



The role of the media in corporate governance: Do the media influence managers' capital allocation decisions? ☆



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ABSTRACT

Using 636 large acquisition attempts that are accompanied by a negative stock price reaction at their announcement (“value-reducing acquisition attempts”) from 1990 to 2010, we find that, in deciding whether to abandon a value-reducing acquisition attempt, managers' sensitivity to the firm's stock price reaction at the announcement is influenced by the level and the tone of media attention to the proposed transaction. We interpret the results to imply that managers have reputational capital at risk in making corporate capital allocation decisions and that the level and tone of media attention heighten the impact of a value-reducing acquisition on the managers' reputational capital. To the extent that value-reducing acquisition attempts are more likely to be abandoned, the media can play a role in aligning managers' and shareholders' interests.

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1. Introduction

In an open capital market economy, guided by market signals, firms (and their managers) play an important role in the allocation of capital. Zingales (2000) proposes that the media can also play a role, perhaps positive, perhaps negative, in guiding firms (and their managers) in making capital allocation decisions. Dyck and Zingales (2002) develop this idea more fully. Given that the media collect, aggregate, disseminate, and amplify information, and to the extent that this information affects

managers' reputations, they propose that managers are sensitive to the way in which the media report and comment upon their decisions. Managers may even be sensitive to whether the media reports on their decisions at all. After all, a bad decision that goes unnoticed may be no worse than a good decision that goes equally unnoticed.

In this study, we investigate whether, and to what extent, managers of publicly traded US corporations are sensitive to public news media in making one specific type of capital allocation decision. To wit: the decision of whether to complete or abandon a large proposed corporate acquisition that is accompanied by a negative stock market reaction at the announcement (“value-reducing acquisition attempt”). More specifically, we investigate whether the likelihood that a value-reducing acquisition attempt is abandoned is related to the level of media attention given to the attempt and to the tone of media coverage regarding the acquirer's attempt at the time of the acquisition announcement.

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Studies by Luo (2005), Chen, Harford, and Li (2007), Kau, Linck, and Rubin (2008), and Masulis, Wang, and Xie (2009) report that managers of acquiring firms appear to be influenced by their firms' stock price reactions at the announcement of proposed acquisitions—the more negative the stock price reaction, the greater the likelihood that a proposed transaction will be abandoned. One interpretation of this evidence is that managers “listen to the market” when deciding whether to abandon proposed acquisitions that investors perceive to be value reducing.

The unanswered question is: why do managers listen to the market? Or, more accurately, why do managers *sometimes* listen to the market? We propose that managers suffer a loss in both tangible capital (through their ownership of shares in their firms) and in human capital (through their loss in reputational capital as managers) when a value-reducing acquisition attempt is announced. We also propose that by abandoning the attempt the manager can expect to recover, at least in part, whatever tangible and reputational capital he may have lost at the initial announcement. Thus, the greater the loss in tangible and reputational capital that the manager incurs at the acquisition announcement, the greater the tangible and reputational capital that he expects to recoup at abandonment, and thereby, the more likely that he will be to abandon the proposed transaction.

We further propose that it is through managers' reputational capital that the media play a role in guiding managers' decisions to abandon proposed acquisitions. By reputational capital we have in mind the value to the manager of his future employment opportunities in the managerial labor market.

In the spirit of Dyck, and Zingales (2002), we propose that managers' reputational capital is affected by the media in two ways. First, the media disseminate news of managers' actions and thereby, increase the fraction of participants in the managerial labor market who learn of them. Second, the media characterize managers' actions and thereby, help to shape perceptions of those actions. If so, for a given decline in stock price at acquisition announcement, the manager of the acquiring firm incurs a greater loss in reputational capital when the proposed transaction is widely covered by the media, especially when the announcement is greeted by a more negative tone in the media coverage. Thus, our framework predicts that, in deciding whether to abandon a value-reducing acquisition attempt, a manager is more sensitive to the stock market reaction the higher the level of media attention given to the proposed acquisition. Our analysis further predicts that the manager is even more sensitive to the stock market reaction when the proposed acquisition receives wider media coverage in combination with a more negative tone of the coverage.

We conduct the study using 636 proposed mergers and acquisitions, each with a transaction value of at least \$100 million and each of which was accompanied by a negative stock market reaction at its announcement, that were announced during January 1, 1990 through December 31, 2010. The dependent variable in our analysis is whether the proposed acquisition is abandoned (or not). The key independent variables are the acquirer's stock price

reaction at the announcement, the value of the Chief Executive Officer (CEO)'s share ownership, the level of media attention given to the proposed acquisition, and the tone of media coverage about the proposed acquisition.

The results of this analysis are consistent with the proposition that the level of media attention and the tone of media coverage play an important role in managers' decisions to abandon value-reducing acquisition attempts. To begin, as do others, we find that in a probit analysis, proposed value-reducing acquisitions are more likely to be abandoned the more negative is the stock price reaction at the announcement of the proposed transaction. We further find that when we include the CEO's change in tangible capital, both the stock price reaction and the CEO's change in tangible capital are significantly negatively correlated with the likelihood of acquisition abandonment. The latter result is consistent with the proposition that CEOs are sensitive to the effect of the abandonment decision on their tangible wealth. The continued significance of the stock price reaction alone indicates that the CEO is not only sensitive to the effect on his tangible wealth.

When we include the level of media attention interacted with the announcement-period stock price reaction as our proxy for the effect of the transaction on the CEO's reputational capital, this term enters with a negative and statistically significant coefficient as does the change in the CEO's tangible capital. However, the stock price reaction alone loses its statistical significance. The loss of significance of the stock price reaction alone in combination with the significance of the interaction term is consistent with the notion that it is the CEO's concern with the effect of the abandonment decision on his tangible and reputational capital that induces him to listen to the market.

When we include the three-way interaction of the level of media attention, the negative tone of the media coverage, and the stock price reaction, the coefficient of this variable is negative and significant as is the coefficient of the change in the CEO's tangible capital. However, neither the two-way interaction of the level of media attention and stock price reaction nor the two-way interaction of the tone of media coverage and the stock price reaction is statistically significant. The lack of statistical significance of the two-way interaction terms in combination with the negative significance of the three-way interaction term implies that it is not the level of media attention nor the tone of the media coverage, per se, that are important, but rather whether the negative tone of the coverage is widely disseminated.

In sum, the results of our tests are consistent with the hypothesis that managers “listen to the market” when it is in their best interests to do so, and it is in their best interests to do so when they have more capital, both tangible and reputational, at risk.

Narrowly interpreted, the results of our study indicate that corporate managers are sensitive to the media when considering whether to abandon large acquisition attempts to which the stock market reacts unfavorably. In particular, the greater the media attention given to the potential acquirer and the more negative the tone of media coverage about the proposed acquisition, the greater the

likelihood that managers will reverse decisions that market participants deem to be contrary to shareholder value maximization.

From a broader perspective, assuming that good corporate governance means that managers make decisions that increase shareholder wealth, our results imply that the media can play a positive role in corporate governance. In that regard, our results reinforce earlier evidence on this point by Farrell and Whidbee (2002), Dyck, Volchkova, and Zingales (2008), and Joe, Louis, and Robinson (2009).

The remainder of the paper is organized as follows. The next section provides a review of certain related literature, presents a model of the acquiring manager's decision to abandon a proposed transaction, and discusses testable implications of the model. Section 3 describes the sample and gives the sources of the data used in the empirical analysis. Section 4 presents the empirical results. We comment on our results in Section 5. Section 6 presents robustness tests. We are particularly sensitive to the potential endogeneity in our tests. To address this concern, we re-estimate the probits using instrumental variables for media attention and tone. The results continue to support the key propositions. Section 7 summarizes the study and concludes.

2. Related literature and model development

2.1. The decision to abandon a proposed acquisition

Studies by Luo (2005), Chen, Harford, and Li (2007), Kau, Linck, and Rubin (2008), and Masulis, Wang, and Xie (2009) report that managers' decisions to abandon proposed corporate acquisitions are correlated with the stock price reaction to the announcement of the proposed transaction, especially when the stock price reaction is negative. One interpretation of the correlation between the stock price reaction and the abandonment of an acquisition attempt is that managers "listen to the market" when deciding whether to abandon their proposed acquisitions.

But why do managers listen to the market? Presumably, they do so because it is in their self-interest. Managers have both tangible capital at risk because of their ownership of shares in the firm and human capital at risk because of their reputational capital as managers—their employment and wages in the future depend upon the perceptions of their skill by the managerial labor market (Fama, 1980; Fama and Jensen, 1983). Presumably, a proposed acquisition that generates a more negative stock market reaction imposes greater penalties on both the tangible and reputational capital of the acquiring firm's manager. But once the announcement of the acquisition has been made, those penalties have already been incurred; they are sunk costs.

At that point, a new dynamic confronts the manager. The question then is, what happens if I reverse the decision? An embedded presumption in the conclusion that "managers listen to the market" is that upon abandonment of the proposed transaction, the stock price reaction at the initial announcement will be reversed, thereby restoring, at least to some extent, both the

manager's tangible and reputational capital. If so, managers are more likely to abandon proposed acquisitions that generate more negative stock market reaction at the announcement because of greater losses in tangible and reputational capital that they expect to recoup at the abandonment of the proposed transactions.

