Employee Rights and Acquisitions*

Kose John
New York University
Anzhela Knyazeva
University of Rochester
Diana Knyazeva
University of Rochester

Abstract

This paper examines the outcomes of corporate acquisitions from the perspective of stakeholder-shareholder agency conflicts. Using state variation in labor rights laws, we find that acquirers with strong labor rights experience lower announcement returns. The effect can be attributed to such acquirers pursuing deals that are not in the best interest of the acquirer's shareholders. The negative effect of strong labor rights on acquirer returns and (combined acquirer and target announcement returns) remains after we control for a range of deal and target characteristics, consistent with employee-shareholder agency conflicts limiting shareholder gains and synergies from the acquisition.

Keywords: agency conflicts, employee rights, acquisitions, announcement returns
JEL codes: G30, G34

* Anzhela Knyazeva and Diana Knyazeva acknowledge financial support from the Simon School of Business. The authors thank Shane Heitzman, Ron Kaniel, David Matsa, James Musumeci, Robert Novy-Marx, Bill Schwert, Cliff Smith, Krishnamurthy Subramanian, Toni Whited, Edward Owens, and seminar participants at the University of Rochester. All remaining errors and omissions are our own.

1. Introduction

A large corporate finance literature dating back to Jensen and Meckling (1976) has focused on manager-shareholder and shareholder-bondholder agency conflicts. Potential agency conflicts involving another group – employees – and their impact on firm investment decisions have received far less attention in existing work. Acquisitions represent a crucial value-relevant investment decision, especially for mature firms. While other work has looked at how corporate governance and managerial agency conflicts affect M&A outcomes, this paper focuses on the understudied question of shareholder-employee agency conflicts in the context of acquisitions. Given that managers routinely seek to avoid conflict with employees as part of maximizing their utility, managers of acquirers with strong employee rights will likely incorporate, at least to some extent, the interests of employees in firm decisions. We exploit variation in labor rights protections in order to quantify the effects of the bargaining power of employee stakeholders on mergers and acquisition decisions and their value implications.

In the past literature there is considerable disagreement about whether employees are aligned with shareholders over key corporate decisions. (A detailed discussion is presented in Section 2.3.) On the one hand, shareholders – who seek value maximization – and employees – who seek higher wages and job security – are guided by different objective functions. As a result, employees may want to pass up acquisitions that generate synergies for shareholders if such deals involve layoffs or pay reductions or increase employees' human capital risk. Such agency conflicts would have a larger impact when employees are backed by stronger labor rights. If managers seek to avoid conflict with employees as part of maximizing their utility, managers of acquirers with strong employee rights would be less likely to act in the interest

of the acquirer's shareholders. Overall, the stakeholder-shareholder conflict of interest hypothesis predicts a negative relation between the strength of labor rights and the value created during an acquisition.

On the other hand, employee stakeholders, whose human capital is linked to the firm, could be aligned with the firm's shareholders because both benefit from the long-term viability of the company. If the firm pursues value-enhancing acquisitions and remains profitable, according to this argument, employees could partake in the gains through future compensation and retention. Firms that undertake value-destroying acquisitions are more likely to become unprofitable or go bankrupt, resulting in wage decreases and layoffs. When employees have stronger protections, they are able to serve as an informed, effective disciplinary mechanism and successfully counter managerial attempts to dissipate free cash flow on empire building acquisitions. The alignment hypothesis yields a positive relation between the strength of labor rights and the quality of acquisitions.

The null hypothesis is that employees do not affect acqusition outcomes as employees, unlike bondholders, rarely hold explicit claims on the firm's cash flows.

Empirically, we find that acquirers from strong labor rights states realize on average 0.5% lower five-day cumulative abnormal returns on acquisition announcement compared to acquirers from weak labor rights states, all else held equal, with the differential being highly statistically significant. Further analysis reveals significant differences in target selection: strong labor rights acquirers are more likely to pursue targets from strong labor rights states; to engage in diversifying acquisitions; make unsolicited bids; bid for publicly listed targets; complete deals, and pay higher combined advisory fees. Thus, managers of acquirers in strong labor rights states on average generate less shareholder value through acquisitions and

realize lower synergies. This is not a zero-sum game between target and acquirer shareholders. Combined announcement returns, which capture the market's expectation of overall synergies created from the deal for the shareholders of the two firms, are significantly lower for bids involving strong labor rights acquirers. After controlling for the employee-shareholder conflicts of interest within the acquirer firm, the target's labor rights regime does not have incremental significance. Overall, the evidence strongly supports the value relevance of agency conflicts involving shareholders and employee stakeholders in the context of acquisition decisions.

Since locations are mostly predetermined to a company's subsequent decisions, with subsequent relocations being relatively infrequent (see, e.g., Knyazeva, Knyazeva and Masulis (2013)), and an individual firm in our sample is unlikely to exert a material effect on the state legal regime, by focusing on the variation in the laws governing labor relations at the firm's location we are able to obtain evidence that is relatively immune to endogeneity criticisms that are a concern with firm-level unionization measures (or even industry-level measures – since unionization rates are commonly clustered by industry and industry factors capture much of the variation in acquisition outcomes). Moreover, the event study format provides a cleaner empirical setting for examining the value implications of acquisition decisions compared to cross-sectional analyses of firm value and profitability.

2. Hypotheses

Acquisitions represent one of the most important decisions affecting shareholder value. Acquisition decisions are especially relevant for mature firms characterized by fewer growth options and therefore more reliant on external investment opportunities as a source of growth. At the same time, extensive theoretical and empirical work on agency conflicts

suggests that acquisitions need not enhance shareholder wealth and can instead entail a loss of shareholder value loss due to misalignment of managerial and shareholder incentives (see, e.g., Betton, Eckbo and Thorburn (2008) for a review). While the role of manager-shareholder conflicts for the characteristics and performance of acquisitions has been actively studied, in this paper we focus on the less well understood issue of how conflicts of interest between shareholders and employee stakeholders at firms involved in the M&A deal affect shareholder wealth implications and other aspects of acquisitions.

2.1. The effects of acquirer employee rights

Employee-shareholder alignment (synergy sharing) hypothesis

Employees have a significant amount of human capital vested in the firm, thus the employee objective function incorporates a part of the gains in firm value and profitability. Unprofitable firms are more likely to reduce employee compensation and lay off employees in an attempt to complete a turnaround and are overall more likely to enter financial distress. An employee's human capital also gains reputational benefits from an association with a successful employer. Thus, the employee's objective function and lifetime earnings – through a lower likelihood of turnover, higher expected compensation growth, and stronger reputational benefits – are tied to the firm's success, resulting in alignment of incentives of employees and shareholders. Acquisitions can increase "size of the pie" shared among shareholders, managers, employees, and other stakeholders (for example, synergies may include greater product market power due to the acquisition of a competitor or entry into new product markets; a stake in a new technology; exclusive supplier relationships etc.)

According to this argument, strong labor rights will increase the alignment of employee incentives and the shareholder value derived from an acquisition. Increased job

security due to strong labor rights will incentivize employees to raise productivity and generate synergies during the post-acquisition integration process. Further, employees backed by strong labor rights are going to be more effective at countering any managerial attempts at value-destroying acquisitions. Facing the discipline by employees, who are informed about the firm's investment opportunities and backed by stronger rights, the manager will be more focused on value generation and better aligned with shareholders, creating value through target selection, bargaining with the target, and post-deal integration.

The alignment hypothesis yields several empirical predictions. Strong acquirer labor rights are expected to increase the overall synergies created through the M&A deal, resulting in higher combined acquirer and target CARs. Strong acquirer labor rights are expected to increase acquirer announcement returns. Strong labor rights acquirers will pick better targets and avoid diversifying acquisitions, all else equal.

Employee-shareholder conflict of interest hypothesis

Alternatively, strong labor rights could exacerbate *incentive conflicts* between the acquirer's employees and shareholders. Stakeholder-shareholder conflicts of interest are likely to be more pronounced in the context of acquisitions. As one major source of acquisition related synergies is the elimination of workforce redundancies, which results in layoffs and compensation decreases, employees may resist certain value-enhancing acquisitions and interfere with the integration process. Strong labor rights protections make such agency conflicts potentially more impactful. Self-interested managers in settings with strong employee rights may forgo acquisitions not supported by employees even if such acquisitions would have created value for shareholders and recommend other acquisitions that are more beneficial for employees. In addition, employee risk preferences are likely to

differ from those of shareholders. Employees do not have an equity-like claim on the firm and do not derive an unlimited upside from the firm's success. Their claims in the form of compensation and pensions are more debt-like in nature, resulting in a stakeholder-shareholder conflict of interest that is in some ways similar to the conflict of interest involving bondholders. Moreover, since employee human capital is vested with the firm, employees may prefer diversifying acquisitions to lower their risk exposure, even if those acquisitions are negative-NPV.[1] To the extent that both managers and employees may prefer investments characterized by less risk and higher private benefits, strong employee rights may facilitate diversifying (or otherwise inefficient) acquisitions that managers seek to pursue as well, or allocate a greater share of the gains from the acquisition to employees and not shareholders, all of which will result in less shareholder value creation.

