

Managerial Ownership, the Method of Payment for Acquisitions, and Executive Job Retention

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ABSTRACT

This study investigates how acquiring and target firm managers' preferences for control rights motivate the payment for corporate acquisitions. We expect that managers of target firms who value influence in combined firms will prefer to receive stock. One reason top managers desire influence is to enhance their chances of retaining jobs in the combined firm. Our analysis shows a strong, positive association between managerial ownership of target firms and the likelihood of acquisitions for stock. We also find that managers of target firms are more likely to retain jobs in combined firms when they receive stock rather than cash.

A NUMBER OF EMPIRICAL studies investigate the rationale for offering cash for some acquisitions and stock for other acquisitions. Although a few papers (such as Carleton et al. (1983) and Auerbach and Reishus (1988)) examine both acquiring and target firms, most studies focus on the motivation of acquiring firms. Amihud, Lev, and Travlos (1990), for example, relate the preferences of acquiring firms' managers to the method of payment. Building on Harris and Raviv (1988) and Stulz (1988), they propose that acquiring firm managers who value control prefer to pay cash for acquisitions to avoid ownership dilution and the possible loss of control.¹ In support of this hypothesis, they find a positive association between the acquirers' managerial ownership and the incidence of cash payments for acquisitions. More recently, Martin (1996) considers the sizes of target and acquiring firms and their investment opportunities as determinants of the method of payment. His emphasis, however, is also on the motivation of acquiring firms.

The present study investigates how preferences for control rights by both acquiring and target firm managers motivate the method of payment for

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¹ Following Harris and Raviv (1988), we adopt the Jensen and Ruback (1983) definition of 'control.' Jensen and Ruback view control as "the right to determine the management of corporate resources, i.e., the rights to hire, fire, and set the compensation of top-level managers."

corporate acquisitions. We focus primarily on target corporations and the motivation of their managers to obtain influence in combined firms after acquisitions. Our hypothesis is that managers of target firms who own large percentages of shares in their firms will often value voting influence in the combined firms after acquisitions. Therefore, these managers prefer to receive stock in exchange for their ownership interest. Further, we expect that top managers who have voting influence after acquisitions are more likely to retain their jobs. Using managerial ownership in the target as a proxy for the value of influence, we examine the relationship between this variable, the method of payment, and job retention by executives after mergers.

The analysis of a sample of large, successful acquisitions shows a strong, positive association between managerial ownership of target firms and the incidence of acquisitions for stock. This supports the hypothesis that target firm managers who own large percentages of their firms' shares and who presumably value influence in combined firms negotiate to receive stock rather than cash. The results indicate that the targets' managerial ownership is even more important than the acquirers' managerial ownership in explaining the method of payment for acquisitions.

Consistent with the view that job retention motivates the method of payment, we also find that managers of target firms are more likely to retain jobs in combined firms when they receive shares as payment. Other factors such as capital gains taxes, firm size, and the friendly versus hostile nature of takeovers could also explain the association between target firms' managerial ownership and the method of payment. After controlling for these factors, however, we still conclude that (1) the incidence of acquisitions for stock is a positive function of managerial ownership in target firms and (2) target managers are more likely to retain jobs when targets are acquired for stock rather than for cash.

The next section presents reasons for expecting that some target firm managers prefer to receive stock rather than cash in exchange for shares of the target. In Section II we discuss sample selection and present data relating to managerial ownership, the method of payment, and job retention. Section III provides evidence on the association of the targets' managerial ownership and the method of payment. Section IV presents conclusions.

I. Method of Payment

Amihud, Lev, and Travlos (1990) suggest that managers of acquiring firms who value control avoid issuing stock which dilutes their ownership and increases the risk of losing control. We expect that target managers' preferences for influence in combined firms also determine the method of payment for acquisitions.

In general, managers of target firms who own high percentages of their firms' shares have considerable bargaining power in takeover negotiations. These managers can use that power either to negotiate favorable terms or to discourage acquisitions (Song and Walkling (1993)). This section discusses

expected linkages between the motivation to obtain influence in combined corporations, the method of payment for acquisitions, and job retention by executives.