The fly in the ointment is that not every proposed acquisition with a negative stock price reaction is abandoned. Arguably, this is because managers also receive certain unobservable (i.e., private) benefits as a result of completing the acquisition (see, for example, Jensen, 1986; Morck, Shleifer, and Vishny, 1989; among others). Therefore, in deciding whether to abandon an acquisition attempt that is perceived negatively by investors, the manager weighs the private benefits of completing the transaction against his loss in tangible capital and in reputational capital that occurred at the transaction announcement (and that he hopes to recoup should the transaction be abandoned). When the manager's losses in tangible and reputational capital outweigh his gains in private benefits, he will choose to abandon the proposed acquisition in hopes of recovering his losses. Otherwise, he will complete the transaction.

We can formalize the manager's decision as:

$$\text{If } \Delta\text{Private benefits} + \Delta\text{Tangible capital} + \Delta\text{Reputational capital} < 0, \text{ then abandon,} \quad (1)$$

where $\Delta\text{Private benefits}$ is the change in the private benefits to the manager as a result of the proposed acquisition, $\Delta\text{Tangible capital}$ is the change in the value of his shares in the firm due to the announcement of the proposed acquisition, and $\Delta\text{Reputational capital}$ is the change in his reputational capital as a result of the announcement of the proposed transaction.

In words: after the announcement of the acquisition, the manager of the acquiring firm, call him the CEO, will choose to abandon the proposed acquisition if, as a result of the announcement of the acquisition, the change in private benefits to him plus the change in the value of his ownership in the shares of the company plus the change in his reputational capital is negative. In contrast, he will choose to complete the proposed transaction if the sum of the three terms in Eq. (1) is positive. Thus, according to Eq. (1), holding constant the CEO's change in private benefits, a value-reducing acquisition attempt is more likely to be abandoned the more negative are the changes in the CEO's tangible and reputational capital.

2.2. Reputational capital

The component in Eq. (1) of primary, but not exclusive, interest in this study is the CEO's change in reputational capital as a result of the announcement of the proposed acquisition. We propose that it is through this term that the media can influence the CEO's decision, and it is through this term, at least in this stylized model, that the media can play a role in corporate governance. To empirically examine this proposition, we borrow from Dyck, Volchkova, and Zingales (2008).

Dyck, Volchkova, and Zingales (2008) present a model in which a manager's reputational capital is affected by the

media in two ways. First, the media disseminate news of the manager's actions and thereby increase the extent to which participants in the managerial labor market learn about the manager's actions. Second, the media characterize the manager's actions (in their words, "slant" the coverage) and thereby help to shape perceptions of those actions. We adapt their model in two steps. To begin, we assume that the effect of a proposed acquisition on the manager's reputational capital depends upon the extent to which participants in the managerial labor market learn about that decision. We can then rewrite Eq. (1) as:

If $\Delta\text{Private benefits} + \Delta\text{Tangible capital}$

$$+F_{\text{labor market}} \times \Delta\text{RC}_{\text{full information}} < 0, \text{ then abandon,} \quad (2)$$

where $F_{\text{labor market}}$ is the fraction of participants in the managerial labor market who learn about the CEO's acquisition attempt and $\Delta\text{RC}_{\text{full information}}$ is the change in reputational capital when *all* participants in the managerial labor market learn about the CEO's acquisition attempt. Eq. (2) gives rise to our first prediction:

H1. In deciding whether to abandon a value-reducing acquisition attempt, a CEO is more likely to abandon the proposed transaction the more negative is the change in the CEO's tangible capital at the announcement of the transaction.

We propose that $\Delta\text{RC}_{\text{full information}}$ is a positive function of the change in stock price at the announcement of the proposed acquisition. If so, Eq. (2) predicts that a CEO is more sensitive to the stock market reaction the larger is the fraction of participants in the managerial labor market who learn of the acquisition attempt. For empirical purposes, we use the level of media attention given to the proposed transaction as a proxy for the fraction of participants in the managerial labor market who learn of the acquisition attempt. More precisely, Eq. (2) gives rise to our second prediction:

H2. In deciding whether to abandon a value-reducing acquisition attempt, a CEO is more sensitive to the stock market reaction the greater the level of media attention given to the proposed transaction.

To incorporate the second prong of the [Dyck, Volchkova, and Zingales \(2008\)](#) paradigm, we propose that the media also play a role in characterizing the CEO's actions and thereby shaping managerial labor market participants' perceptions about the proposed acquisition. In particular, for acquisition attempts that are accompanied by a negative stock market reaction, a more negative tone of media coverage can amplify the negative impact of the stock price reaction on the managerial labor market's perceptions about the CEO's acquisition attempt. We characterize the change in the CEO's reputational capital due to the announcement of the acquisition attempt as a function of the product of the tone of media coverage about the proposed transaction and the change in share price at the announcement of the proposed acquisition.

We can then rewrite Eq. (2) as:

If $\Delta\text{Private benefits} + \Delta\text{Tangible capital}$

$$+F_{\text{labor market}} \times f_{\Delta\text{RC}} \left(\text{Media tone} \times \frac{\Delta p}{p} \right) < 0, \text{ then abandon,} \quad (3)$$

Eq. (3) gives rise to our third prediction:

H3. In deciding whether to abandon a value-reducing acquisition attempt, a CEO is more sensitive to the stock market reaction when the proposed acquisition receives a higher level of media attention in combination with a more negative tone of media coverage.

3. Data and descriptive statistics

3.1. Value-reducing acquisition attempts

We obtain our initial sample of proposed acquisitions from the Thomson Financial Securities Data Company's (SDC) US Mergers and Acquisitions Database. We begin with all transactions classified as a "merger," "acquisition," or "acquisition of a majority interest" that were announced between January 1, 1990 and December 31, 2010.

To be included in the sample for analysis: (1) the proposed acquirer must own less than 50% of the target firm's shares prior to the announcement of the acquisition attempt and must seek to own 100% of the target firm's shares as a result of the acquisition; (2) the proposed transaction must have a value of at least \$100.0 million; (3) the proposed transaction value must amount to at least 10% of the market value of the acquirer's equity 43 trading days prior to the announcement; (4) the target firm must not be in the financial services industry nor be a public utility (Standard Industrial Classification (SIC) codes 4900–4999 and 6000–6999); (5) the acquisition attempt must be classified as "completed" or "withdrawn;" (6) the potential acquirer and the target must both be publicly traded US firms with stock price data available on the Center for Research in Security Prices (CRSP) as of the announcement date of the proposed acquisition and as of 43 trading days prior to the announcement; and (7) data on stock ownership of the acquiring firm's CEO and the composition of the acquirer's board of directors must be available from the firm's proxy statement immediately prior to the announcement of the proposed acquisition.

These criteria produce a set of 1,074 entries. We research each entry using Dow Jones News Service (DJNS) to verify the announcement dates given in SDC. For 63 entries, we cannot verify the announcement date and two entries were Pac-man offers.¹ We drop these from the analysis resulting in 1,009 acquisition attempts.

Further, to identify value-reducing acquisition attempts, we require the acquiring firm's cumulative abnormal returns (CAR) at the announcement, defined as the sum of the

¹ A Pac-man offer is a defensive tactic used by a target firm in a hostile takeover situation. In a Pac-man defense, the target firm turns around and tries to acquire the other company that has made the hostile takeover.

Table 1

Distribution of acquisition attempts across years and industries.

The table presents the distribution of acquisition attempts across years in Panel A and across industries in Panel B for a sample of 636 value-reducing US acquisition attempts announced over the period January 1, 1990 to December 31, 2010 drawn from the Thomson Financial SDC Mergers and Acquisitions database.

Panel A: Distribution of acquisition attempts across years					
Year	Completed	Abandoned	Total	% Of acquisition attempts	% Abandoned
1990	9	2	11	1.7%	18.2%
1991	7	0	7	1.1%	0.0%
1992	7	1	8	1.3%	12.5%
1993	7	3	10	1.6%	30.0%
1994	15	10	25	3.9%	40.0%
1995	33	5	38	6.0%	13.2%
1996	33	14	47	7.4%	29.8%
1997	50	9	59	9.3%	15.3%
1998	52	10	62	9.7%	16.1%
1999	43	14	57	9.0%	24.6%
2000	57	10	67	10.5%	14.9%
2001	27	6	33	5.2%	18.2%
2002	15	2	17	2.7%	11.8%
2003	18	4	22	3.5%	18.2%
2004	21	4	25	3.9%	16.0%
2005	31	4	35	5.5%	11.4%
2006	22	7	29	4.6%	24.1%
2007	21	5	26	4.1%	19.2%
2008	16	8	24	3.8%	33.3%
2009	20	0	20	3.1%	0.0%
2010	11	3	14	2.2%	21.4%
Total	515	121	636		
% Of total	81.0%	19.0%	100.0%		

Panel B: Distribution of acquisition attempts across industries					
Industry description	SIC2	N	% Of acquisition attempts	% Abandoned	
Business services	73	131	20.6%	9.2%	
Communications	48	52	8.2%	15.4%	
Chemicals and allied products	28	52	8.2%	7.7%	
Industrial machinery & equipment	35	52	8.2%	25.0%	
Electronic & other electric equipment	36	49	7.7%	30.6%	
Instruments & related products	38	47	7.4%	25.5%	
Oil and gas extraction	13	36	5.7%	19.4%	
Health services	80	25	3.9%	20.0%	
Wholesale trade-nondurable goods	51	15	2.4%	13.3%	
Transportation equipment	37	14	2.2%	28.6%	
Food and kindred products	20	12	1.9%	16.7%	
Others (less than 2% of the sample attempts)		151	23.7%	24.5%	
Total		636	100.0%	19.0%	

differences between the acquiring firm's daily stock returns and the CRSP value-weighted market returns over the three-day interval around the announcement of the proposed transaction, be less than zero. This process results in a set of 636 acquisition attempts announced by 537 firms.

