

Two-Sided Information Dissemination in Takeovers: Disclosure and Media

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Abstract : Purpose: This paper analyzes a target firm's decision to voluntarily disclose information during a takeover event and the effect of such disclosures on the outcome of the takeover. Such voluntary disclosures especially in the form of earnings forecasts made around takeover events may affect shareholders' decisions about the target firm's value and in return takeover result. This study aims to shed light on this question. Design/methodology/approach: The paper tries to understand the role of voluntary disclosures by target firms during a takeover event in the likelihood of takeover success both theoretically and empirically. A game-theoretical model is set up to analyze the voluntary disclosure decision of a target firm to inform the shareholders about its real worth. The empirical implication of model is tested by employing binary outcome models where the disclosure variable is obtained by identifying the target firms in the sample that provide positive news by issuing increasing management earnings forecasts. Findings: The model predicts that a voluntary disclosure of positive information by the target decreases the likelihood that the takeover succeeds. The empirical analysis confirms this prediction by showing that positive earnings forecasts by target firms during takeover events increase the probability of takeover failure. Overall, it is shown that information dissemination through voluntary disclosures by target firms is an important factor affecting takeover outcomes. Originality/Value: This study is the first to the author's knowledge that studies the impact of voluntary disclosures by the target firm during a takeover event on the likelihood of takeover success. The results contribute to information economics, corporate finance and M&As literatures.

Keywords : takeovers, target firm, voluntary disclosures, earnings forecasts, takeover success

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