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INSTITUTIONAL OWNERSHIP STABILITY AND POST-MERGER PERFORMANCE

Abstract:

Early paper argues that only independent long-term institutions are active monitors in the decision-making process of their investee firms. Using a sample of U.S. bids during 1984-2011, this study finds that there is a significantly positive effect of institutional ownership stability on post-merger buy-and-hold returns (BHAR) and industry-adjusted returns on assets (ROA) no matter whether they have concentrated holdings or not. Further, some institutions under public scrutiny (public pension funds, banks, and insurance companies in this study) seem to be more active in monitoring the post-merger performance than others. Empirical evidence also supports the relationship of institutional ownership stability and merger completion likelihood.

Keywords:

Institutional ownership stability, Mergers and acquisitions, Institutional investors, Monitoring; Corporate governance

JEL Classification: G34