When targets are acquired for stock, target firm managers who own shares of their firms become voting shareholders in combined firms. Other factors being equal, high ownership in targets implies high ownership and material voting influence in combined firms. Therefore, we expect that target firm managers who have high ownership in their firms and who value influence in combined firms, will prefer to receive shares of stock rather than cash.

One reason that target corporation managers may be concerned with obtaining influence in combined firms is the potential effect of that influence on job retention. Previous studies including that of Martin and McConnell (1991) show exceptionally high management turnover following takeovers. Ownership and influence in the combined firm after acquisitions, however, provide a form of unemployment insurance.² This leads us to expect that managers who desire continued employment will not be indifferent to the method of payment. Specifically, managers who desire voting influence in the combined corporation and desire to retain jobs will negotiate for stock and discourage cash offers. On the other hand, managers who are not significant shareholders of target corporations do not receive large numbers of voting shares even when they receive shares in acquiring corporations. Consequently, they do not have influence-motivated incentives to negotiate for stock in payment for the targets' shares.

Unfortunately, it is not feasible to directly measure the motivation of the targets' managers to obtain influence in combined corporations. As discussed above, however, one factor associated with control prior to the acquisition, and presumably the desire for continued influence in combined firms, is managerial ownership. Other factors equal, managers with high percentage ownership of their firms have more influence over the activities of these firms and their personal employment situations than managers with low percentage ownership. Although existing managerial ownership will not always indicate the desire for continued influence in combined firms, we assume that it serves as a reasonable proxy for desired influence.

In summary, the study examines two hypotheses. One is that payments with stock are more likely when managerial ownership of targets is high. This is based on the expected link between managerial ownership and the motivation to obtain influence in combined firms. In addition, we expect that the concern with influence, in many cases, is motivated by the desire for job retention. Therefore, the second hypothesis is that job retention is more likely when managers receive voting stock in combined firms than when they receive cash.

² Anecdotal evidence supports this conjecture. Rundle and Lipin (1996) report that in the 1996 acquisition of Health Systems for shares by the Foundation Health Corporation, the target firm's chairman was promised the position of chairman and CEO of the combined company. The target's managerial ownership in this case was 15 percent.

II. The Sample and Definition of Variables

Each year, *Mergers and Acquisitions* cites the 100 largest successful acquisitions. From this list, we select the 50 largest acquisitions for each year from 1981 through 1988. We eliminate all management and leveraged buy-outs and retain the acquirer and target only if both firms are included on the 1993 *CRSP* and *Compustat* tapes.³ Additionally, acquisitions are retained only when managerial ownership information is available for both firms.

We obtain the payment method from *Mergers and Acquisitions* as confirmed in the *Wall Street Journal*. The method of payment, MOP, is set to 0, 1, or 2 to reflect the payment with cash or debt, a mix of cash and stock, or stock, respectively. Acquisition announcement dates are determined from the *Wall Street Journal Index*. Managements' reactions to acquisition announcements are determined from the *Wall Street Journal Index* and the *Wall Street Journal*. If the initial offer is not negotiated, is initially rejected, or is in any way contested by the target management, the offer is termed hostile. All other offers are deemed friendly.

Following Song and Walkling (1993), managerial ownership (OWN) is measured as the total percentage of shares owned by officers, directors, and insiders. This information is obtained from *Value Line* when available; otherwise from proxy statements filed with the SEC in the year preceding the announcement date. *Value Line* also reports other blockholdings. We do not include this group in the definition of managerial ownership.