According to the conflict of interest logic, the total value created for the two firms' investors will be lower. Strong employee bargaining power is likely to influence both the selection of targets and post-acquisition restructuring, with more emphasis placed on risk reduction and less focus on labor cost and workforce reductions. (If this hypothesis holds, of the different labor rights provisions, collective bargaining protections are expected to have the strongest effect on because they enable employees to have a greater effect on firm decisions.)

The conflict of interest hypothesis yields several empirical predictions. First, when labor rights are strong, acquisitions will be characterized by lower acquirer announcement returns. Second, to the extent that the bargaining power of employee stakeholders affects the post-acquisition restructuring process, combined synergies anticipated from integration

[1] It should be recognized that employees may prefer diversifying acquisitions for other reasons as well. For instance, diversifying acquisitions are less likely to result in the identification of workforce redundancies than same-industry acquisitions.

(through cost cutting, downsizing etc.) are expected to be lower, hence, combined acquirer and target announcement returns should be lower for bids involving strong labor rights acquirers. Further, strong labor rights acquirers are expected to be more likely to engage in diversifying acquisitions. In a related vein, employee-friendly acquirers are more likely to select employee-friendly targets because acquisitions of employee-friendly help employees retain the bargaining power within the combined firm and avoid restructuring involving workforce reductions. Finally, in pursuing acquisitions that generate non-pecuniary benefits for employees, employee-friendly acquirers may be less prone to bargain and more prone to overpay for targets.

2.2. The effects of target employee rights

The hypotheses discussed above can be adapted to the effects of the target labor rights regime. According to the alignment hypothesis, better alignment of employees with the long-term interests of the combined firm will result in higher combined synergies from the deal. Further, this argument predicts that target employees backed by stronger rights will be better aligned with the target's shareholders, leading such targets to select better deals, resulting in higher target CARs. Productivity gains anticipated from better employee alignment with the firm's interests may also be reflected in higher acquirer CARs.

According to the employee-shareholder conflict of interest argument, strong rights of target firm employees can cause the bargaining with bidders to be more focused on ensuring the stability of jobs and employee pay than on entering deals that benefit the target's shareholders, resulting in a negative effect of strong rights of target employees on target CARs. The conflict of interest argument also predicts a negative effect of strong rights of target employees on the combined synergies that shareholders derive from the deal as target

employees either resist deals likely to involve workforce and pay cuts or extract gains during post-acquisition integration conditional on such deals taking place. Following a similar logic, to the extent that the target is of non-negligible size (in relative terms), the conflict of interest will also have a negative effect on the acquirer's shareholders.

2.3. Related work

The implications of labor practices and employee rights have received attention in the labor economics literature. Finance research on the subject is relatively scarce. Chen, Kacperczyk, and Ortiz-Molina (2011) show that the decrease in operating flexibility associated with the presence of a union is compensated with higher expected returns. In a related vein, the Addessi and Busato (2009) model predicts a positive effect of unions on volatility and the equity risk premium. Hilary (2006) argues that management facing strong organized labor seeks to preserve information asymmetries to retain an advantage in collective bargaining, resulting in higher bid-ask spreads, lower trading volume, lower analyst following, and a higher probability of informed trading.

Related corporate finance work has focused on capital structure. Matsa (2010) finds that strong labor rights cause firms to choose high leverage to strengthen their bargaining position. Myers and Saretto (2011) show that strikes are less likely at firms with high leverage and firms that have increased leverage, leading firms vulnerable to strikes to increase leverage. In contrast, Simintzi, Vig, and Volpin (2010) find in a cross-country setting that firms reduce leverage in response to increased collective bargaining power. Chen, Kacperczyk, and Ortiz-Molina (2012) find that strong unions mitigate risk-shifting, resulting in less risk taking and R&D and a lower cost of debt. Bauer, Derwall, and Hann (2009) show that employee-friendly firms – based on the employee relations component of the KLD index

of corporate social responsibility – take less risk, attain better debt ratings, and face lower bond spreads. Agrawal and Matsa (2013) find that companies in states with low unemployment benefits choose more conservative financial policies to mitigate employees' unemployment risk, resulting in lower leverage.

Several studies provide support for the idea of alignment between employee and shareholder interests. Ouimet and Zarutskie (2010) find partial pass-through of merger-related productivity gains to employees in the form of higher wages, consistent with the sharing of synergies between employees and shareholders. Chang, Kang, and Zhang (2012) find that pension plan funding deficits strengthen employee oversight of the management, resulting in fewer (particularly, diversifying) M&As and higher acquirer and overall announcement returns, especially in plans with more active participants and collective bargaining. Although their evidence relates to a different dimension of employee incentives, it supports the alignment argument and suggests that employees act as a disciplinary device mitigating suboptimal managerial behavior. Several papers relate employee-friendly management practices to better productivity and firm performance (Edmans, 2011; Ichniowski et al., 1997; Ichniowski and Shaw, 1999; Huselid, 1995; Filbeck and Preece, 2003). For instance, Edmans (2011) finds that a firm's status as one of the "best companies to work for" is associated with significant abnormal returns and positive earnings surprises and concludes that employee job satisfaction can be aligned with shareholder value maximization. By comparison, our findings from M&A returns support the employee-shareholder conflict of interest hypothesis.

Agrawal (2012) finds that votes by union-backed funds are associated with negative valuation effects (not observed for other institutional investors) and concludes that AFL-CIO

affiliated votes may seek to maximize worker interests and not necessarily shareholder value. Although the paper is similarly consistent with the conflict of interest view, the context of the study (proxy voting and opposition to directors by AFL-CIO backed funds) is very different from ours (M&A decisions by firms in various employee rights environments).

Our paper contributes to the literature by providing new evidence on the relation between external characteristics of the firm's employee rights environment and M&A outcomes. Acquisitions are an important source of potential value creation (or destruction), especially for mature companies. Extensive prior research on M&As has focused on managerial incentives. In this paper we examine the role of another stakeholder category, the firm's employees, for M&A deals and their outcomes. To achieve more robust identification, we examine the market reaction to the announcement as well as exploit state variation in the legal treatment of employee rights as regional differences are relatively exogenous and mostly predetermined for individual firms, considering that relocations are not as frequent. (By comparison, cross-sectional tests of firm profitability or firm value at unionized firms would be limited by the likely endogeneity of union presence and the omitted variable bias due to unobservable variation in growth opportunities correlated both with performance and value and the behavior of the firm's employees.)

3. Data

3.1. Sample

The sample is comprised of SDC Platinum M&A deals announced in 1985–2009. We require that the acquirer be publicly listed. We exclude announcements involving non-US acquirers or targets, government participation, multiple deals on the same day, deal values below one percent of the acquirer market cap, stakes smaller than fifty percent, acquirers

with total assets below twenty million or market cap below one million, tender offers, self-tenders, exchange offers, repurchases, spinoffs, LBOs, recapitalizations, and observations with missing data on the main controls or the state of the acquirer or the target. (In the final sample, almost all deals involve a hundred-percent stake and deal values constitute approximately a fifth of the acquirer's market cap.) Deal characteristics are obtained from SDC Platinum. The main controls are taken from Compustat data. Announcement returns are based on CRSP daily return data.

3.2. M&A deal characteristics and control variables

Variable definitions are formalized in Appendix A. Summary statistics of the main variables are presented in Table 1. Consistent with prior work, acquirers on average experience small positive cumulative abnormal returns around the announcement (mean 0.3%, median 0.06%) when all targets - private and public are considered. Acquirer cumulative excess return on announcement is similarly positive (mean of about half a percent). Targets realize large positive abnormal returns on announcement (mean of thirteen and a half percent and median of eight percent over five days). With targets being on average significantly smaller than acquirers, the mean combined, market cap-weighted acquirer and target CAR, is roughly one percent (median of half a percent).

[Table 1]

We gather information on the acquirer and the target employee rights regime, the deal completion status, the diversifying deal indicator, the out-of-state target indicator[2], public

[2] Landier, Nair, and Wulf (2007) find that geographically disperse firms are less employee-friendly. Proximity in their paper does not merely capture information flows, but also managerial concern for and ties to employees at other divisions. They also find that the market reacts more favorably to in-state divestitures because such divestitures indicate that the manager is more shareholder-friendly (willing to break up informal ties to employees). This does is not directly related to our work, however. In other work on location, Kedia, Panchapagesan, and Uysal (2008) and Kang and Kim (2008) find that proximity of the acquirer to a prospective target makes a merger more likely and increases acquirer returns. Thus, we should include the dummy for different state of location of the target and acquirer firms and/or physical distance between the target and

versus private target status indicator, the value of the deal as a proportion of the acquirer value, the percentage stake in the target sought, and other deal characteristics. We use several controls based on prior work on M&As, including acquirer size, profitability, and market-to-book ratio (a measure of investment opportunities). Important deal-level controls include relative deal size (deal size scaled by the acquirer market cap), an indicator for the public versus private status of the target firm, an indicator for the diversifying nature of the deal, an indicator for the operation of the firms involved in the deal in the technology sector etc.

