Whereas managerial resistance decreases the chances that a tender offer will succeed, it often leads the bidder to offer a higher premium during the bargaining process. For example, in its attempt to purcha-

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se Kemper in 1994, GE Capital increased its initial offer from \$55 per share to \$60 per share because Kemper's management strongly opposed the bid initially.

The way managerial wealth impacts tender offers is important for corporate finance and investment practitioners as well as for regulators, legal practitioners and directors of public corporations. Analysts, portfolio managers and traders will benefit from understanding (i) how the incentives produced by managerial ownership and compensation affect the critical decisions of a firm that is under the threat of a takeover, (ii) which firms are likely to strongly oppose outside bids, and (iii) which firms are likely to receive high offers. Understanding these facts will help money managers make portfolio decisions. Furthermore, to fulfill their fiduciary duties, pension fund and money managers who own shares in takeover targets should follow the voting and share tendering strategies that maximize shareholder wealth.

Bankers and corporate finance practitioners who are involved in target valuation, defensive or bidding strategies and acquisition financing, also need to understand the likelihood that bids will go through and which firms are more or less likely to be receptive to an outside offer. Finally, regulators, legal practitioners and especially corporate directors should consider the impact of a decision to resist an outside offer on shareholder wealth. In fact, the potential conflicts of interests that arise with outside takeover bids make offer-related decisions very challenging for outside directors.

In light of the pros and cons of managerial resistance to outside tender offers, and in light of the likely impact of managerial incentives on the tender offer process, we attempt to answer the following questions:

- (1) What is the magnitude of the potential impact of tender offers on managerial wealth?
- (2) Do potential changes in managerial wealth affect the tender offer process?
- (3) How does the market react to managerial resistance?

- (4) Does managerial resistance benefit shareholders?
- (5) Do tender offer premiums increase during the bargaining process? (6) What happens to the target firm's stock price when a tender offer does not succeed?

1. Our Data

Our sample consists of 141 tender offers made over the 1988-1991 period. [4] Most of the data on these transactions and on the target firms are collected from the Wall Street Journal, the proxy statements and the tapes of the Center for Research in Security Prices (CRSP). Using these data, we construct the following variable:

$$NPV = \begin{array}{l} \text{Increase in Wealth} \\ \text{due to Equity} \\ \text{Ownership} \end{array} + \begin{array}{l} \text{Proceeds from} \\ \text{golden} \\ \text{parachutes} \end{array} - \begin{array}{l} \text{Present value of lost} \\ \text{compensation if the} \\ \text{executive is dismissed} \end{array}$$

The gain on managerial equity and options is the number of shares owned times the tender offer premium. [5] The gain from the golden parachutes is usually three times the compensation of the year preceding the bid if the target firm has a golden parachute for the top executive. Ideally, the potential losses in compensation, should managers be displaced, would be the difference between managers' current compensation and the next-best employment opportunity. Unfortunately, this information is not available. Hence, we calculate potential losses as the present value, at a 3% real discount rate over a period equal to 65 minus the age of the top executive of the compensation for the last year preceding the offer. We perform the tests we discuss in this paper using measures of the wealth changes for the top executive as well as the managers and directors as a group. As expected, the results we obtain using this measure for all managers and directors are similar, though less powerful, than those based solely on the top executive. As a result, we focus on the tests based on the NPV for the top executive.

Table 1: Sample Descriptive Statistics

Descriptive statistics for a sample of 141 tender offers over the 1988-1991 period and key managerial wealth variables for the target firms' managers and directors. Columns 2 and 3 provide descriptive statistics classified by target management reaction. The hostility sample consists of 132 tender offers and does not include firms where the management team initiates the tender offer. Columns 4 and 5 provide descriptive statistics classified by tender offer outcome. The outcome sample consists of 131 tender offers and does not include firms where the managers of the target firm are not part of the final bidding team.