Martin (1996) finds that the likelihood of acquisitions for stock increases as the managerial ownership of acquiring firms increases over a middle range of ownership only. Acquiring firm managers with very low ownership have little to lose by issuing equity and managers with very high ownership may not feel threatened by the dilutive effects of additional shares. We also expect a nonlinear effect for target firm managers. Managers with low ownership in targets are less likely to obtain material influence in combined firms even if stock is issued to pay for acquisitions. When ownership exceeds a threshold, however, the potential for influence as a major shareholder becomes material, and over this range of ownership we expect a positive association between the targets' managerial ownership and the incidence of acquisitions for stock.⁴ We have no reason to expect that managers with very high percentage ownership in targets will be less inclined to give up their positions than managers with intermediate ownership levels. Consequently,

³ All firms included in the sample are listed on the 1993 *Compustat* annual *Primary/Secondary/Tertiary* tape, *Over-The-Counter* tape, and *Industrial Research* tape. In addition, firms are required to be listed on the 1993 *CRSP* merged *NYSE/AMEX/Nasdaq Master and Returns* daily tape.

⁴ The \$200 million Scotts and Miracle-Gro exchange of shares in 1995 illustrates the potential to obtain influence following acquisitions. Murray (1996) reports that Scotts acquired Miracle-Gro by paying with stock and warrants equal to 42 percent of Scotts' shares. Then, with the support of other shareholders, Miracle-Gro's managers forced the resignation of Scotts' former president and assumed control. In this case, the target effectively acquired the bidder.

we examine two rather than three segments of managerial ownership for target firms.

Other factors being equal, target firm managers with high share ownership have more influence in combined firms following acquisitions for stock than do managers with low ownership. The size of targets relative to the size of acquirers also determines the expected influence of target firm managers in combined firms. For example, when targets are small compared to acquirers, the potential influence of the targets' managers in combined firms is also likely to be low. The actual association between the targets' relative size and the method of acquisition, however, depends on the preferences of both the target and acquiring firms' managers. Acquiring firm managers who value control are less likely to offer shares when targets are large compared to the size of the acquiring firm because issuing stock in this case increases the dilution of equity and the potential for losing control.⁵

Consistent with the preceding discussion, we construct two variables to relate relative size to managers' preferences for control rights and the method of payment. The first is RSIZE, the relative size of the target compared to that of the combined firm. RSIZE is measured as

$$MVE_T / (MVE_T + MVE_A), \quad (1)$$

where MVE_T (MVE_A) is the market value of the target's (acquirer's) equity 60 trading days prior to the acquisition announcement with data obtained from the *CRSP* tape.

The second variable is the projected influence of the targets' managers in the combined firm assuming that they receive stock. NEWOWN is the manager's percentage ownership in the target, OWN_T , multiplied by relative target size as follows:

$$NEWOWN = OWN_T * RSIZE = (OWN_T * MVE_T) / (MVE_T + MVE_A). \quad (2)$$

Our measure of job retention focuses on the top two executives of target firms as reported in *Standard and Poor's Register of Corporations, Executives, and Directors*. If at least one of these executives is listed under either the target or acquirer for the two successive years after the acquisition, the JOBS variable is coded as one; otherwise the value is zero.⁶

It is possible that the preference for stock by target corporation managers with high ownership in their firms could also be explained by their desire to

⁵ Previous studies including Travlos (1987) and Martin (1996) find that relative target sizes do not differ significantly with the method of payment for acquisitions.

⁶ In most cases, the publication continues to list the target corporation even when targets become divisions of acquirers. In some cases the listings continue, but all data including revenues and the number of employees remain at previous amounts. Firms with missing or suspicious listings are coded as missing. Therefore, the number of firms with available information on JOBS is smaller than the total sample of 212 acquisitions.

avoid capital gains taxes. Acquirers, however, typically pay more when the medium of exchange is cash rather than stock (Wansley, Lane, and Yang (1983) and Huang and Walkling (1987)). When the premium for paying cash approximates the tax, the targets' shareholders should be indifferent to tax consequences. Consistent with this view, Amihud, Lev, and Travlos (1990) conclude that there is no consistent empirical evidence that tax reduction motivates the method of payment for acquisitions. Moreover, empirical tests are difficult to evaluate because capital gains depend on when and how shares are acquired—information that is not always public. Nonetheless, we include the potential impact of capital gains taxes as a control variable.