Almost two fifths of all deals involve diversifying acquisitions – bids for targets outside the acquirer's industry. At the same time, for about a quarter of all deals, both the acquirer and the target have primary operations in the high tech sector. From the geographic diversification standpoint, seventy percent of bids involve targets outside the acquirer's state. Consistent with other work, most (over ninety percent of) bids are successfully completed, defensive tactics and unsolicited bids are infrequent, and the majority of bids are for privately listed targets (in our sample, just over thirty percent of bids by public acquirers are for public targets, the rest are for private targets). Acquisitions involve approximately 1.0-1.2% in combined acquirer and target advisory fees as a percent of deal value. The average acquirer is profitable (operating income before depreciation of around eight percent of assets), has some debt (leverage of about twenty percent), and has a market-to-book ratio of 1.8, with just under half of the large, publicly listed bidders in our sample also paying dividends.

3.3. Employee rights

Based on an extensive analysis of related work, BLS, and DOL information, we focus on the following measures of the strength of employee rights based on state laws. Similar to

---

acquirer firms' headquarters. Of more interest is whether the difference in target and acquirer state labor laws makes a deal less likely due to higher costs of integration or whether lax labor laws in the target's state make that target more appealing, especially to acquirers located in states with strict labor laws.

Matsa (2010), we use collective bargaining rights of private sector workers measured by the state right-to-work statute indicator and denote firms located in states with a right-to-work statute or constitutional amendment as having an employee-unfriendly (weak labor rights) regime, and vice versa, firms in states without right-to-work statutes as being in an employee-friendly (strong labor rights) environment. Right-to-work states do not allow the use of union membership and payment of fees as a condition of employment, thus, prior work has linked right-to-work provisions to weaker collective bargaining power. The data on right-to-work state laws is obtained from the Department of Labor and is summarized in Appendix B.[3]

Labor rights applicable to all workers, including non-union workers, also exhibit considerable state level variation. A key source of variation in state labor laws involves common law exceptions to "at will" employment[4] - public policy (the reason for termination cannot violate the state's public policy); implied contract (assurance of continued employment in employee handbooks, policies, etc. implies presence of a contract); good faith (termination cannot occur with bad faith). Since these exceptions make termination more difficult, states that recognize one or more exceptions to "at will" employment are classified as having strong labor rights. The Department of Labor provides state level data on this variable.

Approximately two-thirds of the firms in our sample (both acquirers and targets) are from strong labor rights states. Based on Panel B of Table 1, the strength of collective

[3] Firm level unionization data is more affected by endogeneity and more scarce, for example prior work has used data for 1977, 1987, and 1999 (Hirsch (1991); Eschuk (2001)). Our sample spans 1985–2009, with most of the observations in the late eighties and onward.

[4] "At will" employment means that "when an employee does not have a written employment contract and the term of employment is of indefinite duration, the employer can terminate the employee for good cause, bad cause, or no cause at all" (Muhi, 2001). We note that exceptions to "at will" employment apply to labor disputes. Although at will employment exceptions do not apply to downsizing or restructuring, as might occur in a merger, they proxy the overall strength of worker bargaining rights and potential stakeholder-shareholder conflicts of interest.

bargaining rights is highly correlated with other labor law provisions, specifically, the recognition of exceptions to at-will employment that affect non-unionized workers. Since these are correlated with right-to-work provisions and since right-to-work statutes capture incentive conflicts more directly, we will focus on right-to-work statutes for our main tests. Sensitivity tests will consider other dimensions of labor law.

4. Results

4.1. Acquirer announcement returns

We begin with univariate tests of CARs around the announcement in Panel A of Table 1. The acquirer announcement return captures the market's view of whether the acquirer's management is creating or destroying shareholder wealth through the proposed acquisition. Average CARs by labor law regime are shown in Panel A of Table 1 and in Figure 1 in Appendix C. Empirically, acquirers from employee-friendly states exhibit a less favorable market reaction. The difference – approximately 0.5% over a five-day window – is statistically significant and economically meaningful. The use of cumulative excess returns around the announcement yields similar results. The univariate evidence appears to be consistent with the stakeholder-shareholder conflict within the acquirer firm, resulting in an adverse effect of such acquirer's M&A decisions on the acquirer's shareholder wealth. However, univariate tests do not account for firm and deal characteristics that may explain the market reaction to M&A announcements.

[Table 2]

Multivariate tests are reported in Panel B.[5] The effect of the labor law regime in the acquirer state remains statistically and economically significant. After industry, firm and deal level controls are incorporated, the difference in CARs between acquirers from weak labor rights and strong labor rights states averages 0.5% (columns I-III). While we observe a strong effect of the acquirer labor law regime, there does not appear to be an incremental effect of the target labor law regime (column IV) when both are included. With the caveat that the choice of target state (and correspondingly, target labor law regime) is affected by the acquirer labor law regime, which will be examined later in the paper, potential shareholder-stakeholder conflicts within the acquirer appear to be more consequential for the shareholder wealth implications of M&A decisions.

Other coefficients enter with expected signs, given existing work. Acquirer size is negatively associated with deal returns (e.g., Moeller, Schlingemann, and Stulz (2004), Masulis, Xie, and Wang (2007)), consistent with the argument that large acquirers are more susceptible to managerial hubris that may lead to value-destroying acquisitions. Relative deal size, defined as deal value divided by acquirer market value of equity, enters with a negative sign, consistent with the finding in Moeller et al. (2004) for large acquirers.[6] Diversifying deals are associated with significantly less favorable market reaction, consistent with Morck, Shleifer and Vishny (1990) and Amihud and Lev (1981): although managers with undiversifiable human capital invested in the firm prefer a more conservative risk profile for their firms, such deals are on average more likely to destroy value for the acquirer's shareholders. After industry effects are included, the high tech indicator does not enter significantly. Economic magnitudes are shown in Figure 2. Not only does the labor rights

[5] Standard errors are clustered by state to address correlation of errors across deals conducted within the same acquirer or target legal regime.
[6] The average acquirer in our sample has market (book) value of total assets of about $4.0 bln ($3.1 bln).

effect have economic importance on its own, it is also sizeable relative to the economic effects of other x-variables, all else equal.

Overall, after controlling for a range of determinants of M&A announcement returns, the negative relation between an employee-friendly acquirer state law regime and acquirer CARs remains statistically and economically significant, consistent with the employee-shareholder conflict of interests within the acquirer firm affecting shareholder value effects of acquisition decisions.

Next we perform a number of additional sensitivity tests to check whether the results are affected by the inclusion of additional controls, alternative dependent variable definitions, and refinement of sample selection criteria.

Sensitivity checks and additional tests

The robustness checks are shown in Table 3. Panel A reports specifications containing several additional control variables. In column I we consider the potential effects of state anti-takeover laws. Masulis, Xie, and Wang (2007) conclude that the effects of governance in the acquirer firm on acquisition performance are recognized by investors in the market reaction to an acquisition announcement. Although no single governance measure is immune to measurement error and endogeneity criticisms, anti-takeover laws have been treated as a more exogenous source of variation in governance provisions that is conducive to managerial entrenchment (Gompers, Ishii, and Metrick (2003), Bebchuk and Cohen (2005), Cremers and Nair (2005), Bertrand and Mullainathan (2003), Masulis, Xie, and Wang (2007), etc.). We use an index of anti-takeover defenses based on the laws in effect in the state of incorporation of the acquirer, a measure that is potentially less endogenous than firm-level G index provisions. The index enters with a negative effect, consistent with the

entrenchment intuition (managers are more likely to undertake empire-building acquisitions and possibly pursue deals of lower quality if their own firms, hence managerial career prospects, are shielded from the corporate control market), but it is not significant after other variables are incorporated. Importantly, the labor rights effect remains significant.

[Table 3]

We include target industry effects in column II. Columns III and IV include additional acquirer and deal characteristics. Acquirer market-to-book ratio, a measure of growth opportunities at the acquirer firm, enters with a positive sign (similar to Lang, Stulz, and Walking (1991) and Servaes (1991)). When acquirers characterized by strong growth prospects pursue external investment opportunities through acquisitions, they similarly demonstrate more investment efficiency than mature acquirers, which may be more affected by agency concerns. Acquirer cash flow does not enter significantly. The negative effect predicted by the free cash flow theory may be offset by the positive relation due to observed cash flows serving as a proxy for inherent manager or firm quality (Masulis, Xie, and Wang (2007)). The dividend dummy and debt ratio are included as proxies for disciplinary mechanisms that can remedy free cash flow problems (e.g., Jensen (1986); Smith and Watts (1992); John, Knyazeva, and Knyazeva (2011)). After the other controls are in place, they do not enter significantly. We also include an indicator for the public status of the target firm as an additional control. Consistent with earlier work (e.g., Moeller, Schlingemann, and Stulz (2004); Masulis, Xie, and Wang (2007)), deals involving public targets generate significantly lower announcement returns for the acquirer firm. After the inclusion of additional deal characteristics, the relative deal size coefficient becomes positive, consistent with the monitoring argument in Moeller, Schlingemann, and Stulz (2004). The use of defensive

tactics by the target, which may elicit a transfer of wealth to the target's shareholders, has a negative effect on acquirer returns. The percentage stake sought, M&A deal volume in the target industry (a proxy for merger waves), and the indicator for the target firm location in the same state as the acquirer (a proxy for the costs of distance) are also include, and their inclusion does not overturn the main finding: the acquirer labor rights coefficient retains its sign, order of magnitude, and significance.