Panel A: Tender offer characteristics										
	Overall Sample (n=141) Number (%)		Hostile (n=68) Number (%)		Non hostile (n=64) Number (%)		Unsuccessful (n=32) Number (%)		Successful (n=99) Number (%)	
Hostile reaction of target management	70 (50%)						29 (91%)		47 (36%)	
Successful tender offer	106 (75%)		38 (56%)		62 (95%)					
Multiple bidders	44 (31%)		27 (40%)		14 (22%)		6 (19%)		33 (33%)	
Target has a golden parachute	91 (40%)		51 (75%)		39 (61%)		23 (72%)		64 (65%)	

Panel B: Characteristics of the target firm and the tender offer										
	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median
Initial premium, from rumor ^a (in %)	47%	44%	48%	45%	48%	45%	41%	36%	50%	47%
Final premium, from rumor ^b (in %)	60%	55%	67%	69%	55%	54%	47%	41%	65%	66%
Market value of equity ^c (\$ million)	\$686	\$146	\$1,003	\$374	\$374	\$119	\$1,108	\$139	\$663	\$155
Announcement abnormal return ^d (in %)	28%	29%	25%	27%	32%	33%	17%	22%	33%	37%

Panel C: Characteristics of executive compensation and ownership for the target firms										
	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median
Ownership of top executive (in %)	7.5%	2.1%	3.6%	1.2%	10.0%	4.5%	5.2%	2.0%	7.5%	2.4%
Ownership of managers and directors (in %)	16.2%	10.9%	9.3%	4.8%	21.7%	14.1%	11.6%	9.8%	17.0%	11.2%
Compensation of top executive ^e (\$1,000)	\$486	\$408	\$503	\$454	\$472	\$369	\$487	\$354	\$496	\$436
NPV for top executive ^f (\$ million)	\$ 8.2	\$ -0.14	\$ 1.9	\$ -0.6	\$ 13.0	\$ -0.1	\$ 0.6	\$ 0.0	\$ 11.3	\$ -0.1
NPV for managers and directors ^f (\$ million)	\$ 18.1	\$ -0.87	\$ 6.0	\$ -2.6	\$ 23.2	\$ -1.0	\$ 19.5	\$ -0.5	\$ 19.6	\$ -0.7

^a The initial premium is the percentage premium offered the first day of the tender offer bid. It is computed as the percentage increase in the stock price of the target firm for the period from 30 days before the first rumor of the tender offer, or if no rumor is present, 30 days before the initial announcement of the tender offer to the initial bid stock price. All premium calculations are adjusted for the percentage of shares sought by the bidder.

^b The final premium is the percentage premium offered at the final resolution of the tender offer bid. It is computed as the percentage increase in the stock price of the target firm for the period from 30 days before the first rumor of the tender offer, or if no rumor is present, 30 days before the initial announcement of the tender offer to the final and realized premium for successful tender offers and the final potential, but unrealized, premium for unsuccessful tender offers.

^c The market value of equity is the number of shares outstanding times the stock price 30 days before the first rumor of the tender offer or 30 days before the initial announcement of the tender offer if no rumor is present.

^d The announcement abnormal return is the market adjusted stock return surrounding the first announcement of the bid. It is computed over a window beginning 30 days before the first rumor of the tender offer in the Wall Street Journal (if no rumor is mentioned in the Wall Street Journal, the window begins 30 days before the first tender offer announcement) and ending five days after the first tender offer announcement. The market model parameters are estimated over the 200-day period beginning 250 days before the first rumor or the first tender offer announcement, whichever comes first. The sample for the announcement abnormal returns contains 134 target firms.

^e Compensation consists of all the cash compensation. It includes the salary, bonus, and other cash compensation as stated in the proxy statement preceding the tender offer.

^f NPV is the gain to the executive from the tender offer bid. It is computed as the capital gain for the top executive (or managers and directors as a group) from equity ownership in the firm, plus the present value of the golden parachute payments, minus the present value of potentially lost compensation, should the tender offer be successful. The capital gain for the top executive is based on the final 'rumor' premium from the tender offer process. The present value of compensation is computed using a real discount rate of 3% for a period equal to 65 minus the age of the executive. If this difference exceeds 15 years, the years of lost compensation is set to 15 years. If the difference is less than three years, the years of lost compensation are set at three. The present value of the golden parachute payments is equal to the number of years guaranteed under the change-in-control compensation contract times the cash compensation of the executive.

