1994, 109(1): 27-54. (Reprinted with permission of the *Quarterly Journal of Economics*.)

Employee Stock Ownership and Corporate Control: An Empirical Study, by Upinder S. Dhillon and Gabriel G. Ramirez (State University of New York-Binghamton)

This study reexamines the wealth and corporate control effects of employee stock ownership plans (ESOPs) and finds that the adoption of an ESOP is in general associated with positive wealth effects. However, the *Polaroid* court ruling significantly changed the market's perception by enhancing the antitakeover role of ESOPs. A significant negative market response is found only after the court ruling. Analysis of speculation and bid activity initiated after an ESOP adoption shows a significant decline in takeover-related activity following the court decision. Regression analysis corroborates this evidence. Consistent with Stulz [*Journal of Financial Economics*, 1988, 20: 22-54] and Harris and Raviv [*Journal of Financial Economics*, 1988, 20: 55-86], the results also suggest a non-monotonic relationship between firm value and managerial ownership. The results support the Scholes and Wolfson [*Financial Management*, 1990, 49: 12-28] hypothesis that ESOPs are not primarily implemented for tax advantages. *Journal of Banking and Finance*, January 1994, 18(1): 9-26. (Reprinted with permission of North-Holland Publishing Company.)

Pension Fund Accounting

Incentives and Disincentives for Financial Disclosure: Voluntary Disclosure of Defined Benefit Pension Plan Information by Canadian Firms, by Thomas William Scott (University of Alberta)

Understanding managers' incentives to disclose information voluntarily has been described as "the quintessential accounting problem" (Verrecchia 1990a, 245). In contrast to economic consequences (positive) theories, Leftwich (1990, 41) states that "there are few empirical investigations of the effect of an information role on accounting choice" and that "information economics has yet to yield a set of empirically testable propositions." This study addresses this empirical deficiency by testing hypotheses developed from two disclosure theories by examining Canadian firms' voluntary disclosure of defined benefit pension plan (DBPP) information.

First, Verrecchia's (1983) proprietary cost theory states that the incentive to disclose information is a decreasing function of the potential proprietary costs attached to a disclosure and an increasing function of the favorableness of the news in a disclosure. Second, Diamond (1985) explains firms' voluntary disclosures through information cost savings. He shows that if a firm commits to a policy of disclosing relevant information, it will preempt investors' private information search activity. This provides a pareto improvement through lower overall information production costs.

This study demonstrates the proprietary cost implications and valuation relevance of pension disclosures and then develops hypotheses and empirical surrogates for proprietary costs and private information acquisition cost savings in this setting. The results are consistent with the proprietary cost theory but are equivocal with respect to the information cost savings hypothesis. Proprietary costs mitigate the adverse selection argument in favor of full disclosure; moreover, the disclosures are conditioned on the favorableness of the news. Proxies representing proprietary costs related to labor are negatively associated with firms' DBPP disclosures. *Accounting Review,* January 1994, 69(1): 26-43. (Reprinted with permission of the *Accounting Review.*)

An Investigation of the Market Effects of Overfunded Pension Plan Termination, by Su-Jane Hsieh and Kenneth R. Ferris (San Francisco State University)

Corporate pension plans are of interest to both accounting and finance researchers. Investigative issues include the appropriate accounting for pension fund surpluses and deficits, the appropriate accounting for plan curtailment and termination, the ownership of plan surpluses, the optimal timing and reasons for plan termination, and the securities market response to the funding status and termination of these plans.

This study investigates the effect of excess asset reversion on the market wealth of two classes of security holders in the corporate plan sponsor, namely bondholders and stockholders. By analyzing both bond and stock return data around the termination announcement, a more complete analysis of the securities market response to this economic event is possible.

Using data for a sample of 34 overfunded plan terminations from the period 1980 to 1985, our findings indicate that significant positive abnormal returns accrue to *both* bondholders and stockholders, but *only* when the corporate sponsor experiences an adverse change in financial condition. This finding suggests several inferences. First, the marginal value of reverted excess pension assets is apparently highest for sponsors experiencing financial adversity. Second, because abnormal returns were not observed for all plan terminations, the value of the reverted assets for sponsors experiencing no adverse change in financial condition must have been previously impounded in security prices. And third, because both classes of security holders experienced wealth gains when the sponsor faced financial adversity, the termination event apparently yielded an increase to the sponsor's total firm value. Thus, the observed gains cannot be attributed to a wealth transfer between the two classes of security holders. *Journal of Accounting, Auditing and Finance,* Winter 1994, 9(1): 61-90. (Reprinted with permission of Greenwood Publishing Group, Inc.)