Panel B applies alternative sample selection criteria to verify robustness of the results. The main sample includes bids for a fifty-percent or larger stake in the target. Lowering the threshold to ten percent to include smaller block acquisitions results in a larger sample but does not affect the significance or the order of magnitude of the result (column I). Even when the bidder seeks a minority stake investment, agency conflicts between shareholders and labor affect shareholder value creation and investment efficiency. In turn, raising the selection threshold to only include deals where the acquirer is seeking to purchase a hundred percent stake in the target also does not affect the result (column II). Restricting the sample further to only include successfully completed acquisitions of a hundred percent stake does not affect the significance of the coefficient and results in a slight increase in coefficient magnitude (column III).[7]

In columns IV-V we exclude acquirers operating in regulated industries from the main sample. Financial firms (SIC 6), regulated utilities (SIC 49), and public services (SIC 9) acquirers are subject to regulatory supervision that may have a first-order effect on investment decisions and agency conflicts. Excluding those observations reduces sample size

[7] The indicator for weak labor rights in the target's state now has a negative sign that is marginally significant at ten percent. It is possible that weak labor rights in the target's state mitigate agency conflicts within the target firm, causing management to bargain harder on behalf of the target's shareholders, which is going to hurt the acquirer's shareholders. However, the marginal significance in one column and a lack of consistency in the pattern of significance in other columns prevents us from drawing a definitive conclusion.

by approximately thirty percent, but the main effect only gains in magnitude: acquirers from weak labor rights states realize on average 0.74-0.77% higher five-day cumulative abnormal returns on acquisition announcement than their peers from strong labor rights states, all else equal. Excluding Nasdaq firms, which are significantly younger, more focused, and generally have more extensive growth options, thus, potentially, fewer agency conflicts among stakeholders, in column VI does not affect the result.

Our main CAR definition uses a five-day event window around the acquisition announcement. Similar to Masulis, Xie, and Wang (2007), taking two days before, the day of, and two days after the acquisition announcement date recorded in SDC Platinum ensures a hedge against noise in the recorded announcement date. The main result is not affected when alternative event window definitions are used: three-day and twenty-one day windows are considered in columns I and II of Panel C, respectively. Coefficient magnitudes vary but in both cases remain economically and statistically significant. The computation of cumulative abnormal returns on announcement relies on coefficient estimates from the market model of acquirer stock returns prior to the announcement. For robustness we consider a simpler metric, defined as excess acquirer returns over the market return, cumulated over different event windows, in columns III-VI. The results are very similar to the ones obtained with our primary dependent variable definition, so we will retain the main CAR definition for use in the remaining tests. In summary, the main result that strong labor rights are negatively related to the acquirer announcement reaction survives a number of robustness checks and sensitivity tests.

We perform several additional sensitivity tests (not tabulated) to verify the robustness of the findings. To verify the applicability of labor conflicts of interests to firms that are more

labor intensive, we reproduce the result in a subsample of acquirers with below median capital intensity (defined as property, plants and equipment per employee), for which labor conflicts of interests are more likely to matter as those firms are more labor intensive. In a similar vein, to check whether right-to-work law effects are observed in industries with higher union participation, we limit the sample to acquirers in industries with above median union membership, for which collective bargaining rights laws are more likely to matter. The results continue to hold after both sets of tests. To verify the accuracy of location information, we focus on the sample to smaller acquirers (under half a billion in assets), which are less geographically diversified and for which the location measure is more likely to accurately reflect the legal regime covering its employees. Results are qualitatively similar when the sample is limited to firms with a domestic geographic segment only for which the location measure has less noise or when firms with multiple US offices as identified in Capital IQ are excluded.

While endogeneity is a recurring challenge in corporate finance, it is a less significant concern in our empirical setting. First, we perform our analysis in an event study context, examining market reaction to announcements rather than a variety of potentially codetermined corporate accounting ratios. Second, whilst many potential incentive conflict metrics used on the right-hand side in existing work, such as executive pay or managerial ownership, are commonly scrutinized for joint determination with the dependent variables of interest, our study focuses on legal regime characteristics in the acquirer state. For most intents and purposes, location can be reasonably viewed as a predetermined characteristic.

Our main measure of employee-friendliness was based on the presence of a right-to-work statute (see, e.g., Matsa, 2010). Collective bargaining power can be more directly

interpreted in the context of conflicts of interest between shareholders and employee stakeholders. For robustness, we consider other labor law provisions associated with employee friendliness, namely, recognition of exceptions to at-will employment – such as implied contract, public policy, and good faith – in state law. Empirical tests using these measures separately and alongside the right-to-work measures are shown in Table 4. (The presence of an at-will exception in state law indicates more employee friendliness, so the hypothesized sign of the effect is going to be the opposite of the sign of the right-to-work indicator effect.)

[Table 4]

In Column I, the presence of public policy and, at the margin, good faith exceptions to "at will" employment, which reflects stronger labor rights in the acquirer state, has a negative relation with acquirer announcement returns, consistent with earlier results for the main labor law regime measure. As we have noted earlier, the correlation table in Panel B of Table 1 suggests that acquirers classified as operating in weak labor rights states based on the right-to-work metric are also associated with fewer exceptions to "at will employment" recognized in the state labor law. When all four measures are included in the same specification in column II, two measures – indicators for the presence of a right-to-work statute and the public policy exception to at-will employment in the acquirer's state – remain statistically significant. Target labor law remains secondary to acquirer labor law in explaining market reaction on announcement.

4.2. Combined shareholder value generated by the deal and target announcement returns

Our main emphasis has been on the wealth effects of acquisition activity on the acquirer's shareholders. However, the evidence of lower announcement returns to bids made by employee-friendly acquirers does not differentiate the losses to the acquirer's shareholders from wealth transfers to the target's shareholders from the decreased synergies expected by shareholders from the deal overall. To assess the implications for the overall deal synergies, we examine the combined announcement returns for the acquirer and the target, weighted by acquirer and target market values prior to the deal (e.g., similar to Bradley, Desai, and Kim (1988); Agrawal, Cooper, Lian, and Wang, 2012). The sample size is reduced since only publicly listed targets with sufficient daily return data to generate CARs are included. We report the results in Table 5.

[Table 5]

In univariate tests in Panel A, the combined returns from the deal, which measure overall synergies expected by the shareholders from the deal, are lower when the bidder is in an employee-friendly state. Similarly, in multivariate tests in Panel B, weak employee rights acquirers are associated with higher combined CARs. The result is consistent with the notion that shareholder-labor conflicts of interest may interfere with the selection of targets and/or post-merger integration, resulting in fewer synergies being created overall for the shareholders. The target labor law regime effect remains insignificant, consistent with the significantly smaller size of a typical target relative to a typical acquirer.

In Table 6 we examine target announcement returns, a measure of target shareholder wealth effects. In univariate tests in Panel A, targets on the margin realize higher announcement returns when bidders are employee-friendly, suggestive of such acquirers bidding more aggressively and paying less attention to the interests of acquirer investors

when pursuing deals beneficial for the management or employees. The target's employee friendliness does not have a significant effect in univariate tests.

[Table 6]

Regression evidence reveals a negative but insignificant effect of acquirers with weak labor rights on target CAR. It appears that conflicts of interest between shareholders and employees within acquirer firms do not significantly affect bargaining with the target firm after other variables are accounted for. The target labor law regime does not have a significant effect on target shareholders' market reaction.

4.3. Target and deal characteristics

Below we consider whether the choice of target characteristics is significantly dependent on the acquirer's labor rights regime to better understand the specific channels through which acquirer shareholder value may be affected in the course of the M&A transaction.

Employee-friendliness of the target's labor law regime

First, we consider whether labor law regime in the acquirer state affects the acquirer's preferences towards target labor law regime. Based on Figure 3 in Appendix C and Table 7, acquirers from strong labor rights states are significantly more likely to bid for targets in strong labor rights states, and vice versa. One interpretation is that workers in strong labor rights states seek to limit (and have more influence over the firm's investment choices) expansion in weak labor rights locations where the acquirer can transfer operations as part of realizing synergies, potentially resulting in the downsizing of existing workers and additional risks to employee human capital (a disruption of 'quiet life'). The effect is not explained by a

preference regarding same-state acquisitions: limiting the sample to bids for out-of-state targets only in column II does not eliminate the effect.

[Table 7]

Tests of at-will exceptions generate results that are similar to the test based on the presence of a right-to-work statute in the target's state. Acquirers from weak labor rights states prefer targets from weak labor rights states, whether labor rights are measured using collective bargaining protections or protections against firing for workers not covered by collective bargaining contracts.

Diversifying acquisitions

Amihud and Lev (1981) argue that agency conflicts, such as excessive conservatism, can manifest themselves in the form of suboptimal *diversifying* acquisitions meant to reduce overall firm risk and human capital exposure. The argument does not merely affect managers. Employees can similarly prioritize stability and low risk in the firm's cash flows to avoid restructuring during cash flow shortfalls in one industry, resulting in a push for industry diversification and conglomerate acquisitions. The effect of labor law regime on the selection of other important target and deal characteristics is considered in Table 8.