We report summary statistics on our sample in table 1. A close look at our data reveals some interesting facts. Managers resist about 50% of the tender offers in our sample. [6] When managers are initially hostile, 56% of the tender offers are successful. Conversely, when managers initially receive the bid favorably, 95% of the offers succeed. [7] The initial premium is approximately equal for hostile and non-hostile tender offers. Not surprisingly, however, the premium increases more from the initial bid to the final bid for hostile offers than for non-hostile offers. Because half of the hostile transactions do not go through, this larger increase in premium does not mean, however, that shareholders gain more in hostile transactions. Possibly reflecting this tradeoff between a larger premium and the lower likelihood of success, the market's reaction at the announcement of hostile tender offers is 25% versus 32% for non-hostile offers. In fact, this result suggests that the market does not receive managerial resistance favorably. Later, we will focus on the value of resistance for managers and shareholders. Most important for our analysis, the results in table 1 indicate that managers who resist offers tend to own less of the target firm than managers who receive a bid favorably (3.6% for hostile offers versus 10% for friendly offers). The dollar ownership stakes of managers of hostile firms are also smaller (a mean (median) of \$7.7 million (\$2.4 million)) than those of managers of non hostile firms (a mean (median) of \$27.5 million (\$3.7 million)). Furthermore, the NPV of the top executive is \$13 million for friendly transactions and only \$1.9 million for hostile transactions. Similarly, the top executive gains \$11.3 million in offers that eventually succeed, whereas he would have gained only \$0.6 million in offers that eventually fail. Clearly, managers who stand to gain a lot, principally from their equity ownership, are less likely to resist a tender offer and more likely to complete a transaction.

2. Managers are more likely to resist a tender offer if the NPV variable is low

Although the simple univariate comparisons in table 1 confirm our suspicions about the role of managerial incentives during the tender offer process, it is important to control for other factors that are known to influence tender offer decisions and might be correlated to managerial wealth. Hence, we use a multivariate logistic regression model where the dependent variable is a dummy variable equal to one if managers resist the initial tender offer bid and equal to zero if they favorably receive the bid. [8] The independent variables used in our model are a series of control variables that have been shown to affect the tender offer process and our managerial wealth variable "NPV", that we are particularly interested in.

The control variables are (i) the size of the target (larger targets may have more resources available to thwart undesired suitors), (ii) the ownership of institutional blockholders (large institutions may have a substantial impact on the tender offer process), (iii) the toehold of the bidding firm (it may be more difficult to resist a bid if the bidder controls a large fraction of the target's shares), (iv) the initial premium (if managers resist a bid because the initial premium was too low, we would expect large premiums to be associated with less resistance).

With the inclusion of these control variables we can now investigate whether potential changes in the wealth of a top executive affect the target firm's reaction to the tender offer. The negative sign on the NPV explanatory variable [in model (i) of table 2] indicates that target firms are less likely to resist a bid if the top executive stands to gain financially from a completed offer. In addition, we disaggregate the NPV variable into its three components to evaluate which of these components affect the decision to resist. Our results tell us that the capital gain of the top executive is the primary determinant of this relation between NPV and the target's resistance to the tender offer.

In other words, gains on the top executive's equity ownership have a substantial impact on the decision

Table 2: Logistic regression results on the initial reaction by target management and the final outcome of the tender offer

In model 1, the dependent variable is an indicator variable equal to one if the initial target reaction is hostile and zero otherwise. In model 2, the dependent variable is an indicator variable equal to one if the tender offer is successful, and zero otherwise. The p-values of the regression coefficients are in parentheses. The sample for model 1 consists of 132 tender offers over the 1988-1991 period. It excludes 9 offers in which the target managers are part of the first bidding team. The sample for model 2 consists of 131 tender offers over the 1988-1991 period. It excludes 10 offers in which the managers of the target firm are part of the final bidding team.

Explanatory variables	Model 1 Target management resists the tender offer (n=132)	Model 2 Tender offer is successful (n=131)
Intercept	-4.91 (0.00)	4.85 (0.01)
Logarithm of market value of equity ^a	0.43 (0.00)	-0.32 (0.03)
Institutional block ownership ^b	1.09 (0.47)	3.12 (0.25)
Initial premium, from rumor ^a	-0.11 (0.87)	
Prior ownership of bidder ^c	-1.73 (0.13)	1.29 (0.13)
Multiple bidders		0.98 (0.09)
Credible resistance interaction variable ^d		-11.49 (0.00)
NPV for top executive ^a	-0.03 (0.06)	0.08 (0.04)
Pseudo R-square ^e	0.10	0.22
Regression p-value ^f	0.00	0.00

^a This variable is defined in the footnotes to table 1.