Table 1 gives the time series and industry composition of the acquisition attempts according to the primary industry of the acquiring firm. Panel A reports the distribution of attempts across years; Panel B shows the distribution across industries. Of the 636 attempts, 121 (19.0%) are abandoned. The annual rates of abandonments are reasonably evenly distributed through time. Over the 10 years of 1990–1999, 20.0% of the attempts are abandoned; over the 11 years of 2000–2010, 17.1% of the attempts are abandoned. The proposed acquirers come from 51 different two-digit SIC industries. As a percentage of the proposed transactions, abandoned acquisition attempts are evenly distributed across industries.

3.2. Key independent variables

Our key independent variables are *CAR*, the dollar change in market value of shares owned by the potential acquirer's CEO (Δ Tangible capital), the level of media coverage given to the potential acquirer's proposed acquisition (*Media attention*), and the tone of media coverage about the proposed acquisition at the time of its announcement (*Media tone*).

3.2.1. Change in the value of CEO ownership

We gather annual CEO ownership data from the Standard & Poor's ExecuComp database as of the beginning of the year in which the proposed transaction is announced. If CEO stock ownership is not available in ExecuComp, we manually collect it from the acquiring firm's proxy statement immediately prior to the announcement using either the SEC's EDGAR or the Thomson ONE Banker databases. We measure

the value of CEO ownership as the number of shares that the CEO owns in the firm times the stock price of the firm 43 trading days prior to the announcement. We measure the dollar change in market value of shares owned by the potential acquirer's CEO (Δ Tangible capital) as the product of CAR and the value of CEO ownership.

3.2.2. Media attention

To generate our measure of the level of media attention, for each acquiring firm, we collect firm-specific news stories about the firm's acquisition attempt from three sources using the Factiva database. We use two influential daily newspapers with nationwide (and, indeed, international) circulation: the Wall Street Journal (*WSJ*) and the New York Times (*NYT*). With daily hard copy circulation of three million plus online subscribers, these two newspapers are estimated to account for around 3% of total daily newspaper circulation in the US as of March 11, 2011.² The third source is the DJNS. The DJNS is an online news service that independently reports business news stories. As of July 2011, the DJNS reports having more than 600,000 subscribers including brokers, traders, analysts, world leaders, finance officials, and fund managers, plus many libraries.

To search for firm-specific news stories about the acquisition attempt, we use the Factiva company name search function to identify the formal name of each potential acquirer and target firm (including the firm's organization type, such as "Inc.," "Corp.," or "Ltd.>"). We characterize the firm's name excluding its organization type as its popular name. We use both names to search the Factiva database for news stories. To qualify as a firm-specific news story about the firm's acquisition attempt, a story must meet certain criteria. These criteria are designed to eliminate stories in which the firm is merely named as part of a table or list, but provide no qualitative information about the firm. Similar to Tetlock, Saar-Tsechansky, and Macskassy (2008), we require that the story give the acquiring firm's formal name at least once within the first 25 words, including the headline, and the acquiring firm's popular name at least twice within the full news story. Additionally, we require that each news story contain at least 50 words and the target firm's official name at least once.

We measure the level of media attention given to a potential acquirer's acquisition attempt by counting the number of firm-specific news stories about the firm's attempt over the ten calendar days beginning with the announcement day of the proposed transaction.

3.2.3. Media tone

We are also interested in the tone of firm-specific news stories about the acquisition attempt immediately following the announcement of the proposed transaction. To capture the tone of these stories, we use the Loughran and McDonald (2011) dictionary to identify negative words in a financial context. To measure the tone of the stories, we count the number of negative words in these stories over

the ten calendar days beginning with the announcement date of the proposed transaction. We use the negative words as a percentage of total words as our measure of the tone of the news stories.³

3.3. Control variables

To isolate the impact of the media on the acquiring managers' decision to abandon a proposed acquisition, we control for other variables that the following prior studies have shown to be correlated with the likelihood that a proposed transaction will be abandoned. The source of the data and the way in which each variable is calculated are given in Table A1.

Jennings and Mazzeo (1991) report that the likelihood of transaction abandonment is negatively correlated with the percentage premium offered for the target firm's shares (*PO*) and with the change in the target firm's share price normalized by the premium offered for the target firm's shares (*TNPR*).

Paul (2007) finds that firms with more independent boards (*Board independence*) are more likely to abandon attempted acquisitions to which the capital market reacts negatively. Jennings and Mazzeo (1991) and Kau, Linck, and Rubin (2008) find that the acquirer's "toehold" ownership of the shares of the target firm (*Toehold*) is negatively correlated with the likelihood of abandonment of the transaction.

Walking (1985), Jennings and Mazzeo (1991), Kau, Linck, and Rubin (2008), and Masulis, Wang, and Xie (2009) report that the emergence of a competing acquirer (*Competing dummy*) is positively correlated with the likelihood of transaction abandonment. Walking (1985) and Kau, Linck, and Rubin (2008) find that when the target firm undertakes defensive tactics to fend off an unwanted acquisition attempt (*Defense dummy*), the transaction is more likely to be abandoned.

Bates and Lemmon (2003) and Kau, Linck, and Rubin (2008) report that the initiation of litigation regarding the proposed acquisition (*Litigation dummy*) increases the likelihood of transaction abandonment, while a receptive "attitude" on the part of the target (*Friendly dummy*), the presence of termination fees (*Termination fee dummy*), and tender offers (*Tender offer dummy*) all decrease the likelihood of abandonment. Huang and Walking (1987) and Kau, Linck, and Rubin (2008) find that when the proposed method of payment includes stock of the acquiring firm (*Stock dummy*), the transaction is more likely to be abandoned.

Burch (2001) and Kau, Linck, and Rubin (2008) report that when the proposed transaction includes an option for the acquirer to purchase shares at a fixed price even if a competing offer emerges (*Lockup dummy*), the acquisition attempt is less likely to be abandoned. Luo (2005) and Masulis, Wang, and Xie (2009) report that the size of the

² Audit Bureau of Circulations. <http://abcas3.accessabc.com/ecirc/newstitlesearchus.asp>.

³ Implicitly, we are assuming that all negative words in the dictionary are equally informative and that other words are uninformative. These assumptions are consistent with a large body of literature in psychology which argues that negative information has more impact and is more thoroughly processed than positive information across a wide range of contexts (Baumeister, Bratslavsky, Finkenauer, and Vohs, 2001; Rozin and Royzman, 2001).

transaction relative to the acquirer's market equity capitalization (*Relative transaction value*) is positively correlated with the likelihood of abandonment of the proposed acquisition. Chen, Harford, and Li (2007) and Kau, Linck, and Rubin (2008) find that the larger the market capitalization of the equity of the potential acquirer (*Log size*), the less likely the transaction is to be abandoned.

These are the control variables used in the analyses that follow. Given the framework of our analysis, arguably, there are other variables that could be relevant. These are the traditional proxies for corporate governance such as board size, board independence, CEO duality, institutional ownership, blockholder ownership, and others. We do consider these. However, Paul (2007) and Kau, Linck, and Rubin (2008) study these variables in detail and, with the exception of board independence, find no significant correlation between them and the likelihood that a proposed acquisition is abandoned. Therefore, we defer analyses of these to Section 5.

3.4. Summary statistics

Table 2 presents summary statistics of the control variables for the set of abandoned and completed acquisition attempts along with statistical tests as to whether the means and medians are different between the two groups. The statistical tests can be thought of as univariate tests of the importance of the control variables.

Certain of the statistics in Panel A of Table 2 merit comment. Acquirers that complete their attempts have significantly larger equity market capitalization than those that abandon attempts. However, both sets of firms are large with average equity market value of \$7.8 billion for those that complete their attempts and \$6.0 billion for those that abandon theirs. Perhaps a more meaningful

consideration is the relative size of the transactions. On average, in abandoned attempts, the transaction value is 114% of the equity market value of the potential acquirer; in completed attempts, the value of the transaction is only 63% of the market value of the acquirer. Consistent with Luo (2005), on average, the premiums offered (*PO*) to the target firms are significantly smaller for acquirers that abandon their attempts than for those that complete them.

As regards the indicator variables in Panel B of Table 2, the presence of competition for the target is associated with a significantly higher likelihood of abandonment. In acquisition attempts that are abandoned, a competitor for the target is present 38% of the time; in attempts that are completed, a competitor is present only 6% of the time.

Regarding the attitude indicator (*Friendly dummy*), of transactions that are completed, over 97% are classified as friendly; of those that are abandoned, only 59% are classified as friendly. Moreover, acquisition attempts with the target employing a defensive tactic, with the acquirer obligated to pay a termination fee, and with the attempt being financed with stock are significantly less likely to be abandoned (12% vs. 22%, 29% vs. 17%, 74% vs. 63%).

As we will see later, some of these variables show up as significant in multivariate tests, thus confirming the results of prior studies. However, certain of the variables that were significant in prior studies do not show up as significant here. Table A2 reports the correlation matrix of the independent variables.

4. Empirical results

In this section, we examine whether the predictions from Eq. (3) are supported by the data. More precisely, we

Table 2
Descriptive statistics.

The table presents descriptive statistics for a sample of 636 value-reducing US acquisition attempts announced over the period January 1, 1990 to December 31, 2010 drawn from the Thomson Financial SDC Mergers and Acquisitions database. Panels A and B describe the mean and median for acquirer- and transaction-specific characteristics, respectively, both for the whole sample as well as for completed and abandoned acquisition attempt. All variables are defined in Table A1. Statistical tests for differences in means and equality of medians for each characteristic for completed versus abandoned acquisitions are also presented. ***, **, and * indicate significance at 1%, 5%, and 10%, respectively.