[Table 8]

In column I, after we account for the acquirer's industry, there appears to be a negative relation significant at the 10% level between weak labor rights laws in the acquirer's state and the likelihood that a diversifying bid is made (i.e. a bid for a target firm outside the acquirer's primary industry). The finding is consistent with the notion that employee-shareholder conflicts within the acquirer firm result in a preference for risk reduction and diversifying acquisitions. Control variables are consistent with expectations. Mature

acquirers with fewer internal growth options (and more agency conflicts) are more likely to pursue diversifying deals. Acquirers from smaller industries are more likely to reach outside their industry for external investment opportunities.

Turning to *geographic diversification*, Landier, Nair, and Wulf (2007) argue that the segments of firms ranked as less employee friendly by KLD are more geographically disperse. In columns III and IV we consider the acquirer's preference for same-state targets as a function of the acquirer's labor law regime and the distance between the acquirer and the target. The likelihood of choosing a target located in the same state is not significantly related to labor-friendliness of acquirer state law. However, acquirers from weak labor rights states appear to pursue more distant targets, all else equal, in line with the arms-length argument in Landier et al. (2007) and the focus of weak labor rights acquirers on whether the target offers good investment opportunities.[8] Controls are consistent with expectations. Similar to business diversification, geographic diversification is associated with leveraged, mature acquirers. Large firms are also more likely to diversify geographically through acquisitions of remote or out-of-state targets.

Moeller et al. (2004) and related work demonstrate significant positive acquirer market reaction to bids for private firms. Column V of Panel A shows that acquirers from weak labor rights states are more likely to bid for private targets. Privately held targets may offer better value to the bidder's investors who are essentially providing liquidity to the target's owners with concentrated stakes in the firm. (Due to their concentrated ownership structure, private targets are also characterized by less severe incentive conflicts than dispersely held firms.)

[8] This result therefore does not rely on the logic in Kedia, Panchapagesan, and Uysal (2008) and Kang and Kim (2008) that geographic distance between targets and acquirers creates information asymmetries and monitoring problems, resulting in value loss for acquirers and targets.

Weak labor rights acquirers appear to be less aggressive bidders. Although unsolicited bids are rare, hostile takeover attempts can lead the acquirer to expend additional resources and overpay for the target firm. In column II, acquirers from weak labor rights states appear to be less likely to engage in unsolicited bids. In column VI, bids by weak labor rights acquirers are shown to have a lower likelihood of being completed, consistent with such acquirers being more selective about deals and more willing to walk away from deals that do not create value for acquirer's investors.[9] Column VII examines combined advisory fees as a proportion of deal value. Combined deal fees are lower for bids by acquirers from weak labor rights states. To the extent that deals become more complex and present more agency issues when employee stakeholders have more bargaining power, investment banks advising the deal may impose higher fees. Relative deal size has a positive relation with fees, suggesting that major acquisitions pose additional integration challenges and workload for advisors. Tech sector and public target deals are also associated with higher fees.

Propensity to engage in acquisition activity

Our overall findings are consistent with the interpretation that the labor rights regime affects shareholder value generated from major investment decisions undertaken by the firm's management. In our analysis of the acquirer shareholders' bottom line, we have relied on an event study approach and therefore focused on firms that engaged in acquisition activity. We have found that weak labor rights acquirers, more aligned with shareholders, on average pursue better deals, bid less aggressively, and are less likely to complete deals, conditional on announcing a deal. We next ask such acquirers engage in more or less M&A

[9] To evaluate the alternative that lower deal completion rates are due to target employees' resistance against weak labor rights bidders, in an unreported test we limit the sample to targets in weak labor rights states, whose stakeholders have less bargaining power, and find that weak labor rights bidders remain less likely to complete deals within that subsample, inconsistent with this alternative but in line with the main explanation above.

activity overall. In Table 9, the effect of employee rights on the propensity to engage in acquisition activity is not significant, however, the volume of acquisition activity is actually higher among weak labor rights firms. The evidence suggests that weak labor rights acquirers invest more in acquisitions but are more selective about target and deal quality and more successful at realizing synergies from such deals. Strong labor rights acquirers are more aligned with the employees' incentive for quiet life and unwillingness to undergo restructuring events as well as greater conservatism among employees (whose human capital is vested in the firm). Deals that are announced by employee-friendly acquirers are less likely to create shareholder value, consistent with an employee-shareholder conflict of interest.

[Table 9]

5. Conclusions

This paper has examined an important yet understudied aspect of acquisition activity – the effect of stakeholder protections on acquisition deal characteristics, target selection and value creation for acquirer and target shareholders. We have looked at both acquirer and target legal protections and tested competing hypotheses about incentive conflicts and alignment in synergy creation.

We find that the market reacts more favorably to bids announced by weak labor rights acquirers: acquirer CARs are 0.5% higher on average, all else equal, and 0.75% higher on average after regulated acquirers are excluded from the sample. The evidence is more consistent with the hypothesis that conflicts of interests between shareholders and employee stakeholders within the acquirer firm affect the efficiency of acquisition decisions.

Weak labor rights acquirers also exhibit systematic preferences with respect to target selection and deal characteristics: they pursue targets from weak labor rights states; favor

private targets over publicly listed ones; avoid diversifying deals; make few, if any, unsolicited bids; and invest more often in an arms-length manner, bidding for distant targets. Further, deals involving weak labor rights acquirers have lower combined advisory fees. While these effects partly account for better CARs of weak labor rights acquirers, as regression tests have shown, they do not fully explain the announcement return differential, which we ascribe to reduced shareholder synergies due to conflicts of interest affecting unobservable target characteristics and post-merger integration. Based on the combined announcement returns for the two firms, shareholders of the acquirer and the target derive larger cumulative gains from deals involving weak labor rights acquirers. The evidence is consistent with a stakeholder-shareholder conflict of interest leading to lower overall synergies for the two firms' shareholders and the notion that weak labor rights acquirers are more focused on maximizing the acquirer's shareholder value. Intuitively, at both target selection and post-merger integration stages, employee-friendly acquirers are more likely to favor employee interests over those of shareholders, for example, choosing to reduce firm risk through diversifying deals or to avoid restructuring that involves workforce or pay reductions.

On balance, target labor law regime appears secondary to acquirer labor rights. It is consistent with the key role being played by the acquirer in the post-acquisition integration process and incentive conflict resolution, as well as the larger relative size of the typical acquirer.

Firm location is reasonably predetermined, and the use of state legal protections provides a more exogenous source of variation in labor stakeholder conflicts of interest, compared to firm level measures. We have also examined cases of labor law adoption, to

further mitigate endogeneity concerns, which yielded consistent evidence. The main effects preserve after a number of additional tests and sensitivity checks.

References

Addessi, W., Busato, F., 2009. Fair wages, labor relations and asset returns. Journal of Financial Stability 5, 410–430.

Agrawal, A., 2012. Corporate governance objectives of labor union shareholders: Evidence from proxy voting. Review of Financial Studies 25(1), 187–226.

Agrawal, A., Cooper, T., Lian, Q., Wang, Q., 2012. The impact of common advisors on mergers and acquisitions. Working paper. University of Alabama.

Agrawal, A., Matsa, D., 2013. Labor unemployment risk and corporate financing decisions. Journal of Financial Economics (forthcoming). New York University and Northwestern University.

Amihud, Y., Lev, B., 1981. Risk reduction as a managerial motive for conglomerate mergers. Bell Journal of Economics 12(2), 605–617.

Anderson, K., Doyle, P., Schwenk, A., 1990. Measuring union-nonunion earnings differences. Monthly Labor Review 113(6), 26–38.

Bauer, R., Derwall, J., Hann, D., 2009. Employee relations and credit risk. Working paper. Maastricht University.

Betton, S., Eckbo, B.E., Thorburn, K. 2008. Corporate takeovers. In: B.E. Eckbo (Ed.) Handbook of Corporate Finance: Empirical Corporate Finance, Vol. 2. Elsevier/North-Holland, 289–427.

Bradley, M., Desai, A., Kim, E., 1988. Synergistic gains from corporate acquisitions and their division between the stockholders of target and acquiring firms. Journal of Financial Economics 21(1), 3–40.

Chang, X., Kang, J.-K., Zhang, W., 2012. Employees as creditors: The disciplinary role of pension deficits in mergers and acquisitions. Working paper. Nanyang Business School, Nanyang Technological University, and Xiamen University.

Chen, H.J., Kacperczyk, M., Ortiz-Molina, H., 2011. Labor unions, operating flexibility, and the cost of equity. Journal of Financial and Quantitative Analysis 46(1), 25–58.

Chen, H.J., Kacperczyk, M., Ortiz-Molina, H., 2012. Do non-financial stakeholders affect agency costs of debt? Evidence from unionized workers. Review of Finance 16(2), 347–383.

Edmans, A., 2011. Does the stock market fully value intangibles? Employee satisfaction and equity prices. Journal of Financial Economics 101(3), 621–640.

Filbeck, G., Preece, D., 2003. Fortune's 100 Best Companies to Work for in America: Do they work for shareholders? Journal of Business Finance and Accounting 30(5-6), 771–797.

Hilary, G., 2006. Organized labor and information asymmetry in the financial markets, Review of Accounting Studies 11(4), 525–548.

Huselid, Mark A., 1995. The impact of human resource management practices on turnover, productivity, and corporate financial performance. Academy of Management Journal 38(2), 635–672.