^b The institutional block ownership variable is the sum of the ownership of all institutions that own more than 5% of the target firm.

^c The prior bidder ownership variable is the percentage ownership of the first bidder making a tender offer for the target firm.

^d The credible resistance variable is an interaction variable between an indicator variable equal to one if the target management reaction is hostile and equal to zero otherwise, and an indicator variable equal to one if ownership of managers and directors of the target firm is more than 10%, and zero otherwise. This variable gives an indication of whether managers control a sufficient number of shares in the target to credibly thwart a hostile offer.

^e The pseudo R-square is computed as one minus the log-likelihood ratio at convergence over the log-likelihood ratio at zero.

^f The p-value for the hypothesis that the coefficients of all the independent variables are zero.

to resist a tender offer. Other interesting results of table 2 are that small firms with a large bidder toehold are also less likely to resist a bid. Quite surprisingly, on the other hand, the level of the initial premium does not relate to the target's decision to resist. This result casts some doubt on the notion that target managers resist tender offers to obtain a higher premium.

3. Tender Offers are more likely to succeed if managers gain

We perform a similar analysis to evaluate the relation between managerial wealth and the eventual outcome of the tender offer. This time, however, the premium and the capital gains are computed based on the final tender offer bid (regardless of whether this bid is successful or not). In addition to the control variables introduced in our analysis of managerial resistance, we include two new control variables: (i) A multiple bidder dummy variable (because the number of bidders has been shown to have an impact on the premiums and the managerial ability to resist an offer) and (ii) a credible resistance variable (this variable is a dummy equal to one if managers initially resist the bid and they own more than 10% of the firm). This variable accounts for situations in which managers resist a tender offer and might have sufficient ownership to thwart the unwanted advance.

From our analysis in table 2, it appears that tender offers are reliably more likely to succeed if managers are likely to gain a lot from the transaction. Again, this result illustrates that managerial wealth is a factor one should take into account during the tender offer process.

Table 3: Analysis of the effects of target management resistance on shareholder and top executive wealth

This table assesses the value of managerial resistance to the shareholders and the top executive of the target firm. Panel A presents results for all target firms that resist the offer initially whether successful or not successful. Panel B presents results for target firms that resist the offer initially and ultimately thwart the tender offer. Panel C presents results for target firms that resist the offer initially and then complete the tender offer. The sample consists of 68 hostile tender offers over the 1988-1991 period. The p-values (in parentheses under the mean) are for the t-test that the mean of the variable is not equal to zero. Observations where the tender offer is initiated by the management of the firm are not included.

	Period from 30 days before the initial announcement to the announcement of the tender offer	Period from the initial announcement of the tender offer to the final completion	Full tender offer period from 30 days before the initial announcement of the tender offer to the final completion
Panel A: Hostile tender offers:			
Potential capital gain to shareholders ^a	\$491.8 (0.00)	\$ -53.1 (0.56)	\$438.7 (0.00)
NPV for top executive ^b	\$ 1.9 (0.23)	\$ 1.7 (0.08)	\$ 3.5 (0.14)
Panel B: Hostile and not successful tender offers :			
Potential capital gain to shareholders ^a	\$644.7 (0.01)	\$-389.2 (0.03)	\$255.5 (0.05)
NPV for top executive ^b	\$ 1.4 (0.24)	\$ -0.1 (0.93)	\$ 1.3 (0.09)
Panel C : Hostile and successful tender offers:			
Potential capital gain to shareholders ^a	\$371.1 (0.00)	\$212.2 (0.00)	\$583.3 (0.00)
NPV for top executive ^b	\$ 2.3 (0.39)	\$ 3.0 (0.06)	\$ 5.3 (0.21)

^a The capital gain for the shareholders of the firm is the change in the dollar value of the stock owned by all shareholders, excluding the managers and directors of the firm and the initial bidder.