	Full sample (N=636)		Completed (N=515)		Abandoned (N=121)		Difference	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median
<i>Panel A. Acquirer and acquisition attempt characteristics</i>								
Acquirer size (in \$ millions)	7,524.49	1,466.83	7,867.05	1,636.98	6,066.49	954.96	1,800.56	682.02***
Target size (in \$ millions)	1,739.94	399.13	1,697.12	393.00	1,922.19	484.72	-225.06	-91.72
Transaction value (in \$ millions)	2,780.99	693.31	2,763.35	688.62	2,856.08	708.19	-92.72	-19.57
Relative transaction value (%)	72.98	44.75	63.12	40.99	114.97	75.90	-51.85***	-34.91***
Toehold (%)	0.68	0.00	0.59	0.00	1.03	0.00	-0.44	0.00
Board independence (%)	76.80	80.00	76.67	80.00	77.38	80.00	-0.71	0.00
PO (Premium offered) (%)	74.51	62.91	78.23	65.12	58.72	46.29	19.50***	18.83***
TNPR (Target normalized price reaction) (%)	46.32	38.37	44.98	39.17	52.04	31.20	-7.06	-7.97
<i>Panel B. Percentage of acquisition attempts with the following features (in %)</i>								
Compete dummy	0.12	-	0.06	-	0.38	-	-0.32***	-
Defense dummy	0.14	-	0.12	-	0.22	-	-0.10***	-
Litigation dummy	0.07	-	0.06	-	0.10	-	-0.04	-
Friendly dummy	0.90	-	0.97	-	0.59	-	0.39***	-
Termination fee dummy	0.11	-	0.29	-	0.17	-	0.11***	-
Tender offer dummy	0.16	-	0.17	-	0.16	-	0.01	-
Stock dummy	0.72	-	0.74	-	0.63	-	0.11**	-
Lockup dummy	0.02	-	0.02	-	0.03	-	-0.01	-

Table 3

Univariate analysis.

The table presents univariate analysis of our key independent variables for a sample of 636 value-reducing US acquisition attempts announced over the period January 1, 1990 to December 31, 2010 drawn from the Thomson Financial SDC Mergers and Acquisitions database. The table describes the mean and median of CAR, CEO ownership, Δ Tangible capital, Media attention, and Media tone, both for the whole sample and for completed and abandoned acquisition attempt. All variables are defined in Table A1. Statistical tests for differences in means and equality of medians for each variable for completed versus abandoned acquisitions is also presented. ***, **, and * indicate significance at 1%, 5%, and 10%, respectively.

	Full sample (N=636)		Completed (N=515)		Abandoned (N=121)		Difference	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median
CAR (%)	-7.77	-5.85	-7.55	-5.72	-8.73	-6.77	1.18*	1.05*
CEO ownership (in \$ millions)	172.79	8.67	98.89	8.31	487.35	10.74	-388.46***	-2.43
Δ Tangible capital (in \$ millions)	-14.59	λ -0.43	-5.86	-0.42	-51.76	-0.50	45.90***	0.08*
Media attention	4.67	3.00	4.01	3.00	7.51	5.00	-3.50***	-2.00***
Media tone	5.19	4.98	5.17	4.96	5.28	4.99	-0.12	-0.03

are conducting joint tests of the predictions from Eq. (3) and whether our proxies for the economic factors in Eq. (3) capture the relationships of interest.

Assuming that changes in the CEO's private benefits are constant across all potential acquisitions, Eq. (3) predicts that in deciding whether to abandon a value-reducing acquisition attempt:

H1. A CEO is more likely to abandon the proposed transaction the more negative is the change in the CEO's tangible capital at the announcement of the transaction.

H2. A CEO is more sensitive to the stock market reaction the greater the level of media attention given to the proposed transaction.

H3. A CEO is more sensitive to the stock market reaction when the proposed acquisition receives a higher level of media attention in combination with a more negative tone of media coverage.

4.1. Univariate analysis of key independent variables

We start by considering univariate comparisons of the key explanatory variables. The data are presented in Table 3. The mean and median CARs are -8.73% and -6.77%, respectively, for abandoned attempts and -7.55% and -5.72% for completed attempts. Interestingly, as shown in the second row of the table, mean and median CEO ownership of shares (i.e., tangible capital) is greater in transactions that are abandoned (i.e., \$487.4 million and \$10.7 million) than in transactions that are completed (i.e., \$98.9 million and \$8.3 million). Ignoring other factors, this suggests that CEOs with more tangible capital at risk are more sensitive to the negative stock price reaction at the announcement of proposed acquisition attempts than are those with less. For our hypothesis, of course, it is the interaction of CAR and CEO tangible capital that is of importance. That is, it is the change in the CEO's tangible capital that is of concern. As shown in row 3, the average announcement-period change in CEO's tangible capital for abandoned deals is -\$51.8 million and the median is -\$0.5 million. In deals that are completed, these are -\$5.9 million and -\$0.4 million. Again, ignoring other factors, for value-reducing acquisitions, both the mean and median changes in tangible capital are significantly more

negative for attempted acquisitions that are abandoned than those that are completed.

For completeness, we also give the mean and median level of *Media attention* and *Media tone*. The differences themselves in these variables for abandoned and completed transactions are not our concern; rather it is their interactions with CAR that are of interest. Nevertheless, both the mean and the median levels of *Media attention* are significantly greater for value-reducing attempts that are abandoned than for those that are completed. The mean and the median *Media tone* are both more negative for attempts that are abandoned than for those that are completed, but not statistically significantly so.

4.2. Probit regressions of acquisition attempt abandonments

4.2.1. Acquirer's CAR

We now evaluate our hypotheses controlling for other factors in multivariate probit analyses. We first examine the relation between the likelihood of acquisition attempt abandonment and the acquiring firm's stock price reaction at the announcement of the acquisition attempt (CAR). Specifically, we estimate the following probit:

$$\text{Prob}(\text{Abandonment}) \sim \alpha + \beta \text{ CAR} + \gamma \text{ Control variables} + \delta \text{ Year dummies} + \theta \text{ Industry dummies} + \varepsilon, \quad (4)$$

where the dependent variable equals one for abandoned attempts and zero otherwise. Column 1 of Table 4 reports the results. Consistent with prior studies, the coefficient of the acquirer's CAR is negative and statistically significant (p -value=0.00). In prior studies this relation has been interpreted to mean that managers "listen to the market" in making their acquisition abandonment decisions.

4.2.2. CEO's tangible capital

As expressed in Eq. (3), we propose that it is the CEO's change in capital, both tangible and reputational, that induces him to listen to the market. That is, we propose that it is the change in the CEO's tangible and reputational capital that influences his decision of whether to abandon or proceed with the proposed acquisition. As a first step in empirically assessing our proposition, we re-estimate Eq. (4) but now include the change in the CEO's tangible capital (" Δ Tangible capital") along with the other variables.

Table 4

Probit analysis of acquisition abandonment on CAR, media attention, and media tone.

The table presents results of the cross-sectional probit analysis of transaction abandonment on CAR, Media attention, Media tone, and other control variables for a sample of 636 value-reducing US acquisition attempts announced over the period of January 1, 1990 to December 31, 2010 drawn from the Thomson Financial SDC Mergers and Acquisitions database. The dependent variable is a dummy variable taking the value of one for abandoned acquisition attempts and zero for completed attempts. Variables are defined in Table A1. All regressions control for year and industry fixed effects. The coefficients of the constant, year, and industry dummies are omitted for brevity. The *p*-values are reported in parentheses. ***, **, and * indicate significance at 1%, 5%, and 10%, respectively.

Independent variables	(1)	(2)	(3)	(4)	(5)
CAR	-3.334*** (0.00)	-2.949*** (0.01)	2.918 (0.14)	5.395 (0.13)	-3.146 (0.67)
Δ Tangible capital		-3.541*** (0.01)	-2.964** (0.05)	-3.648*** (0.01)	-4.703** (0.02)
Media attention			0.026 (0.51)		0.365*** (0.00)
CAR \times Media attention			-0.705*** (0.01)		1.366 (0.25)
Media tone				-0.091 (0.21)	0.163 (0.16)
CAR \times Media tone				-1.240** (0.02)	1.072 (0.39)
Media attention \times Media tone					-0.064*** (0.01)
CAR \times Media tone \times Media attention					-0.373** (0.05)
Board independence	0.836 (0.15)	0.735 (0.21)	0.855 (0.16)	0.688 (0.25)	0.715 (0.25)
PO	-0.013 (0.81)	-0.015 (0.80)	-0.009 (0.85)	-0.013 (0.83)	-0.017 (0.73)
TNPR	-0.016 (0.37)	-0.013 (0.49)	-0.010 (0.63)	-0.006 (0.77)	-0.010 (0.62)
Toehold	0.019 (0.37)	0.022 (0.29)	0.025 (0.25)	0.021 (0.33)	0.020 (0.41)
Compete dummy	1.425*** (0.00)	1.461*** (0.00)	1.437*** (0.00)	1.438*** (0.00)	1.513*** (0.00)
Defense dummy	0.428* (0.10)	0.345 (0.20)	0.369 (0.19)	0.379 (0.16)	0.381 (0.19)
Litigation dummy	-0.083 (0.82)	-0.072 (0.84)	-0.051 (0.89)	-0.111 (0.76)	-0.167 (0.66)
Friendly dummy	-2.577*** (0.00)	-2.578*** (0.00)	-2.398*** (0.00)	-2.548*** (0.00)	-2.653*** (0.00)
Termination fee dummy	-0.202 (0.31)	-0.182 (0.37)	-0.339 (0.14)	-0.189 (0.36)	-0.257 (0.27)
Tender offer dummy	-1.545*** (0.00)	-1.561*** (0.00)	-1.462*** (0.00)	-1.542*** (0.00)	-1.691*** (0.00)
Stock dummy	-0.031 (0.89)	-0.013 (0.96)	0.086 (0.72)	-0.027 (0.91)	0.008 (0.97)
Lockup dummy	0.543 (0.25)	0.713 (0.14)	0.917* (0.08)	0.861* (0.09)	0.911* (0.08)
Relative transaction value	0.118 (0.13)	0.113 (0.16)	0.072 (0.43)	0.103 (0.23)	0.068 (0.47)
Log size	-0.194*** (0.00)	-0.216*** (0.00)	-0.357*** (0.00)	-0.223*** (0.00)	-0.354*** (0.00)
Year fixed effect	Yes	Yes	Yes	Yes	Yes
Industry fixed effect	Yes	Yes	Yes	Yes	Yes
Number of observations	636	636	636	636	636
Pseudo-R square (%)	43.7	46.0	51.3	47.1	52.7

