Research Title and Abstract as provided upon application to CERF

Research Title
Employees as Creditors: the Disciplinary Role of Pension Deficits in the Market for Corporate Control

Abstract
We aim to examine the disciplinary role of corporate pension deficits in the market for corporate control. We conjecture that companies with larger pension deficits are less likely to engage in diversifying mergers, experience higher merger announcement returns, pay lower premiums to targets, and use a higher percentage of cash in their payment. These results should be more evident for acquirers with pension plans that are dominated by actively working employees or collectively bargained by employees. Our findings would indicate that corporate pension deficits provide employees with strong incentives to monitor managerial performance and influence managers to make value-enhancing investment decisions.

Key Research Findings to date
Our results are largely consistent with the view that pension deficits serve as an important disciplinary mechanism. Specifically, we find that bidder announcement returns and announcement returns of the value-weighted portfolio of the bidder and the target increase with a bidder's pension deficits. Moreover, acquirers' pension deficits are negatively associated with the premiums paid to targets but positively related to the percentage of cash used in payment to the targets. These results suggest that pension deficits not only limit managerial hubris in overpaying for targets but also influence managers to choose undervalued targets, thereby creating higher value gains in M&As.

Project Update - Upload a Word Document

I have finalized the sample for empirical analysis. The sample consists of U.S. acquiring firms (both DB and non-DB firms) in M&Asmergers between 1981 and 2008. The initial sample of M&Asmergers comes from Thomson Financial's Security Data Corporation (SDC) Platinum database.

The empirical analysis generates the results that are largely consistent with the view that pension deficits serve as an important disciplinary mechanism. Specifically, we find that bidder announcement returns and announcement returns of the value-weighted portfolio of the bidder and the target increase with a bidder's pension deficits. Moreover, acquirers' pension deficits are negatively associated with the premiums paid to targets but positively related to the percentage of cash used in payment to the targets. These results suggest that pension deficits not only limit managerial hubris in overpaying for targets but also influence managers to choose undervalued targets, thereby creating higher value gains in M&As.

I am working on the first draft of the working paper, and will circulate it soon.

During the CERF fellowship, I have presented my papers at FIRS 2016 conference, NTU 2016 conference, 2016 SMU Summer Institute of Finance Conference, and research seminars at

Hitotsubashi University, the Research Institute of Capital Formation of Development Bank of Japan, and Tsinghua University.