Thesis Abstract

Title of Thesis	Essays on corporate governance in mergers and acquisitions

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<u>Abstract (within 1,000 words):</u>

This dissertation examines issues related to the corporate governance of mergers and acquisitions (M&A).

The first essay analyzes the influence of CEO learning during programs of acquisitions on the takeover probability of success. CEO learning theory suggests that by completing more acquisitions and improving bidding skills, CEO has higher probability of succeeding in prospective transactions. The theory suggests a positive relation between the accumulated learning experience of CEO and the transaction outcome. By constructing a dataset at CEO-firm level, I show that CEO's accumulated experience significantly increases the takeover likelihood of success. Empirical evidence also suggests that CEO pays higher premium to the target that has a lower risk of valuation, therefore increasing the transaction success. I distinguish the effect of CEO learning from CEO's inherent abilities by generating a proxy for competence as the residuals of success of the first transactions in acquisition programs that are not explained by the observable attributes of firm-deal characteristics. Probit regressions show that CEO competence causes the persistence of success in acquisition programs, but it does not affect the influence of CEO experience. I also confirm the learning hypothesis that CEO listens to outsiders when making acquisition decision, although its marginal effect is lower when CEO has a higher level of experience. The results provide empirical support for the theory of CEO learning in acquisition programs and highlight the impact of CEO learning and CEO's inherent abilities on takeover success.

In the second essay, I the effect of the independent expert reports on takeover premium and transaction outcome. I collect a comprehensive sample of 2888 Australian M&A transactions between 1991 and 2013. I find that a "neither fair nor reasonable" opinion forces the acquirer to increase the offer premium by five percent, ceteris paribus. The finding remains robust after controlling for the target's bargaining power measured by the residual values of initial premiums that

are not explained by observable firm-deal characteristics. The target that has a weak bargaining position tends to receive less effect of an unfavorable report. In addition, a “fair and reasonable” opinion increases the probability of success while the unfavorable report does not affect the transaction outcome. The causal effect of expert opinions is identified by differences-in-differences analysis using the Duke case decision.

The third essay is coauthored with Nguyen Xuan Hai at the Chinese University of Hong Kong. In this essay, we theoretically and empirically show that the takeover market is an effective external force of discipline for corporate diversification. First, we derive a simple model that highlights the managers’ incentives to overdiversify their firm. In the absence of a takeover threat, managers may structure their firm suboptimally in pursuit of private benefits. How-ever, facing a threat of takeover, managers will de-diversify to maximize firms’ value in fear of being acquired and replaced. We also discuss the discipline role of the takeover market under competitive and non-competitive environment, and other monitoring mechanisms. Second, we test three hypotheses generated from the model: (1) anti-takeover laws increase corporate di-versification; (2) the disciplinary effect is more pronounced in non-competitive industries; (3) the disciplinary effect is less when the firm is more intensively monitored. The empirical results are strongly consistent with these predictions, and robust to alternative measurements of takeover pressure and diversification, and censor and truncated data.