^b For all hostile offers, the NPV for the top executive is the capital gain on his equity ownership in the firm, plus the golden parachute payments, minus the present value of potentially lost compensation. The present value of compensation is computed using a real discount rate of 3% for a period equal to 65 minus the age of the executive. If this difference exceeds 15 years, the years of lost compensation are set at 15. If the difference is less than three years, the years of lost compensation are set at three. The present value of the golden parachute payments is equal to the number of years guaranteed under the change-in-control compensation contract times the cash compensation of the top executive from the proxy statement preceding the tender offer. In the second column, the change in NPV is the change in capital gains from the initial to the final premium for successful hostile tender offers. For unsuccessful hostile tender offers, it is the capital gain change from the initial premium to the stock price 90 days after the resolution. It is also adjusted for the fact that managers will not lose compensation or receive golden parachute payments. Finally, in the third column, the NPV includes losses in compensation and golden parachute payments for successful hostile tender offers. For unsuccessful hostile tender offers, the NPV is equivalent to the changes in the capital gain on the equity ownership of the top executive.

^c For unsuccessful offers, the ultimate resolution of the tender offer occurs 90 days after the announcement of the withdrawal of the offer. For successful tender offers, the ultimate resolution occurs when the transaction is completed.

4. Bargaining: Shareholders lose nor gain, Managers gain

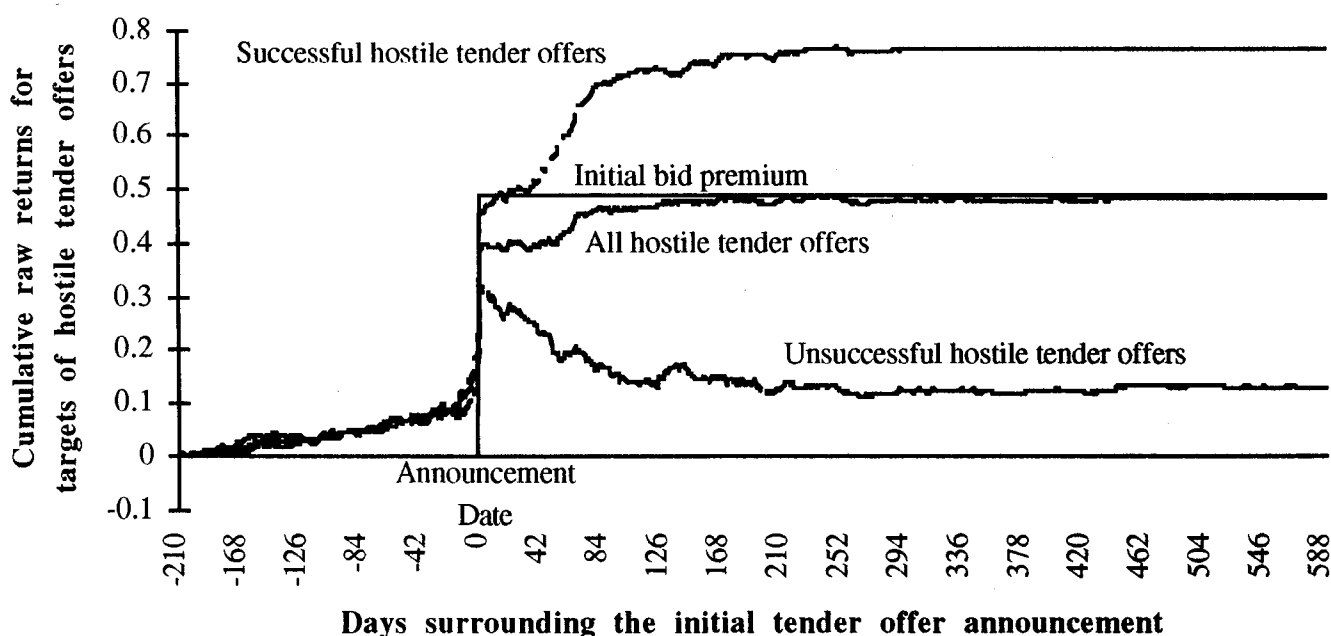
When managers do not resist a tender offer, the success of the transaction is almost certain. When managers resist a bid, shareholders benefit if the transaction takes place at a higher premium, or may lose if the bid fails altogether. In an attempt to evaluate the total impact of managerial resistance on both managerial wealth and shareholder value, we compute these variables along the bargaining process for 68 hostile tender offers (38 of which are successful and 30 are unsuccessful). For “hostile” tender offers, the bargaining process is defined as the period from the initial bid to the final resolution of the bid, whether the bid is successful or not. In some cases, target managers obviously resist the offer to obtain a higher price. In fact, they often publically disclose that they might support the bid if a higher price is offered. In other cases, target managers do not allude to the possibility of managerial support for the unsolicited bid, but this approach might also be a bargaining tactic (i.e. “playing hard to get”). Thus, we consider all hostile reactions

as potential bargaining actions in our tests. [9]