Our proxy for the tax effect assumes that target firm managers acquired their shares nine years prior to the acquisition. The TAX variable is the product of the stock price appreciation over the nine-year holding period ending one year prior to the acquisition and the number of shares owned by target firm managers one year prior to the acquisition. Adjustments are made for stock dividends and splits. The multivariate regression results reported in Section III remain essentially unchanged when we substitute alternative holding periods ranging from one to nine years.

III. Results

A. *The Data*

Table I shows that of the entire sample of 212 successful acquisitions, 82 are acquired for cash (MOP = 0), 79 use a mix of cash and stock (MOP = 1), and 51 use only stock (MOP = 2).⁷

The Panel A data reveal that the target firms' mean managerial ownership is significantly higher when acquirers pay with stock (19.36 percent) rather than cash (7.17 percent). The *F*-test for differences in mean values among the three payment types shows that the targets' managerial ownership is significant at the 1 percent level. Consistent with the results of Amihud, Lev, and Travlos, we find that the acquirers' managerial ownership is high when cash is paid for acquisitions.

Comparison of the two ownership variables across the method of payment shows that for cases of cash payments, managerial ownership (OWN) is low for targets (7.17 percent) and high for acquiring firms (14.07 percent). The reverse is true for payments with stock. In these cases, managerial ownership is high for targets (19.36 percent) and low for acquirers (6.55 percent). Data for mixed cases (involving both cash and stock) fall between the two pure forms of exchange. These results suggest that the influence-related motives of both target and acquiring managers jointly determine the method

⁷ Walkling (1985) finds that hostile acquisitions are more likely to be unsuccessful than friendly acquisitions, and Huang and Walkling (1987) find that hostile offers tend to be for cash rather than for stock. Combining these results suggests that the acquisitions examined in this study might include a higher proportion of acquisitions for stock than samples that include both successful and unsuccessful bids.

Table I
Characteristics of Target and Acquiring Firms

Managerial ownership, projected ownership, firm size, job retention, and takeover resistance for 212 acquisitions over the period 1981 through 1988 are classified by the method of payment. OWN_T and OWN_A represent the percentage of shares held by officers, directors, and insiders of the target and acquiring firms, respectively. $RSIZE$ is $MVE_T/(MVE_T + MVE_A)$ where MVE_T (MVE_A) is the market value of equity of the target (acquirer) 60 trading days prior to the announcement date. $NEWOWN$, measured as $OWN_T * RSIZE$, captures the projected influence of the target's managers in the combined firm after the acquisition. Target managers are classified as retaining jobs when at least one of the top two executives remains for at least two years following the acquisition. Acquisitions are regarded as hostile if not negotiated prior to the acquirer's initial offer, not initially accepted, or contested by the target; otherwise acquisitions are friendly. Except for Panel B where job retention data restrict the sample to 134 pairs of firms, the sample includes 212 targets and 212 acquirers. The F -statistic tests the null hypothesis of no difference between the mean values when the method of payment is cash, cash and stock, and stock. The χ^2 -statistic tests the null hypothesis of no difference between the method of payment and percentage of jobs (Panel B) and management reaction to acquisitions announcements (Panel C).

Variable	Method of Payment						Test Statistics/ <i>p</i> -values		
	Total Sample		Cash		Cash and Stock			Stock	
			Mean	Median	Mean	Median		Mean	Median
	Panel A: Target and Acquiring Firms								
OWN _T (percent)	13.74	6.00	7.17	3.00	17.58	9.85	19.36	12.90	10.12 (0.00)
OWN _A (percent)	10.52	3.00	14.07	5.80	9.01	3.00	6.55	1.70	3.67 (0.02)
RSIZE	0.28	0.21	0.32	0.28	0.28	0.23	0.22	0.16	1.85 (0.16)
NEWOWN (percent)	2.87	1.21	1.97	0.69	3.28	1.40	4.27	3.31	3.03 (0.05)
Panel B: Job Turnover of the Target Firm's Top Two Executives Following Acquisitions								χ ² -stat (<i>p</i> -value)	
Retained jobs	95 cases	31 cases	35 cases	29 cases					
Lost jobs	39 cases	21 cases	14 cases	4 cases					
Total	134 cases	52 cases	49 cases	33 cases	7.83 (0.02)				
Panel C: Target Management's Reaction to Acquisition Announcements								χ ² -stat (<i>p</i> -value)	
Hostile	87 cases	38 cases	47 cases	2 cases					
Friendly	125 cases	44 cases	32 cases	49 cases					
Total	212 cases	82 cases	79 cases	51 cases	30.25 (0.00)				