The results of this estimation are given in column 2 of Table 4. The coefficient of Δ Tangible capital is negative and statistically significant (*p*-value=0.01). This finding is consistent with the idea expressed in Eq. (3) that for CEOs who have more to gain in terms of tangible capital if the transaction is abandoned, the more likely is the transaction to be abandoned. This interpretation, of course, embeds the presumption that whatever stock price change occurs at the original announcement will be reversed upon the reversal of that announcement. However, the coefficient of the

acquirer's CAR continues to be negative and significant (*p*-value=0.01), suggesting that the CEO's tangible capital is not the only factor that influences his decision to abandon a proposed value-reducing acquisition.

As for the control variables, acquisition attempts in which a competing bidder emerges are more likely to be abandoned whereas friendly attempts, tender offer attempts, and acquisition attempts launched by larger acquirers are less likely to be abandoned. These findings are generally consistent with prior studies.

4.2.3. Media attention

Eq. (3) also predicts that in deciding whether to abandon a value-reducing acquisition attempt, the acquiring firm's CEO is more sensitive to the stock market reaction the greater is the level of media attention given to the proposed transaction. To test this prediction, we estimate the following probit:

$$\begin{aligned} \text{Prob (Abandonment)} \sim & \alpha + \beta_1 \Delta \text{Tangible capital} \\ & + \beta_2 \text{ CAR} + \beta_3 \text{ Media attention} \\ & + \beta_4 \text{ Media attention} \times \text{CAR} + \gamma \text{ Control variables} \\ & + \delta \text{ Year dummies} + \theta \text{ Industry dummies} + \varepsilon, \end{aligned} \quad (5)$$

where the dependent variable equals one for abandoned transactions and zero otherwise. Our primary interest is in the coefficient of the interaction term between the acquirer's stock price reaction at the announcement of the proposed transaction (*CAR*) and the media attention given to the acquirer's proposed transaction around the announcement (*Media attention*).

Column 3 of Table 4 reports the coefficient estimates of the probit regression of Eq. (5). The coefficient of *Media attention* alone is not statistically significant (p -value=0.51). The coefficient of the variable of primary interest in this regression, the interaction term between the acquirer's *CAR* and *Media attention*, is negative and statistically significant (p -value=0.01). This finding is consistent with CEOs being more sensitive to a negative stock market reaction to the announcements of their acquisition attempts the greater is the level of media attention given to the proposed transaction.

As further shown in column 3 of Table 4, when both Δ Tangible capital and the interaction of *CAR* and *Media attention* are included in the regression, the coefficient of the acquirer's *CAR* becomes insignificant (p -value=0.14) and, indeed, contrary to prior studies, takes on a positive sign. Column 3 embeds three notable results. The first two are that, consistent with Eq. (3), the CEO's change in tangible capital and our first proxy for the change in reputational capital associated with the abandonment decision enter as statistically significant with negative coefficients. The third is that the acquirer's *CAR* alone does not. This evidence is consistent with our proposition that CEOs' sensitivity to the stock market reaction to their proposed acquisitions is primarily induced by their concern with the recovery of losses in their personal capital, both tangible and reputational, that were sustained at the initial announcements of the proposed transactions, rather than the stock market reaction per se.

4.2.4. Media attention and media tone

As expressed in Eq. (3), we predict that a CEO is more sensitive to the stock market reaction when the proposed acquisition receives a higher level of media attention in combination with a more negative tone of media coverage. We examine this hypothesis in two steps. We first estimate a probit with a two-way interaction of the acquirer's stock price reaction and the tone of media coverage. We then estimate a probit that directly tests our third prediction by adding a three-way interaction term of the acquirer's stock price reaction, the level of media attention, and the tone of

media coverage. We first estimate:

$$\begin{aligned} \text{Prob (Abandonment)} \sim & \alpha + \beta_1 \Delta \text{Tangible capital} \\ & + \beta_2 \text{ CAR} + \beta_3 \text{ Media tone} + \beta_4 \text{ Media tone} \times \text{CAR} \\ & + \gamma \text{ Control variables} + \delta \text{ Year dummies} \\ & + \theta \text{ Industry dummies} + \varepsilon, \end{aligned} \quad (6)$$

where the dependent variable equals one for abandoned transactions and zero otherwise. The key explanatory variable in this analysis is the interaction term between the acquirer's stock price reaction at the announcement of the proposed acquisition (*CAR*) and the tone of the news stories about the acquisition decision (*Media tone*).

Column 4 of Table 4 reports the coefficient estimates of Eq. (6). As before, the coefficient of the change in the CEO's tangible capital is negative and statistically significant (p -value=0.01) and the coefficient of the stock price reaction alone is not statistically significant (p -value=0.13). Further, the coefficient of the interaction term between the acquirer's *CAR* and *Media tone* is negative and statistically significant (p -value=0.02). This finding is consistent with the idea that CEOs are sensitive to the tone of the media coverage in making their decisions to abandon (or not) value-reducing acquisition attempts.

To directly test our third prediction, we re-estimate Eq. (6) but include the three-way interaction term of the acquirer's stock price reaction at the announcement of the proposed transaction (*CAR*), the level of media attention given to the acquirer's proposed transaction shortly after the announcement (*Media attention*), and the tone of the news stories about the acquisition decision (*Media tone*). We further include two more two-way interaction terms. These are *Media attention* interacted with *CAR* and *Media attention* interacted with *Media tone*.

The results of this estimation are given in column 5 of Table 4. The coefficient of the stock price reaction alone is not statistically significant (p -value=0.67); the coefficient of the CEO's change in tangible capital is negative and significant (p -value=0.02); and the coefficients of the two-way interaction terms *Media Attention* \times *CAR* and *Media tone* \times *CAR* now are not statistically significant (p -values=0.25 and 0.39). Importantly, for our purposes, the coefficient of the three-way interaction term of the acquirer's *CAR*, *Media attention*, and *Media tone* is negative and statistically significant (p -value=0.05).

These findings are consistent with the proposition that, in making decisions to abandon value-reducing acquisition attempts, it is not the tone of the media coverage nor the level of media attention, per se, that affect acquiring CEOs' reputational capital, but whether the negative tone of the coverage is noticed by a larger fraction of the participants in the managerial labor market. The implication is that bad reviews about value-reducing acquisition attempts that go unnoticed are no worse than good reviews that go equally unnoticed.

4.3. The reversal of losses in tangible and reputational capital

Our interpretation of the empirical results rests on the presumption that the CEO expects that the stock price reaction at the announcement of value-reducing acquisition

Table 5

The reversal of stock price at acquisition attempt abandonment.

The table presents stock returns around the abandonment date for a sample of 119 abandoned value-reducing acquisition attempts announced over the period January 1, 1990 to December 31, 2010 drawn from the Thomson Financial SDC Mergers and Acquisitions database. We use the “Withdrawn Date” from the SDC as the abandonment date. Announcement CAR is the cumulative abnormal return of the potential acquirer’s stock in the three-day announcement period (–1, +1) where day 0 is the announcement day. Abandonment CAR is the cumulative abnormal return of the potential acquirer’s stock in the three-day announcement period (–1, +1) where day 0 is the abandonment day. We calculate the acquirer’s daily abnormal return for each day by subtracting the CRSP value-weighted market return from the potential acquirer’s stock return on that day. The *p*-values are reported in parentheses.

	All abandonments	Low announcement CAR	Medium announcement CAR	High announcement CAR
<i>N</i>	121	40	40	41
Announcement CAR	–8.75%	–17.22%	–6.73%	–2.14%
<i>p</i> -value	(0.00)	(0.00)	(0.00)	(0.00)
Abandonment CAR	2.71%	5.71%	1.65%	0.73%
<i>p</i> -value	(0.00)	(0.02)	(0.01)	(0.63)

attempts will be reversed when such attempts are abandoned and that the reversal will reverse his loss in tangible and reputational capital that occurs at the announcement of the proposed transaction. As regards reputational capital, we have in mind the future employment and wages of the CEO. On that point, [Lehn and Zhao \(2006\)](#) report that CEOs who cancel value-reducing acquisition attempts are less likely to be replaced over the subsequent five years than are CEOs who complete value-reducing attempts. That evidence is consistent with the proposition that abandonment of value-reducing acquisition attempts reverses losses in CEOs’ reputational capital that may be associated with such undertakings. As regards tangible capital, in [Table 5](#), we examine proposed acquirers’ CARs over the three-day period surrounding the announcement of the abandonment of the proposed transaction (*Abandonment CAR*). We use the “Withdrawn Date” from SDC as the announcement of the transaction abandonment.