We report the results for these tests in table 3. We find that the average initial gain to outside shareholders for hostile offers is \$492 million (first column panel A). Thereafter, the shareholders lose \$389 million for the offers that do not succeed (second column panel B), whereas they gain an additional \$212 million for the offers that eventually succeed (second column panel C). Combining the wealth effects for both successful and unsuccessful transactions, we find that shareholders in fact lose \$53 million over the bargaining period (second column panel A).

In contrast, the top executives stand to gain \$1.9 million when the bid is initially announced. Over the bargaining period, the top executives of targets that are eventually acquired gain an additional \$3.0 million, whereas the top executives of targets that do not get acquired lose only \$0.1 million (i.e. they lose on their equity ownership as do shareholders, but they do not risk losing their compensation[10]). Over successful and unsuccessful offers, the top executives gain \$1.7 million from the time the initial offer was made thanks to their resistance. This result

Figure 1: Plot of the cumulative raw returns for hostile tender offer targets for the days surrounding the initial tender offer announcement.



confirms that shareholders do not necessarily gain due to resisting a tender offer while managers gain from their resistance.

Another way to view the effects of hostility on the managers of firms that receive tender offers is presented in figure 1 in which we graphically show the cumulative raw returns for target firms whose managers initially resist an offer. From this figure, several interesting points arise. The top line shows that, as expected, tender offers that are resisted by managers, yet are ultimately successful, are completed substantially above the initial bid premium. The bottom line shows that stock prices of firms that resist the offer, and are not acquired, decline to a point approximately equal to the pre-tender offer announcement level. The two middle lines show that when we combine both samples, hostile tender offers result in a stock price level approximately equal to the initial tender offer bid. Again, these results reinforce our doubts on the efficacy of hostility to increase shareholder wealth.

5. The Market does not respond favorably to managerial Resistance

The previous results suggest that shareholders neither lose nor gain from resistance. To further evaluate the value of managerial resistance to shareholders, we evaluate the market's reaction to the managers' decision to resist the tender offer. Indeed, with resistance, the uncertainty associated with the bid increases and the target shareholders will receive the proceeds of the bid at a later date. Thus, we estimate a model with the market's reaction to the tender offer bid (adjusted for market movements) as the dependent variable, and three independent variables:

- (i) institutional block ownership (it is possible that the presence of institutional blockholders increases the likelihood that the offer will succeed or that a higher premium will be paid),
- (ii) the initial premium offered (the initial premium is likely to be an important determinant of the market's reaction to the tender offer) [11], and

- (iii) a dummy variable equal to one if target managers are hostile within the first five days of the bid. The latter two variables are included to gauge whether, given a certain level of the initial premium, the market reacts favorably to managers' decision to resist. Our results in table 4 show a negative sign on the hostility dummy variable. This negative sign indicates that resisted offers have a lower abnormal return than friendly transactions. Again, our results are consistent with our doubts about the value of managerial resistance to shareholders possibly due to the uncertainty and delay associated with the reception of the tender offer proceeds that result from managerial resistance.

6. Our Conclusions

Tender offers present an interesting opportunity to examine the impact of managerial incentives on the tender offer decisions. Shareholders of target firms are unambiguously better off given the substantial premium paid over the pre-tender offer price.[12] Managers, however, may either gain or lose, depending on their ownership position, golden parachutes and compensation. The resulting conflict of interest may explain some of the actions of target firm managers during the tender offer process.