of payment. Target firm managers who desire voting influence prefer to receive stock, and acquiring managers who value continued control prefer to pay cash to avoid diluting their existing holdings.

The *F*-statistic in Table I shows that the mean values of RSIZE, the targets' relative sizes, do not differ significantly for the payment alternatives. One possibility is that target firm managers who value influence in combined firms negotiate for stock when target sizes are large relative to those of acquirers. Acquiring firm managers who value control, however, prefer to pay cash for large size targets to minimize the potential dilution of their equity. Consequently, the two motivations offset each other. Another possibility relates to Demsetz and Lehn (1985) who find that the management ownership percentage decreases as business size increases. Other factors being equal, this suggests that when a target's managerial ownership is relatively low, as in acquisitions for cash, target size will be large.

Table I also shows that NEWOWN, the projected influence of target firm managers in the combined firm assuming that they receive stock, is higher when targets are acquired for stock rather than for cash. The *F*-statistic rejects the null hypothesis that the mean values of NEWOWN are equal across the three payment types at the 5 percent level. Note that even though RSIZE, a key component of NEWOWN, is not related to the method of payment, NEWOWN and the method of payment are significantly correlated.

Panel B of Table I shows that job retention following acquisitions is more common when firms are acquired for stock. In fact, we observe that jobs are not retained following payments with stock in only 10 percent of the acquisitions (four instances). This is consistent with the hypothesis that target firm managers who are motivated to obtain influence in combined firms opt to receive stock to retain influence and obtain a form of continued unemployment insurance.

Panel C shows that of the 87 hostile offers, 44 percent (38 cases) were acquired for cash, 54 percent (47 cases) were acquired using a mix of cash and stock, and only 2 percent (2 cases) were acquired with stock. These results are consistent with those of Huang and Walkling (1987) and Morck, Shleifer, and Vishny (1988a), which show that acquirers pay cash for hostile acquisitions but that payments with stock are more likely for friendly acquisitions. It is also possible that target firm managers tend to keep their jobs simply because acquisitions for stock are likely to be friendly. We investigate this possibility in the multivariate analysis.

B. The Multinomial Logistic Regressions

The relative importance of variables associated with the method of payment is assessed using multinomial logistic regressions. Adopting the model used in Martin (1996), we estimate the impact of managerial ownership on the likelihood of paying with stock using the spline functional form of the variables OWN and NEWOWN. Following Martin (1996), for OWN_A , the acquirers' percentage of managerial ownership, the spline has three seg-

ments: 0 to 3 percent ownership, 3 to 25 percent ownership, and ownership greater than 25 percent.⁸ For each segment, the corresponding coefficient measures the slope of the regression line over the specified interval. OWN_T and $NEWOWN$ are divided into two segments with the cutoff point at 3 percent. As indicated previously, we have no theoretical reason to include a third segment for these two variables.

Table II reports the results of four logistic regressions. The first three models examine combinations of managerial ownership, size, and the tax variable, and their association with the method of payment using the entire sample of 212 acquisitions. Model 4 uses the same variables as Model 3 on the sample of 125 friendly acquisitions. All four models include MVE_T and MVE_A , the market values of target and acquiring firm equity. These variables control for the possibility that corporate ownership is a proxy for firm size (Demsetz and Lehn (1985)).