Ichniowski, C., Shaw, K., Prennushi, G., 1997. The effects of human resource management practices on productivity: A study of steel finishing lines. American Economic Review 87(3), 291–313.

Ichniowski, C., Shaw, K., 1999. The effects of human resource management on economic performance: An international comparison of US and Japanese Plants. Management Science 45(5), 704–723.

John, K., Knyazeva, A., Knyazeva, D., 2011. Does geography matter? Firm location and corporate payout policy. Journal of Financial Economics 101(3), 533–551.

Kang, J.-K., Kim, J.-M., 2008. The geography of block acquisitions. Journal of Finance 63(6), 2817–2858.

Kedia, S., Panchapagesan, V., Uysal, V., 2008. Geography and acquirer returns. Journal of Financial Intermediation 17(2), 256–275.

Kessler, D., Katz, L., 2001. Prevailing wage laws and construction labor markets. Industrial and Labor Relations Review 54(2), 259–274.

Knyazeva, A., Knyazeva, D., Masulis, R., 2013. The supply of local directors and board independence. Review of Financial Studies (forthcoming).

Lang, L., Stulz, R., Walkling, R., 1991. A test of the free cash flow hypothesis: The case of bidder returns. Journal of Financial Economics 29, 315–336.

Masulis, R., Xie, F., Wang, C., 2007. Corporate governance and acquirer returns. Journal of Finance 62(4), 1851–1889.

Matsa, D., 2010. Capital structure as a strategic variable: Evidence from collective bargaining. Journal of Finance 65(3), 1197–1232.

Morck, R., Shleifer, A., Vishny, R., 1990. Do managerial incentives drive bad acquisitions? Journal of Finance 45(1), 31–48

Myers, B., Saretto, A., 2011. Leverage and the interaction between firms and non-financial stakeholders: Evidence from contract negotiations and union strikes. Working paper. University of Texas at Dallas and Texas Tech University.

Muhi, C., 2001. The employment-at-will doctrine: Three major exceptions. Monthly Labor Review 124(1), 3–11.

Nelson, Richard, 2001. State labor legislation enacted in 2000. Monthly Labor Review 124(1), 12–24.

Servaes, H., 1991. Tobin's *q* and the gains from takeover. Journal of Finance 46(1), 409–419.

Smith, C., Watts, R., 1992. The investment opportunity set and corporate financing, dividend, and compensation policies. Journal of Financial Economics 32(3), 263–292.

Appendix A. Sample and variable definitions

Sample

The sample covers deals announced during 1985–2009, as recorded in SDC Platinum. Only US publicly listed acquirers that can be matched to Compustat/CRSP data are retained. Announcements involving multiple deals on a single day, deals involving a government stake, deal values that represent less than one percent of the acquirer's market value of equity, deals where the acquirer is seeking to purchase less than fifty percent of the target, acquirers with assets below twenty million or acquirers that are not publicly listed, or observations with missing data the main controls, are excluded, unless specified otherwise. Data on acquirer and target characteristics is obtained from SDC Platinum and Compustat/CRSP. Alternative sample criteria are imposed in sensitivity tests. Use of additional controls and dependent variables may result in varying sample sizes.

Variables

Acquirer CAR is the five-day acquirer cumulative abnormal return on announcement of an acquisition bid, expressed in percentage terms. Returns are obtained from a market model using CRSP value-weighted market returns. Alternative windows (three days and twenty-one day windows around the announcement) are used in sensitivity tests. Sensitivity tests also use three-day, five-day, and twenty-one-day acquirer cumulative excess return over CRSP value-weighted market return on announcement of an acquisition bid (Acquirer Cum. Excess Ret.)

Target CAR is the five-day target cumulative abnormal return on announcement of an acquisition bid, expressed in percentage terms. It is defined only for publicly listed targets.

Combined CAR is the combined acquirer and target CAR on acquisition announcement, defined as the sum of acquirer and target CAR weighted by acquirer and target market values of equity four weeks prior to announcement.

Deal value (log) is the log of deal value.

Acquisition completed is the indicator variable equal to one if the deal is completed according to SDC Platinum, and zero otherwise.

Advisory fees is the ratio of combined acquirer and target advisory fees to deal value.

Acquirer size is the log of acquirer net sales.

Acquirer cash flow is the ratio of acquirer operating income before depreciation to total assets.

Acquirer market-to-book ratio is the ratio of firm market value (defined as book value of total assets minus book value of common equity plus the market value of common equity) to the book value of total assets.

Relative deal size is the ratio of deal value to the acquirer's market value of equity.

Diversifying acquisition is the indicator variable equal to one if the acquirer and the target are from different Fama-French industries, and zero otherwise.

Acquirer and target are tech firms is the indicator variable equal to one if the acquirer and the target are both classified as technology firms (two-digit primary SIC codes 28, 35, 36, 73, and 87), and zero otherwise.

Acquirer is a dividend payer is the indicator variable equal to one if the acquirer pays cash dividends to common shareholders, and zero otherwise.

Acquirer debt ratio is the ratio of the sum of debt in current liabilities and long-term debt to total assets for the acquirer firm.

Acquirer industry size is the log of the sum of net sales in the acquirer's two-digit SIC industry.

Acquirer state size is the log of the sum of net sales in the acquirer's state of location.

Acquirer state anti-takeover laws is the index of state anti-takeover laws in the acquirer's state of incorporation (one is added for the presence of each of the following laws: business combination, cash out, control share acquisition, fair price, director's duties, recapture of profits). The data is obtained from IRRC/RiskMetrics for 1996-2006 (gap years filled in with last known value, similar to earlier work).

Industry acquisitions is the log of the total value of deals in the target's two-digit SIC industry.

Target size is the log of target net sales.

Target from the same state is an indicator variable equal to one if the target firm is headquartered in the same state as the acquirer firm.

Target is a public firm is an indicator variable equal to one if the target firm is publicly listed, and zero if the target firm is privately held. All other targets are excluded.

Stake is the percent stake in the target the acquirer is seeking to buy.

Defensive tactics is the indicator variable equal to one if the target invoked defensive techniques, according to SDC Platinum.

Unsolicited bid is the indicator variable equal to one if the deal is classified as unsolicited in SDC Platinum, and zero otherwise.

Distance to target is the log of one plus distance between headquarters of acquirer and target firms, where available. Zip codes are obtained from SDC Platinum and latitude and longitude data is obtained from the Census (2000 and 2010 editions).

Appendix B. Employee rights

The main measure

The firm is considered to be from a *weak labor rights* state if it is headquartered in a state with a right-to-work statute or constitutional amendment, as of the year of the announcement of the deal. The data is obtained from the Department of Labor (http://www.dol.gov/whd/state/righttowork.htm as of January 2009). The remaining firms are considered to have strong labor rights.

Additional measures

Where specified, strong labor rights are measured with the presence of exceptions to at-will employment:

- indicator for the presence of an implied contract exception
- indicator for the presence of a public policy exception
- indicator for the presence of a good faith exception
- the number of all at-will employment exceptions recognized in the state

The data is obtained from the National Conference of State Legislatures, http://www.ncsl.org/default.aspx?tabid=13339.

State	Year the state became RTW (weak labor rights) state or n.a. (states with strong labor rights, as of 2009)	Year constitutional amendment adopted	Year statute enacted
Alabama	1953		1953
Alaska	n.a.		
Arizona	1986	1946	1947* (approved by voters in 1986)
Arkansas	1944	1944	1947
California	n.a.		
Colorado	n.a.		
Connecticut	n.a.		
Delaware	n.a.		
Florida	1943	1968	1943
Georgia	1947		1947
Hawaii	n.a.		
Idaho	1986		1985* (approved by voters in 1986)
Illinois	n.a.		
Indiana	n.a.		1995 (only school employees)
Iowa	1947		1947
Kansas	1958	1958	
Kentucky	n.a.		
Louisiana	1976		1976
Maine	n.a.		
Maryland	n.a.		
Massachusetts	n.a.		
Michigan	n.a.		
Minnesota	n.a.		
Missouri	n.a.		
Mississippi	1954	1960	1954
Montana	n.a.		
Nebraska	1946	1946	1947
New Hampshire	n.a.		
New Jersey	n.a.		
New Mexico	n.a.		
New York	n.a.		
Nevada	1951	1952	1951
North Carolina	1947		1947

