Asymmetric Disclosure of Bad News by Firms Under Control Threat

During corporate control events like mergers and acquisitions, acquirers target firms with good performance records. Negative news disclosures from target firms increase uncertainty about their value, reducing any threat of a takeover attempt.

Results from 112 hostile takeover announcements were analyzed using a difference-in-differences technique to study disclosures made by:

- Treatment firms facing takeover threats
- Control firms in the same industry

Peer firms under control threat:

- Forecasted more bad news
- Bundled bad news forecasts with earnings announcements
- Were more likely to manage their accruals downward
- Used a more negative tone in conference calls and presentations and highlighted the visibility of negative news

Results were especially pronounced in firms with greater takeover threat, like those with:

- Younger or higher-paid CEOs
- Weaker provisions to prevent takeovers

Firms under control threat highlight bad news through voluntary disclosures to prevent potential takeover attempts.

Corporate Control Contests and the Asymmetric Disclosure of Bad News: Evidence from Peer Firm Disclosure Response to Takeover Threat