In Model 1, the coefficient of OWN_T is significant and positive at the 1 percent level for values of OWN_T exceeding 3 percent. When ownership is very low (below 3 percent), the method of payment is not related to the ownership of target managers. Once ownership becomes material, however, the likelihood of paying with stock increases as the percentage of the target's managerial ownership increases. The results also show only a weak association between TAX and the method of payment. Although this does not suggest that tax considerations are more important than managerial ownership in explaining the method of payment, we should note that our measure of the tax variable is an imperfect proxy for the true value. Model 1 shows that after considering the possible effects of differences in potential capital gains taxes and size, when the percentage of ownership by the target corporation's managers is material, the likelihood of paying with stock rather than cash increases as managerial ownership increases. Thus, the data are consistent with the hypothesis that managers with large percentage ownership in targets prefer to receive stock to help maintain influence in the combined firms.

Model 2 adds the three-segment spline form of OWN_A . Consistent with Martin (1996), OWN_A is significant and negative for intermediate levels of management ownership, indicating that for this segment, the percentage of ownership by acquiring corporation managers is associated with the method of payment. Therefore, we conclude that the method of payment is a function of the ownership of both the acquiring and target firm managers.

Model 3 substitutes $NEWOWN$, the projected percentage ownership of the targets' managers in combined firms if they received stock, for OWN_T . Substituting $NEWOWN$ for OWN_T leads to results similar to those in Model 2. The coefficient of $NEWOWN$ is not significant for very low ownership, but when ownership exceeds 3 percent, high projected ownership is significantly

⁸ These turning points maximize the explanatory power of the full model. Although the choice of turning points in a spline function is an empirical issue, similar cutoff points have been used by Morck, Shleifer, and Vishny (1988b) and Martin (1996). The results are robust to alternate turning point specifications between 4 and 7 percent.

Table II
Multinomial Logit Analysis of the Method of Payment

Estimated effect of managerial ownership, projected ownership, firm size, and taxes on the method of payment (MOP) is reported using a logistic regression analysis. MOP equals 0 for cash payments, 1 for mixed cash and stock acquisitions, and 2 for payments with stock. OWN_T (OWN_A) represents the percentage ownership in the target (acquirer) by officers, directors, and insiders. MVE_T (MVE_A) is the market value of equity for the target (acquirer) 60 trading days prior to the announcement date. $NEWOWN$, measured as $OWN_T * [MVE_T / (MVE_A + MVE_T)]$, is the projected ownership of the target's managers in the combined firm. All ownership and size variables are in natural logarithms. OWN_A is a spline function with turning points at 3 percent and 25 percent. OWN_T and $NEWOWN$ are spline functions with turning points at 3 percent. TAX is the potential capital gains tax to target firm managers. The sample includes 212 pairs of targets and acquirers except for Model 4, which includes only friendly acquisitions (125 pairs). The t -statistics (t -stat) are ratios of estimated coefficients to estimated standard errors.

Independent Variables	Predicted Sign	Full Sample Coefficient (t -stat)			Friendly Only Coefficient (t -stat)
		Logit Model 1	Logit Model 2	Logit Model 3	Logit Model 4
Intercept 1		-2.721 (-1.80)	-1.097 (-0.64)	-0.954 (-0.56)	1.693 (0.71)
Intercept 2		-0.637 (-0.43)	1.023 (0.60)	1.157 (0.68)	3.831 (1.57)
OWN_{A1} (0-3%)	-		0.409 (0.49)	0.413 (0.49)	0.370 (0.38)
OWN_{A2} (3-25%)	-		-0.239 (-2.08)**	-0.241 (-2.09)**	-0.212 (-1.44)
OWN_{A3} (>25%)	-		-0.063 (-0.33)	-0.056 (-0.30)	-0.183 (-0.66)
OWN_{T1} (0-3%)	+	0.442 (0.82)	0.606 (1.05)		
OWN_{T2} (>3%)	+	0.436 (3.07)***	0.462 (3.14)***		
$NEWOWN_1$ (0-3%)	+			1.176 (0.98)	1.845 (0.95)
$NEWOWN_2$ (>3%)	+			1.026 (3.15)***	1.198 (2.44)**
MVE_A	-	0.013 (0.09)	-0.173 (-1.13)	-0.093 (-0.63)	-0.324 (-1.44)
MVE_T	-	-0.028 (-0.14)	-0.068 (-0.32)	-0.168 (-0.83)	-0.300 (-1.09)
TAX	+	0.666 (0.99)	0.584 (0.79)	0.607 (0.80)	0.414 (0.60)
χ^2 statistic		(23.18) ^a	(31.17) ^a	(30.74) ^a	(24.39) ^a

