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The Effect of Ownership Structure on Long-Term Performance Following Takeovers

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We study the long-term operating performance of firms that engage in corporate takeovers and the influence of ownership structure of these firms on their performance. Using three different measures of operating performance: pre-tax cash flows, profit margin, and return on assets, we study the post-acquisition operating performance of dual-class firms and unified firms separately, as well as the performance of the whole sample. Our results indicate that the operating performance of unified firms is better than that of dual-class firms in the five years following the takeover. The performance of unified firms does not change after the takeovers. However, the performance of dual-class firms is significantly worse. These results show that moral hazard problems indicated in earlier studies manifest themselves in the long-run performance of these firms. We also find that overall the operating performance of dual-class firms is better when they have high growth opportunities and low information asymmetry.

Field of Research: Finance

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