To gauge the importance of changes in managerial wealth during the tender offer process, we collect data on 141 tender offers, and construct a variable to measure changes in managerial wealth during tender offers. Overall, our results indicate that managers who tend to gain from a tender offer are less likely to resist the offer and more likely to complete the offer. We also examine whether the managerial decision to resist an offer is consistent with the idea that managers bargain for a higher price. Here, our evidence shows that the gains from bargaining in successful offers are offset by losses in tender offers that are not completed. Managers, on the other hand, seem to gain from resisting an offer because some offers go through at a higher premium, whereas others fail, allowing managers to

Table 4: Regression of announcement abnormal returns

The announcement abnormal returns are computed over the period from 30 days before the first rumor or first announcement to five days after the first announcement of the tender offer in the Wall Street Journal. The market model parameters are estimated over the 200-day period beginning 250 days before the first rumor or first announcement of the tender offer. The sample consists of 125 tender offers over the 1988-1991 period in which the target managers are not part of the first bidding team. Of the 125 observations, 67 are hostile tender offers and 58 are nonhostile tender offers. P-values are in parentheses.

	Model 1
Intercept	0.026 (0.48)
Institutional block ownership ^a	0.009 (0.94)
Initial premium, from rumor ^b (in %)	0.581 (0.00)
Hostility indicator variable ^c	-0.063 (0.05)
Adjusted R-squared	0.48
Regression p-value ^d	(0.00)

^a This variable is defined in the footnotes to table 2.

^b This variable is defined in the footnotes to table 1.

^c The hostility variable is an indicator variable that is equal to one if the target firm states that it does not support the initial bid within the first five days, and equal to zero otherwise.

^d The p-value for the hypothesis that the coefficients of all the independent variables are zero.

retain their position and the compensation and perks associated with them.

The main lesson from our study is that when manager and shareholder interests are closely aligned, which typically occurs when managers have high managerial equity ownership, managers are more likely to make value maximizing decisions in tender offers. Corporate directors should take this factor into account when devising executive compensation policies and when making tender offer related decisions. Investment bankers and executives of bidding firms obviously need to consider target management ownership and compensation in se-

lecting targets and making bids. Finally, institutional shareholders and money managers certainly need to pressure directors in seriously considering any outside bid even if managers declare it is not in shareholders' best "long-term interest".

Footnotes

- [1] WALKLING (1985) documents that target management resistance significantly reduces the likelihood of offer success.
- [2] JENSEN and RUBACK (1983) document a positive abnormal return of 30% for successful tender offers. Conversely, RUBACK (1988) shows that target firms suffer a two day 10.7% abnormal loss upon the announcement of the termination of a tender offer.
- [3] For instance, MARTIN and MCCONNELL (1991) report executive turnover rates that are more than three times higher than normal in the year following a takeover.
- [4] Full details of the sample selection procedure and of the variable specifications can be found in COTTER and ZENNER (1994).
- [5] The initial tender offer premium is the percentage increase in the stock price of the target firm for the period from 30 days before the first rumor of the tender offer, or before the initial announcement of the tender offer if no rumor is present, to the initial bid stock price. The final tender offer premium is the percentage increase in the stock price of the target firm for the period from 30 days before the first rumor of the tender offer, or before the initial announcement of the tender offer if no rumor is present, to the final tender offer premium.
- [6] Offers are classified as "resisted" if target managers or directors characterize the offer as "hostile", "unfriendly" or "unsolicited" or if they undertake actions thwart the offer.
- [7] Some offers do not succeed because the financing for the deal collapses or because of regulatory hurdles.
- [8] This type of regression helps illustrate the impact of independent variables on a dichotomous (or one/zero) dependent variable. For instance, in our first test, independent variables whose coefficients are positive indicate that increases in the independent variable lead to a greater likelihood of managerial resistance to the initial tender offer bid.

- [9] Of course, there is also bargaining in the transactions which we classify as friendly. Often target firm managers, directors and/or large shareholders bargain with the bidder before the offer is publicly announced. The information relating to this part of the bargaining process (e.g. initial price offer) is usually not made public, and thus not available to us. Another form of bargaining with tender offers that are classified as friendly transactions is the bargaining by large and influential shareholders not necessarily associated with management.
- [10] MARTIN and MCCONNELL (1991) document managerial turnover of about 60% in the two years following a successful tender offer. No such turnover figures are documented for unsuccessful tender offers.
- [11] FISHMAN (1988) discusses the role of large initial bid premiums in preventing potential bidders from entering a bidding contest.
- [12] It is not surprising, therefore, that large shareholders (managers and outsiders) often initiate takeover talks with investment banks or potential bidders.

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