*** and ** denote significance for t -tests at the 0.01 and 0.05 levels, respectively.
^aDenotes significance for χ^2 tests at the 0.01 level.

associated with the incidence of payments with stock. It is noteworthy that NEWOWN is as important as OWN_T despite its incorporation of RSIZE. Although RSIZE is not larger when payments are with stock, the target managers' ownership outweighs the negative impact of RSIZE. This reinforces the view that target managements' desire for influence in the combined firm helps to explain acquisitions for stock.

Acquisitions for stock tend to be friendly, as shown in Table I. Additionally, target corporation managers involved in friendly acquisitions tend to have high ownership (Morck, Shleifer, and Vishny (1988a)). Consequently, the observed association between the targets' managerial ownership and the method of payment could be driven by friendly versus hostile acquisitions. One way to test whether friendly versus hostile acquisitions drive the association between ownership and the method of payment is to partition the sample on the basis of friendly and hostile acquisitions. If ownership and the method of payment are related even when only friendly acquisitions are considered, the relationship is unlikely to be driven by the friendly versus hostile nature of acquisitions. Since friendly acquisitions are more common than hostile acquisitions, we examine this subsample separately.

Model 4 reestimates Model 3 using the restricted sample of 125 friendly acquisitions. Note that NEWOWN continues to be positive and significant. We also modify Model 3 for the full sample of firms by including a dummy variable for the friendly versus hostile nature of the acquisitions. Our results (not reported) show that the ownership variables continue to be significant after controlling for friendly versus hostile acquisitions. Thus, the data continue to show an association between the method of payment and management ownership even after controlling for friendly versus hostile acquisitions.

Table III focuses more closely on job retention by the targets' top managers. Job retention data are not included in the tests reported in Table II because our main interest is in the association between the targets' ownership and the method of payment. Moreover, limiting the sample to firms with job retention data reduces the sample size. Table III reestimates Models 1 through 4 using the JOBS variable and the sample of 134 observations for which jobs data are available. The data show that the second splines of OWN_T and NEWOWN continue to be highly significant even after incorporating the job retention variable. Thus, although JOBS, OWN_T , and NEWOWN are all closely related to the method of payment, they do not measure the same phenomenon. Table III also shows that when the JOBS variable is introduced, the contribution of acquiring firm managerial ownership in explaining the method of payment is less important.

In summary, the results to this point are consistent with the hypothesis that managers of target firms who value influence in combined corporations opt to receive stock rather than cash to help ensure job retention. We also test the association between OWN_T and JOBS. This test shows that although the correlation is positive, it is not statistically significant. The likely reasons are the use of OWN_T , an imperfect proxy for the value of influence

Table III
Job Retention and the Method of Payment

Estimated effect of managerial ownership, projected ownership, firm size, taxes, and job retention on the method of payment (MOP) is reported using a logistic regression analysis. MOP equals 0 for cash payments, 1 for mixed cash and stock acquisitions, and 2 for payments with stock. OWN_T (OWN_A) represents the percentage ownership in the target (acquirer) by officers, directors, and insiders. MVE_T (MVE_A) is the market value of equity for the target (acquirer) 60 trading days prior to the announcement date. $NEWOWN$, measured as $OWN_T * [MVE_T / (MVE_A + MVE_T)]$, is the projected ownership of the target's managers in the combined firm. All ownership and size variables are in natural logarithms. OWN_A is a spline function with turning points at 3 percent and 25 percent. OWN_T and $NEWOWN$ are spline functions with turning points at 3 percent. TAX is the potential capital gains tax to target firm managers. Job retention ($JOBS$) is 1 if either of the top two target firm executives retained his or her job for at least two years after the acquisition; otherwise 0. The sample includes 134 pairs of targets and acquirers (full job data sample) except for Model 4, which includes only friendly acquisitions (81 pairs). The t -statistics (t -stat) are ratios of estimated coefficients to estimated standard errors.