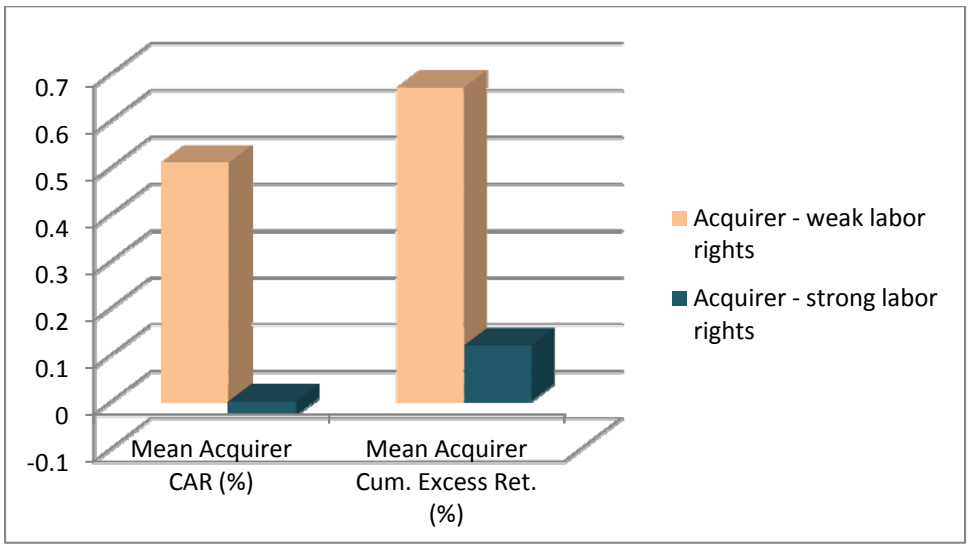
North Dakota	1947	1948	1947
Ohio	n.a.		
Oregon	n.a.		
Oklahoma	2001	2001	2001
Pennsylvania	n.a.		
Rhode Island	n.a.		
South Carolina	1954		1954
South Dakota	1946	1946	1947
Tennessee	1947		1947
Texas	1947		1993
Utah	1955		1955
Vermont	n.a.		
Virginia	1947		1947
Washington	n.a.		
West Virginia	n.a.		
Wisconsin	n.a.		
Wyoming	1963		1963

Notes: The data is obtained from the Department of Labor (http://www.dol.gov/whd/state/righttowork.htm as of January 2009). The remaining firms are considered to have strong labor rights. Indiana adopted a right-to-work statute in 1995, but it is reclassified as a non-right-to-work state because the statute only extended to school employees and not to any private sector industries in our sample. Arizona and Idaho have right-to-work statutes from 1947 and 1985, respectively, but in both states they were approved by voters in 1986, which we use as the statute year. Texas originally introduced the right-to-work law in 1947, with the current wording adopted in 1993.

Appendix C. Economic magnitudes of employee rights effects

Figure 1. Economic magnitudes of univariate effects of labor rights on acquirer CARs

The figures show economic differentials based on the univariate tests of means (Table 2, Panel A). The dependent variable is mean acquirer CAR in the respective labor rights subsample.



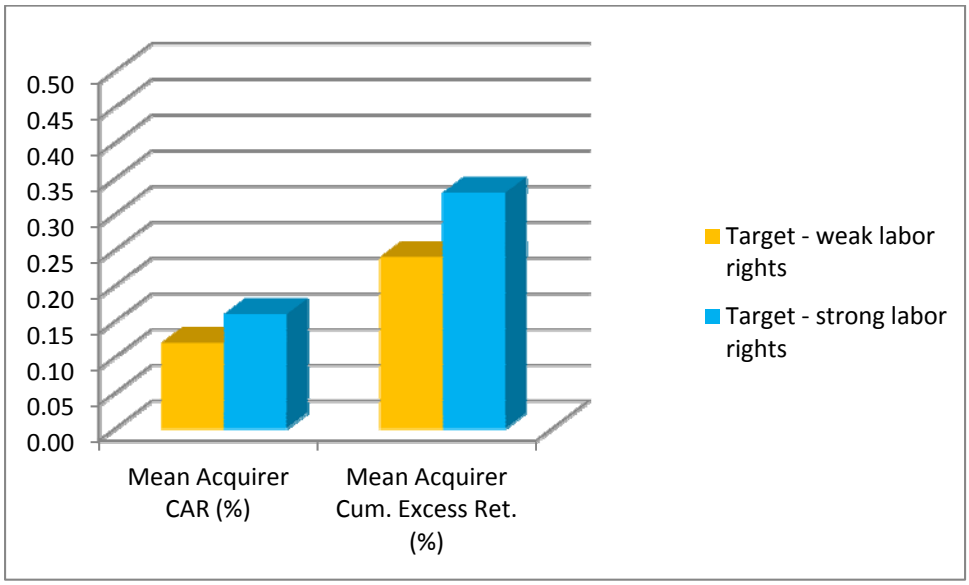


Figure 2. Economic magnitudes of multivariate coefficient estimates of labor rights and other determinants on acquirer CARs

The figure shows economic magnitudes of coefficient estimates from the main specification (Table 2, Panel B, column 3). Economic magnitudes are defined as the change in acquirer CAR, in response to a one-sigma increase in the continuous *x*-variable (acquirer size, relative deal size) or a 1-unit increase in the discrete *x*-variable, all else equal, divided by mean acquirer CAR.

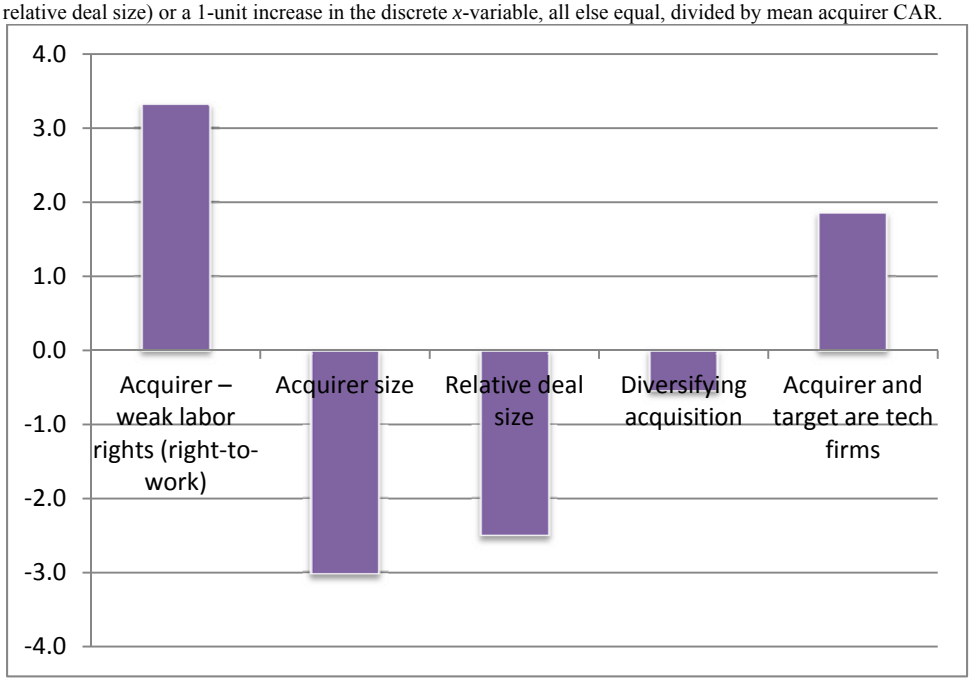
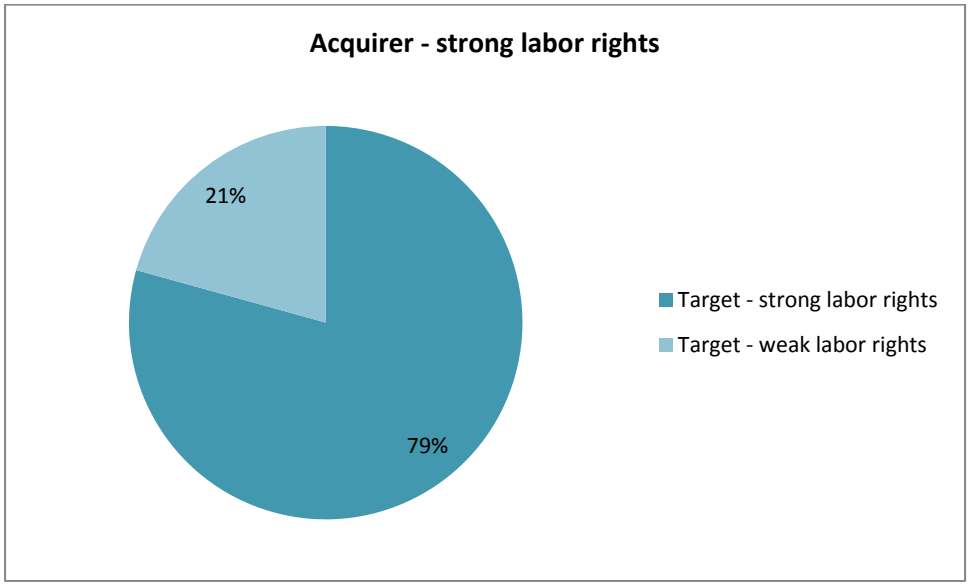


Figure 3. Selection of weak versus strong labor rights targets

The figures depict the percent of deals where targets have weak versus strong labor rights measured by presence/absence of a right-to-work statute in the target's state, conditional on the acquirer having strong labor rights (the top figure) or the acquirer having weak labor rights (the bottom figure). The difference is significant at <1% level. Multivariate tests are conducted in Table 7.