We classify the abandonments, of which there are 121, into three groups according to their acquisition announcement-period CARs (*Announcement CAR*), ranked from most negative (mean CAR = –17.22%) to least negative (mean CAR = –2.14%). Consistent with the presumption that the stock price reaction at the announcement of value-reducing acquisition attempts will be reversed when such attempts are abandoned, across the three groups, the average *Abandonment CAR*s are 5.71%, 1.65%, and 0.73%. That is, the more negative is the *Announcement CAR*, the more positive is the *Abandonment CAR*. The mean *Abandonment CAR*s are statistically significantly positive for the groups with the lowest and second-lowest *Announcement CAR*s (*p*-values = 0.02 and 0.01). The mean *Abandonment CAR* for the group with the least negative *Announcement CAR*s is positive but not statistically significantly different from zero. The mean *Abandonment CAR* for the group with the most negative *Announcement CAR*s is significantly higher than that for the group with the least negative *Announcement CAR*s (*p*-value for the difference = 0.07).

This evidence supports our presumption that CEOs can reasonably expect to recover, at least in part, the losses in tangible capital that they incur at the announcement of value-reducing acquisition attempts by reversing their decisions. Further, to the extent that the stock price reaction at abandonment influences their reputational capital, the *Abandonment CAR*s also are consistent with the reversal of decisions recouping, at least in part,

reputational capital that is lost at the announcement of the proposed transaction.

5. Commentary

5.1. An independent role for the media

In this study we attempt to give substance to the idea that managers listen to the market when making their decisions of whether to abandon (or complete) value-reducing acquisition attempts. In our framework, the media enter the analysis only because of their effect on the manager’s reputational capital, capital that the manager hopes to restore by reversing value-reducing acquisition attempts. We endow the media with the role of amplifying the market’s response through the breadth and tone of their coverage.

A question of potentially equal interest is whether the media, at least in some circumstances, play a role independent of the market’s response to the acquisition attempt. The study of that question goes beyond the primary scope of this study. However, the results of the probit in column 4 of [Table 4](#) shed some light on that question. In particular, when *Media tone* is inserted as a separate variable, the *p*-value of the coefficient is 0.21 suggesting that media slant, in and of itself, does not have a first-order effect on the CEO’s decision.

Another way of considering this question is to consider value-increasing acquisition attempts. If the media play a sufficiently powerful independent role, perhaps a sufficiently negative tone of media coverage can induce the CEO to abandon an acquisition that the market greets with a positive stock price reaction. To consider this possibility, we estimate a probit with a sample of 373 acquisition attempts with positive CARs. The sample is generated using the same criteria as set forth in [Section 3](#). We include in this estimation *Media tone* as a separate independent variable along with CAR, Δ *Tangible capital*, and the control variables included in the probit of column 1 of [Table 4](#).

As with the case of value-reducing acquisition attempts, the coefficient of *Media tone* is not statistically significant (*p*-value = 0.35). These results are far from definitive and our empirical setting is not perfectly suited to exploring whether the media do, in some circumstances, influence managers’ decisions beyond their effect on his measurable reputational capital. Nevertheless, at least with respect to acquisition attempts, the media’s role

appears to be one of amplifying and reinforcing the market's response to those decisions.

5.2. Traditional governance mechanisms

As we noted in Section 3, we include as control variables only those that prior studies have found to be significantly correlated with the likelihood of acquisition abandonment. As we also noted, our framework endows the media with a role in corporate governance that lies outside of (but potentially complementary to) more traditional mechanisms of corporate governance. We do include board independence because Paul (2007) finds that firms with more independent boards are more likely to abandon attempted acquisitions to which the capital market reacts negatively. We do not include board size, CEO duality, institutional ownership, or block ownership because Paul (2007) and Kau, Linck, and Rubin (2008) find these not to be significantly correlated with the likelihood of deal abandonment. However, these studies include the variables as “stand-alone” variables. Our framework can be interpreted to mean that the variables should be included as interactions with CAR to determine whether the media effect is incremental to those of more traditional control mechanisms. The idea is that these factors influence managers' propensity to listen to the market.

To consider the interaction terms, we re-estimate the probits of columns 3 and 5 of Table 4 five times. Each time, we include one governance variable and its interaction with CAR along with all of the other variables in the respective probit. The governance variables are board independence, board size (measured as the number of board members), CEO duality (measured as a dummy variable equal to one when the CEO is also chairman of the board), institutional ownership (measured as the percentage of shares owned by institutional investors as reported by Thomson Reuters), and blockholder ownership (measured as the sum of shares owned by outside shareholders, each of whom owns 5% or more of the acquirer's shares, divided by number of shares outstanding).⁴ In the sixth estimation, we include all of the governance variables and their interactions with CAR along with all of the independent variables.

Several results merit comment. First, in each regression, the sign of Δ Tangible capital is negative with a p -value of less than 0.10. Second, in each of the six regressions corresponding to those in column 3, the sign of the two-way interaction of CAR and Media attention is negative with a p -value of 0.02 or less. Third, in each of the six regressions corresponding to those in column 5, the sign of the coefficient of the three-way interaction of CAR, Media attention, and Media tone is negative, and five of the p -values are less than 0.10. In the other one, the p -value is 0.17. In general, the results of Table 4 are robust to the inclusion of the more traditional measures of governance alone and their interactions with CAR.

⁴ Outside shareholders are shareholders other than employees, former employees, family trusts, company stock ownership plans, and retirement plans. Ownership data are from the acquirer's proxy statements.

Beyond that, of the traditional governance variables, only board independence enters as significant (with a negative sign) and it enters only through its interaction with CAR. The p -values of these interaction terms are 0.07, 0.06, 0.09, and 0.09. This result can be interpreted to mean that managers of firms with a greater fraction of independent directors are more likely to listen to the market. From our perspective, the continued statistical significance of the two-way interaction of CAR and Media attention and the three-way interaction of CAR, Media attention, and Media tone indicates that the effect of the media on the decision to abandon a value-reducing acquisition attempt is incremental to the effect of traditional measures of corporate governance.⁵

6. Robustness tests

The main conclusion of this study is that in deciding whether to abandon a value-reducing acquisition attempt, managers' sensitivity to the firm's stock price reaction during the announcement period is heightened by the level and the tone of media attention to the proposed transaction. In this section, we address the robustness of our results.

6.1. Endogeneity

An immediate concern with our analysis is the potential of endogenous relationships between the likelihood of transaction abandonment and the level of post-announcement media attention or between the likelihood of transaction abandonment and the negative tone of media attention. We address this concern by using instrumental variables. As an instrument for Media attention, we use the number of firm-specific news stories concerning the acquiring firm in the Wall Street Journal, the New York Times, and Dow Jones News Service over the 12-month interval ending three months prior to the announcement date of the proposed transaction (Pre-acq. attention) (Precise definitions of the instrumental variables are given in Table A1.) We expect that the media attention given to an acquiring firm prior to the acquisition announcement is positively correlated with the media attention given to the acquisition attempt proposed by the same firm; however, we do not see any reason to expect that the CEOs of acquiring firms with more media attention prior to the acquisition announcement are more likely to abandon their proposed value-reducing acquisition attempts.

Table 6 presents the results. The results of the first-stage pooled Ordinary Least Square (OLS) regression in which Media attention is the dependent variable are given in column 1. The coefficient of Pre-acq. attention is positive and statistically significant (p -value=0.00). That is, an acquisition attempt initiated by an acquiring firm that receives more media attention prior to the announcement of an acquisition attempt also receives more media

⁵ This result is consistent with the results of various other studies that demonstrate the preeminence of board independence as a key corporate governance mechanism (Rosenstein and Wyatt, 1990; Dahya, Dimitrov, and McConnell, 2008).

Table 6

Instrumental variable estimations.

The first and third columns report the results of the first-stage pooled OLS regressions in which *Media attention* and *Media tone* are the dependent variables. The second and fourth columns report the results of the second-stage probit analysis of acquisition abandonment in which *Media attention* and *Media tone* are predicted values from the first-stage regressions in the first and third columns. *Pre-acquisition attention* is the number of news articles about the acquiring firm by Dow Jones News Services, *Wall Street Journal*, and *New York Times* in the year ending three months prior to the announcement of the proposed acquisition attempt. *Media expert* is a dummy variable that takes the value of one if the acquiring firm has a media expert serving on its board of directors. A media expert is defined as a director who is or has ever been an employee of a television, radio, or newspaper company (with three-digit SIC=271, 272, or 483). All other variables are defined in Table A1. All regressions control for year and industry fixed effects. The coefficients of the constant, year, and industry dummies are omitted for brevity. The *p*-values are reported in parentheses. ***, **, and * indicate significance at 1%, 5%, and 10%, respectively.

