THE HONG KONG POLYTECHNIC UNIVERSITY
DEPARTMENT OF MANAGEMENT & MARKETING
DEPARTMENTAL RESEARCH SEMINAR

The Prince and the Pauper: How Status Differences Affect Corporate Acquisitions

By

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Date: Monday, 11 April 2011
Time: 2:30 p.m. - 4:00 p.m.
Venue: M802

All interested are welcome
The Prince and the Pauper: How Status Differences Affect Corporate Acquisitions

Abstract

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This study considers the difference between two firms’ status as a coordination mechanism shaping firms’ motivation and expectation, subsequently guiding each other’s behavior, during their interaction. Drawing on status theory, we argue that the more pronounced status differences between firms are, the more easily firms are to agree about the appropriate means to solve the potential disputes and reduce transaction costs. We apply this framework to the empirical context of the U.S. mergers and acquisitions markets. The analyses render strong support to our theoretical predications: when the status difference between acquirers and targets is greater, the focal acquisition deal is more likely to be settled successfully; the time spent on the deal transaction and negotiation is less when the absolute difference between the acquirer and the target increases. In addition, we found that acquirers are more willing to pay higher premiums and external markets react to such acquisition deals more positively when acquirers have higher status than targets.

Key words: Status difference, mergers and acquisitions, disputes, transaction costs

* The two authors contribute equally and the authorship is listed alphabetically.