Independent Variables	Predicted Sign	Full Job Data Sample Coefficient (t -stat)			Friendly Only Coefficient (t -stat)
		Logit Model 1	Logit Model 2	Logit Model 3	Logit Model 4
Intercept 1		-1.431 (-0.83)	-0.497 (-0.26)	-0.358 (-0.19)	1.796 (0.65)
Intercept 2		0.836 (0.49)	1.829 (0.96)	1.976 (1.04)	4.261 (1.50)
OWN_{A1} (0-3%)	-		-0.067 (-0.06)	-0.039 (-0.03)	-8.405 (-1.35)
OWN_{A2} (3-25%)	-		-0.211 (-1.60)	-0.211 (-1.59)	-0.255 (-1.38)
OWN_{A3} (>25%)	-		0.037 (0.17)	0.036 (0.16)	-0.038 (-0.10)
OWN_{T1} (0-3%)	+	0.159 (0.26)	0.125 (0.20)		
OWN_{T2} (>3%)	+	0.452 (2.66)***	0.493 (2.77)***		
$NEWOWN_1$ (0-3%)	+			0.146 (0.11)	1.522 (0.72)
$NEWOWN_2$ (>3%)	+			1.139 (2.89)**	1.056 (1.79)*
MVE_A	-	-0.008 (-0.05)	-0.144 (-0.77)	-0.106 (-0.58)	-0.554 (-2.00)**
MVE_T	-	-0.279 (-1.21)	-0.289 (-1.19)	-0.353 (-1.53)	-0.464 (-1.39)
TAX	+	-0.160 (-0.09)	0.076 (0.04)	0.089 (0.05)	0.910 (0.47)
$JOBS$	+	0.880 (1.96)*	0.995 (2.10)**	1.021 (2.17)**	1.926 (2.32)**
χ^2 statistic		(19.89) ^a	(24.77) ^a	(25.21) ^a	(26.44) ^a

***, **, and * denote significance for t -tests at the 0.01 and 0.05, and 0.10 levels, respectively.
^aDenotes significance for χ^2 tests at the 0.01 level.

in combined corporations, and noise in measuring job retention. Management ownership in targets is adopted as a proxy for the value of influence under the assumption that managers who presently value influence, as measured by managerial ownership in targets, are also likely to value influence in combined corporations. This may apply in general but it is not always the case—as, for instance, when managers of target corporations anticipate retirement and have no interest in continuing their management functions (Morck, Shleifer, and Vishny (1988a)).

The job retention measure is also noisy. In a few cases only sales revenue changed in successive editions of the *Register of Corporations, Executives, and Directors*. One possibility is that the managers did not change. Another possibility is that sales revenue was updated without complete inputs from acquired corporations. Also, we drop a number of acquisitions from tests for job retention because information concerning the fate of former managers is not obtainable from either the *Register* or the *Wall Street Journal Index*. The distribution of job retention for these missing observations may not be the same as for the rest of the sample.

IV. Conclusions

This study examines the preferences for receiving stock by managers who desire to maintain influence in combined firms after acquisitions. One reason why managers value influence is its impact on job retention after acquisitions. The results show that (1) acquisitions for stock are associated with high managerial ownership of target corporations and (2) job retention by target firm managers is more common following acquisitions for stock. The data also show that target firm managerial ownership is even more important than that of acquirers in explaining the method of payment. If managers with high ownership in targets negotiate for stock to obtain influence in combined firms, their pro forma ownership in the combined firms after acquisitions should also explain the method of acquisition. We test this possibility using NEWOWN, a variable that combines both managerial ownership in the target and relative target size, and find the variable to be significant.

Additional tests control for size, the desire to minimize taxable gains, and the effect of friendly versus hostile acquisitions. The general tenor of results remains unchanged after considering these variables.

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