Independent variables	(1) Media attention	(2) Abandonment	(3) Media tone	(4) Abandonment
Pre-acquisition attention	0.525*** (0.00)			
Media expert			-0.751*** (0.00)	
Media attention		0.038 (0.44)		0.119 (0.65)
CAR × Media attention		-0.698** (0.04)		0.506 (0.46)
Media tone				0.276 (0.51)
CAR × Media tone				0.315 (0.87)
Media attention × Media tone				-0.009 (0.86)
CAR × Media tone × Media attention				-0.127*** (0.00)
CAR	-10.133*** (0.00)	2.470 (0.29)	-3.747*** (0.00)	0.169 (0.99)
ΔTangible capital	-9.578*** (0.00)	-2.484* (0.10)	0.101 (0.87)	-2.838* (0.08)
Board independence	0.247 (0.82)	0.669 (0.26)	1.107*** (0.01)	0.546 (0.42)
PO	0.024 (0.74)	-0.022 (0.68)	0.003 (0.93)	-0.004 (0.94)
TNPR	-0.025 (0.53)	-0.006 (0.76)	-0.011 (0.50)	-0.001 (0.97)
Toehold	-0.071* (0.06)	0.028 (0.20)	-0.010 (0.50)	0.033 (0.14)
Compete dummy	0.612 (0.20)	1.360*** (0.00)	-0.301 (0.12)	1.468*** (0.00)
Defense dummy	-0.390 (0.42)	0.475* (0.09)	0.003 (0.99)	0.420 (0.14)
Litigation dummy	-0.466 (0.49)	-0.023 (0.95)	0.237 (0.39)	-0.108 (0.77)
Friendly dummy	-4.244*** (0.00)	-2.248*** (0.00)	-0.231 (0.31)	-2.194*** (0.00)
Termination fee dummy	0.347 (0.33)	-0.243 (0.25)	-0.063 (0.66)	-0.283 (0.21)
Tender offer dummy	-0.355 (0.46)	-1.504*** (0.00)	-0.316 (0.11)	-1.359*** (0.00)
Stock dummy	-0.152 (0.71)	-0.004 (0.99)	0.016 (0.93)	0.065 (0.79)
Lockup dummy	-0.200 (0.86)	0.771 (0.12)	-0.509 (0.26)	1.035* (0.06)
Relative transaction value	0.438*** (0.01)	0.027 (0.77)	-0.009 (0.90)	0.078 (0.43)
Log size	0.979*** (0.00)	-0.379*** (0.00)	-0.034 (0.45)	-0.373*** (0.00)
Year fixed effect	Yes	Yes	Yes	Yes
Industry fixed effect	Yes	Yes	Yes	Yes
Number of observations	636	636	636	636
Pseudo-(Adjusted-) R square (%)	51.28	47.7	10.68	51.1

attention following the announcement of the attempt. Column 2 gives the results of the second-stage probit analysis of acquisition abandonment in which the independent variable *Media attention* is the predicted value of

the first-stage regression in column 1. The coefficient of *CAR* is not statistically significant, the coefficient of *ΔTangible capital* is negative with a *p*-value of 0.10, and, importantly, the coefficient of the two-way interaction

between *Media attention* and *CAR* is negative and statistically significant (p -value=0.04).

As an instrument for the negative tone of media attention, we rely on a concept proposed by Gurun (2012). In particular, we use a dummy variable that takes the value of one if the acquiring firm has a media expert on its board of directors prior to the proposed transaction (*Media expert*). Gurun reports that firms with at least one media expert on their boards receive media coverage with a less negative tone than other firms. We expect no correlation between the presence of a media expert on the board and the likelihood that the CEO will abandon a proposed value-reducing acquisition attempt.

To identify directors as media experts, we search the proxy statements of the acquiring firms that were filed most recently prior to the announcement of the proposed acquisition. We classify a director as a media expert if the director's biography states that the director is or ever has been an employee of a television, radio, or newspaper company (with three-digit SIC=271, 272, or 483). In some instances the biography lists the name of the director's employer or prior employers, but does not indicate the industry of the employer. In those cases, we search online to determine the company's industry. Of the acquirers that announce value-reducing acquisitions, 21.38% are classified as having a media expert on its board.

The results of the first-stage pooled OLS regression in which *Media tone* is the dependent variable are given in column 3 of Table 6. The coefficient of *Media expert* is negative and statistically significant (p -value=0.00). This finding is consistent with the idea that an acquiring firm with a media expert on its board experiences media coverage with a less negative tone following the announcement of a value-reducing acquisition attempt than do other firms that announce value-reducing acquisition attempts. Column 4 shows the results of the second-stage probit analysis of acquisition abandonment in which the independent variables *Media attention* and *Media tone* are the predicted values from the first-stage regressions in columns 1 and 3, respectively. Column 4 reports that the coefficient of *CAR* is not statistically significant, the coefficient of Δ *Tangible capital* is negative with a p -value of 0.08, and the coefficient of the three-way interaction term of *CAR*, *Media attention*, and *Media tone* is negative and statistically significant (p -value=0.00).

In short, the results of the instrumental variable analysis reported in Table 6 support the proposition that the results of our initial analysis are not the outcome of spurious correlations among *Media attention*, *Media tone*, and the likelihood of acquisition abandonment.

6.2. Benchmark for value-reducing acquisitions

Our criterion of a *CAR* less than zero for identification of value-reducing acquisition attempts implicitly assumes that *CARs* are measured without error. Given that *CARs* are, in fact, measured with error, some of the attempts classified as value-reducing are misclassified. To help ensure that our results are not due to such misclassified attempts, we re-estimate the probits reported in columns 3 and 5 of Table 4 including only acquisition attempts with

CARs of less than -2% , and then again including only those with *CARs* of less than -5% . In the estimations corresponding to those of column 3, the coefficients of the interaction of *CAR* and *Media attention* have negative signs with p -values less than 0.01. Likewise in the estimations corresponding to those of column 5, the coefficients of the interaction of *CAR*, *Media attention*, and *Media tone* have negative signs with p -values less than 0.01, respectively. Thus, the results of our analysis are not due to (potentially misclassified) acquisition attempts with *CARs* that are just slightly less than zero.

6.3. Acquirers who repeatedly abandoned acquisition attempts

One more concern with our analysis could be that some acquirers enter the sample more than once. Indeed, one acquirer enters five times, three acquirers enter four times, and 15 acquirers enter three times. Perhaps our results are attributable to these acquirers. To address that concern, we include only the first acquisition attempt by any acquirer and re-estimate each of the probits in Table 4. In each of these probits, the coefficient estimates of the explanatory variables of primary interest retain their predicted signs and remain statistically significant at the 0.05 level or better. Our results are not due to acquirers that repeatedly abandon their acquisition attempts.

6.4. Multicollinearity

In column 5 of Table 4, the inclusion of three two-way interaction terms and a three-way interaction term introduces severe multicollinearity. Perhaps the statistically significant coefficient of the three-way interaction term is due to multicollinearity. To address that concern, we re-estimate the model but center (i.e., demean) the component variables (*CAR*, *Media attention*, and *Media tone*) before interacting them. As in Table 4, the coefficient of *CAR* alone is not statistically significant (p -value=0.87); the coefficient of the CEO's change in tangible capital is negative and significant (p -value=0.02); and the coefficients of the two-way interaction terms of *Media Attention* \times *CAR* and *Media tone* \times *CAR* are negative, but not statistically significant (p -values=0.44 and 0.18). Importantly, the coefficient of the three-way interaction term of the acquirer's *CAR*, *Media attention*, and *Media tone* is negative and statistically significant (p -value=0.05). Our results are not due to multicollinearity.

6.5. Extreme observations

The data in Table 3 indicate that our key independent variables, especially Δ *Tangible capital*, are skewed. To alleviate the concern that our results are due to a few extreme observations, we winsorize our key independent variables, namely, *CAR*, Δ *Tangible capital*, *Media attention*, and *Media tone* at the 1st and 99th or 5th and 95th percentiles and re-estimate the probits of Table 4. Again, the signs of the key independent variables are unchanged and their p -values become smaller. Our results are not due to a few extreme observations.

Table A1
Variable definitions

Variable	Definition
Panel A: Descriptive variables	
Acquirer size	The potential acquirer's market value of equity (in millions of dollars) on the 43rd trading day prior to the announcement day of the acquisition attempt. We obtain stock prices and number of shares from CRSP
Target size	The target firm's market value of equity (in millions of dollars) on the 43rd trading day prior to the announcement day of the acquisition attempt. We obtain stock prices and number of shares from CRSP
Transaction value	The total value (in millions) of considered payments that the acquirer proposed to pay for the target firm, as reported by SDC
Number of total words	The number of words in acquirer-specific news stories about the acquisition attempt reported by the <i>Wall Street Journal</i> , the <i>New York Times</i> , and the Dow Jones News Service over the ten calendar days following the announcement of the proposed transaction.
Number of negative words	The number of negative words in acquirer-specific news stories about the acquisition attempt reported by the <i>Wall Street Journal</i> , the <i>New York Times</i> , and the Dow Jones News Service over the 10 calendar days following the announcement of the proposed transaction. We use the Loughran and McDonald (2011) dictionary to identify negative words in a financial context
Panel B: Dependent variable and key independent variables	
Abandon dummy	One for completed acquisition attempts, zero for withdrawn acquisition attempts, as reported by SDC
CAR	Cumulative abnormal return of the potential acquirer's stock in the three-day announcement period (–1, +1) where day 0 is the announcement day. We calculate the acquirer's daily abnormal return for each day by subtracting the CRSP value-weighted market return from the potential acquirer's stock return on that day
CEO ownership	The dollar value (in millions of dollars) of acquirer CEO's ownership of the acquirer's common stock. We calculate the dollar value as the number of shares that the CEO owns in the acquiring firm times the firm's stock price on the 43rd trading day prior to the announcement of the acquisition attempt. We obtain the data on the CEO stock ownership, defined as the CEO's direct beneficial ownership of common stocks from the Standard & Poor's ExecuComp database or the acquirer's proxy statement at the beginning of the year in which the proposed transaction is abandoned or completed. We obtain the acquirer's proxy statement from the SEC's EDGAR and the Thomson ONE Banker database
ΔTangible capital	The product of CEO ownership and the stock price reaction at the announcement of the proposed acquisition (CAR)
Media attention	The number of acquiring firm-specific news stories about the acquisition attempt reported by the <i>Wall Street Journal</i> , the <i>New York Times</i> , and the Dow Jones News Service over the ten calendar days following the announcement of the proposed transaction
Media tone	Number of negative words as fraction of Number of total words.
Pre-acq. attention	The number of firm-specific news stories concerning the acquiring firm in the <i>Wall Street Journal</i> , the <i>New York Times</i> , and Dow Jones News Service over the 12-month interval ending three months prior to the announcement date of the proposed transaction
Media expert	One for acquisition attempts in which the acquiring firm, in the year prior to the attempt, has a director whose biography states that the director is or has ever been an employee of a television, radio, or newspaper company (with three-digit SIC=271, 272, or 483)
Panel C: Control variables	
Board independence	The fraction of the number of independent directors to the number of directors on the acquirer's board. We obtain the number of independent directors and the number of directors on the acquirer's board from the acquirer's proxy statement immediately prior to the announcement of the acquisition attempt. Independent directors are directors that are not current or former employees of the acquirer. We obtain the acquirer's proxy statement from the SEC's EDGAR database and the Thomson One Banker database.
PO (Premium offered)	The difference between the offer price and the target firm's stock price 43 trading days prior to the announcement of the acquisition attempt divided by the latter. The offer price is as reported by SDC
TNPR (Target normalized price response)	The difference between the closing price for the target firm's stock on the acquisition announcement date and the closing price 43 trading days prior to the announcement of the acquisition attempt divided by the difference between the offer price and the target's stock price 43 trading days prior to the announcement of the acquisition attempt. The offer price is as reported by SDC
Toehold	The acquirer's "toehold" ownership of the shares of the target firm, as reported by SDC
Compete dummy	One for acquisition attempts with the emergence of a third party who launches an offer to the same target firm while the original acquisition attempt is pending, zero otherwise, as reported by SDC
Defense dummy	One for acquisition attempts in which the target firm undertakes defensive tactics to fend off the acquisition attempt, zero otherwise, as reported by SDC
Litigation dummy	One for acquisition attempts in which there exists initiation of litigation regarding the proposed acquisition, zero otherwise, as reported by SDC
Friendly dummy	One for acquisition attempts in which the "attitude" of the proposed acquisition is neither hostile nor unsolicited, zero otherwise, as reported by SDC
Termination fee dummy	One for acquisition attempts that include termination fees that the potential acquirer must pay to the target if the transaction is abandoned, zero otherwise, as reported by SDC.
Tender offer dummy	One for acquisition attempts structured as a tender offer, zero otherwise, as reported by SDC
Stock dummy	One for acquisition attempts financed or partially financed by the acquirer's common stock, zero otherwise, as reported by SDC
Lockup dummy	One for acquisition attempts including a lockup of target shares in which the potential acquirer is granted an option to purchase shares at a fixed price even if a competing offer emerges, zero otherwise, as reported by SDC
Relative transaction value	The fraction of Transaction value to Acquirer size
Log size	The natural log of Acquirer size

6.6. Other robustness tests

We also re-estimate our probits (i) using the equally weighted CRSP index (as opposed to value-weighted) as the market return to calculate CAR; (ii) measuring CAR over the one-day and five-day (as opposed to three-day) intervals around the announcement of the proposed acquisitions; and (iii) using market model or Fama-French four-factor model-adjusted abnormal returns to calculate CAR. None of these variations change the signs of the key explanatory variables and the coefficients continue to be statistically significant at the 0.05 level or better.

7. Conclusion

Prior studies report that managers' decisions to abandon proposed corporate acquisitions are negatively correlated with the stock market reaction to the announcement of the proposed transactions, especially when the stock market reaction is negative. One interpretation of this result is that managers "listen to the market" when

making decisions of whether to abandon (or complete) proposed acquisitions. But these studies leave unanswered the question as to why managers listen to the market. Part of the answer is undoubtedly that managers have an equity ownership position in the firm and there is the possibility that the abandonment of the proposed acquisition will reverse the wealth losses that they suffered as a result of the announcement.

We propose that this is only part of the answer—managers also have reputational capital at risk, and the reversal of the acquisition decision may also reverse any loss in reputational capital that is associated with the announcement. Of course, we are not the first to propose that managers have reputational capital at risk whenever they make decisions that influence the future of their firms (Fama, 1980). However, we propose a framework to test the idea that managers' decisions to abandon proposed acquisitions are related to their reputational capital.

A la Dyck, Volchkova, and Zingales (2008), we propose that the media are key conduits through which managers' reputational capital is built and, potentially, destroyed. Using a measure of the level of media attention given to

Table A2

Correlation matrix.

The appendix presents pairwise correlations of the variables. The sample consists of 636 US acquisitions announced over the period January 1, 1990 to December 31, 2010. All variables are defined in Table A1. * Indicates significance at the 5% level at least.

	Abandon dummy	CAR	Media attention	Media tone	ΔTangible capital	Board independence	PO
CAR	-0.0629						
Media attention	0.2713*	-0.1275*					
Media tone	0.0296	-0.2188*	0.0458				
ΔTangible capital	-0.1790*	0.1152*	-0.3131*	-0.0454			
Board independence	0.0206	0.0564	0.1014*	0.0548	-0.0371		
PO	-0.1336*	0.0667	-0.0538	0.0689	-0.0107	-0.0710	
TNPR	0.0075	-0.0577	0.0231	-0.0384	0.0365	0.0000	-0.0484
Toehold	0.0439	0.1012*	-0.0068	-0.0450	0.0218	0.0390	-0.0583
Compete dummy	0.3850*	0.0570	0.1293*	-0.0675	0.0367	0.0367	-0.0636
Defense dummy	0.1163*	-0.0491	0.0795*	-0.0190	-0.0747	-0.0144	-0.0094
Litigation dummy	0.0537	0.0686	0.0213	-0.0519	0.0342	0.0350	-0.0270
Friendly dummy	-0.5098*	-0.1046*	-0.2953*	0.0247	0.0685	-0.0164	0.0493
Termination fee dummy	-0.1011*	-0.2075*	0.0084	0.0709	0.0236	0.0298	-0.0455
Tender offer dummy	-0.0085	0.1109*	0.0259	-0.0871*	0.0088	0.0500	0.0245
Stock dummy	-0.0975*	-0.1786*	-0.0340	0.0927*	-0.0201	-0.0288	-0.0341
Lockup dummy	0.0365	-0.1134*	0.0075	-0.0287	0.0191	-0.0449	-0.0911*
Relative transaction value	0.2142*	-0.1766*	0.0436	0.0229	-0.0234	-0.0848*	0.1452*
Log size	-0.1388*	0.0381	0.4396*	-0.0343	-0.0623	0.1971*	-0.1061*
	TNPR	Toehold	Compete dummy	Defense dummy	Litigation dummy	Friendly dummy	Termination fee dummy
Toehold	-0.0007						
Compete dummy	-0.0089	0.0359					
Defense dummy	0.1032*	-0.0151	0.0587				
Litigation dummy	0.0721	0.1903*	0.1232*	0.1362*			
Friendly dummy	-0.0483	-0.0704	-0.3126*	-0.2152*	-0.1343		
Termination fee dummy	0.0170	-0.0811*	-0.0487	-0.0682	-0.0688	0.1756*	
Tender offer dummy	0.0414	0.1033*	0.1878*	0.0913*	0.2262	* -0.2376*	-0.1312*
Stock dummy	-0.0335	-0.1225*	-0.1750*	-0.0096	-0.1818	* 0.2489*	0.2024*
Lockup dummy	0.0943*	-0.0255	-0.0228	0.3719*	0.0422	0.0497	0.1038*
Relative transaction value	-0.0262	-0.0389	0.1156*	-0.0390	-0.0602	-0.1000*	0.1124*
Log size	0.0770	0.0793*	-0.0362	0.0897*	0.0041	-0.0217	0.0237
	Tender offer dummy	Stock dummy	Lockup dummy	Relative transaction value			
Stock dummy	-0.5363*						
Lockup dummy	-0.0374	0.0462					
Relative transaction value	-0.0342	-0.0196	0.0266				
Log size	0.0418	0.0037	0.0038	-0.3384*			

and a measure of the tone of media coverage about large corporate acquisition attempts interacted with the announcement-period stock price reaction to such acquisitions as a proxy for the change in the manager's reputational capital, we find that this three-way interaction term is significantly correlated with the likelihood that a proposed value-reducing transaction will be abandoned. We interpret this to mean that managers are sensitive to the stock market reaction to the proposed "value-reducing" acquisitions partially because of the impact on their reputational capital. We also find that the announcement-period stock price reaction interacted with the manager's ownership of shares in the company is significantly correlated with the likelihood of transaction abandonment. In short, it is the manager's concern with the effect of the value-reducing acquisition attempt on his tangible and reputational capital that induces him to listen to the market.

To the extent that the media facilitate the abandonment of value-reducing acquisitions, our study supports the view that the media can help to align managers' and shareholders' interests and reinforces the evidence of Farrell and Whidbee (2002), Joe, Louis, and Robinson (2009), and Dyck, Volchkova, and Zingales (2008) that the media can play a positive role in corporate governance. To anchor our study in a broader context, our results imply that the media can (and do) play a positive role, at least in some circumstances, in the important corporate function of allocating capital in a market economy. Undoubtedly, additional studies will consider other circumstances in which the media may influence managerial decisions and thereby, determine whether the results of our analysis can be generalized.

Appendix A

See Tables A1 and A2.

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