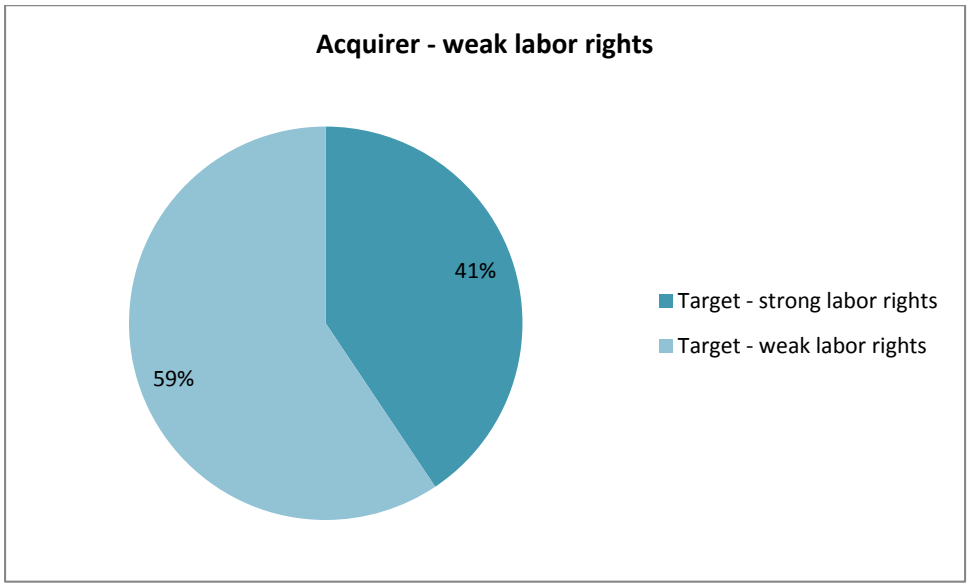


Table 1. Summary statistics for the main variables

Panel A: Summary statistics

	Obs.	Mean	Med.	SD
Acquirer CAR	13838	0.15	-0.05	8.03
Acquirer Cum. Excess Ret.	13838	0.30	0.00	7.99
Acquirer CAR [-1,+1]	13843	0.12	-0.13	6.48
Acquirer Cum. Excess Ret. [-2,+2]	13843	0.20	0.01	6.47
Acquirer CAR [-10,+10]	13739	0.26	0.04	16.50
Acquirer Cum. Excess Ret. [-10,+10]	13739	0.89	0.60	15.48
Acquirer – weak labor rights (right-to-work)	14347	0.33	0.00	0.47
Acquirer – strong labor rights (implied contract exception to at-will)	14347	0.83	1.00	0.38
Acquirer – strong labor rights (public policy exception to at-will)	14347	0.79	1.00	0.41
Acquirer – strong labor rights (good faith exception to at-will)	14347	0.45	0.00	0.50
Target – weak labor rights (right-to-work)	14347	0.34	0.00	0.47
Target – strong labor rights (implied contract exception to at-will)	14347	0.82	1.00	0.39
Target – strong labor rights (public policy exception to at-will)	14347	0.80	1.00	0.40
Target – strong labor rights (good faith exception to at-will)	14347	0.46	0.00	0.50
Acquirer size	14347	5.77	5.62	1.71
Target size	7380	4.09	3.98	1.94
Relative deal size	14347	0.24	0.09	0.42
Diversifying acquisition	14347	0.39	0.00	0.49
Acquirer and target are tech firms	14347	0.25	0.00	0.43
Acquirer cash flow	14347	0.08	0.08	0.11
Acquirer market-to-book	14347	1.84	1.34	1.49
Acquirer is a dividend payer	14260	0.47	0.00	0.50
Acquirer debt ratio	14271	0.24	0.21	0.21
Target is a public firm	14347	0.34	0.00	0.48
Acquisition completed	14230	0.91	1.00	0.29
Advisory fees	3548	1.09	0.93	0.95
Defensive tactics	14330	0.07	0.00	0.26
Unsolicited bid	14330	0.02	0.00	0.15
Stake	14347	99.0	100.0	5.6
Target from the same state	14347	0.30	0.00	0.46
Industry acquisitions	14347	9.02	9.44	1.97
Acquirer industry size	14347	11.04	11.41	1.72
Acquirer state size	14347	11.07	11.14	1.70
Combined CAR	2920	0.94	0.53	7.31
Target CAR	2920	13.00	8.08	20.51

Panel B: Correlations among labor law measures

(Full sample of deal-level observations, described in Appendix A, is used below. All correlations are significant at 1% level.)

Correlation of Acquirer - weak labor rights (right-to-work) with:		
Acquirer – strong labor rights (# exceptions to at-will employment)	-0.45	***
Acquirer – strong labor rights (implied contract exception to at-will)	-0.43	***
Acquirer – strong labor rights (public policy exception to at-will)	-0.18	***
Acquirer – strong labor rights (good faith exception to at-will)	-0.39	***

Table 2. Employee rights and acquirer announcement returns

The sample and variables are defined in Appendix A. The dependent variable is acquirer CAR on acquisition announcement (and acquirer cumulative excess return around the announcement, where specified). Firms located in right-to-work states are classified as having weak labor rights. Firms located in states without a right-to-work statute are classified as having strong labor rights. Panel A uses two-sided t-tests are used to determine significance of differences in means. Panel B reports regressions of acquirer CARs on employee rights, controls, acquirer two-digit SIC industry effects, and year effects; robust *t*-statistics with clustering by acquirer and target state are reported. Statistical significance at the 1%, 5%, and 10% levels is denoted with ***, **, and *, respectively.

Panel A: Univariate tests

Acquirer announcement returns	Mean *Acquirer CAR* (%)		Mean *Acquirer Cum. Excess Ret.* (%)	
Acquirer labor law regime				
Acquirer - weak labor rights	0.51		0.67	
Acquirer - strong labor rights	-0.03		0.12	
Difference (weak labor rights – strong labor rights)	0.54	***	0.55	***
Target labor law regime				
Target - weak labor rights	0.12		0.24	
Target - strong labor rights	0.16		0.33	
Difference (weak labor rights – strong labor rights)	-0.04		-0.09	

Panel B: Multivariate tests

Dependent variable: *Acquirer CAR*	I		II		III		IV	
Acquirer – weak labor rights	0.533	***	0.494	***	0.494	***	0.596	***
	6.14		*5.48*		*5.44*		*4.33*	
Target – weak labor rights							-0.284	
							-1.37	
Acquirer size			-0.262	***	-0.262	***	-0.263	***
			-5.31		*-5.25*		*-5.31*	
Relative deal size			-0.881	***	-0.882	***	-0.884	***
			-3.64		*-3.53*		*-3.57*	
Diversifying acquisition					-0.081		-0.079	
					-0.93		*-0.90*	
Acquirer and target are tech firms					0.276		0.265	
					0.59		*0.57*	
Obs.	13838		13838		13838		13838	
R^2	0.010		0.014		0.014		0.014	

Table 3. Sensitivity tests: additional controls, sample selection criteria, and variable definitions

The sample and variables are defined in Appendix A. The dependent variable is acquirer CAR on acquisition announcement. Firms located in right-to-work states are classified as having weak labor rights. Firms located in states without a right-to-work statute are classified as having strong labor rights. Unless specified otherwise, in addition to the controls in the table, regressions include acquirer two-digit SIC industry effects and year effects; robust *t*-statistics with clustering by acquirer and target state are reported. Panel A, column I also includes target two-digit SIC industry effects. Statistical significance at the 1%, 5%, and 10% levels is denoted with ***, **, and *, respectively.

Panel A: Additional control variables

Dependent variable: Acquirer CAR	I		II		III		IV	
Acquirer – weak labor rights			0.527	***	0.451	***	0.430	***
			7.39		*4.58*		*3.92*	
Target – weak labor rights								
Acquirer size	-0.214	***	-0.272	***	-0.285	***	-0.062	
	-4.48		*-5.39*		*-5.29*		*-1.10*	
Relative deal size	-0.811	*	-0.880	***	-0.924	***	-0.014	
	-1.89		*-3.65*		*-3.45*		*-0.05*	
Diversifying acquisition	0.029		-0.255	***	-0.080		-0.199	**
	0.25		*-2.76*		*-0.93*		*-2.09*	
Acquirer and target are tech firms	0.418		0.065		0.328		0.442	
	0.62		*0.10*		*0.68*		*0.91*	
Acquirer state anti-takeover laws	-0.081							
	-1.39							
Acquirer cash flow					0.186		0.377	
					0.17		*0.44*	
Acquirer market-to-book ratio					0.047	***	0.033	***
					2.81		*10.53*	
Acquirer is a dividend payer					-0.003			
					-0.01			
Acquirer debt ratio					1.073	*		
					1.87			
Target is a public firm							-1.378	***
							-7.99	
Acquisition completed							10.106	*
							1.85	
Defensive tactics							-1.043	***
							-5.79	
Stake							-0.021	
							-1.49	
Industry acquisitions							-0.072	*
							-1.86	
Target from the same state							0.251	
							1.46	
Obs.	10091		13838		13708		12431	
R^2	0.02		0.02		0.01		0.02	

Panel B: Alternative sample selection criteria

Dependent variable: Acquirer CAR	I	II	III	IV	V	VI
Sample criterion:	Stake≥10%	Stake= 100%	Stake= 100%, completed	Excl. SIC 6	Excl. SIC 6, 49, 9	Excl. Nasdaq
Acquirer – weak labor rights	0.536 ***	0.639 ***	0.655 ***	0.731 ***	0.750 ***	0.410 ***
	4.24	*4.58*	*4.40*	*5.48*	*5.39*	*3.10*
Target – weak labor rights	-0.201	-0.285	-0.328	-0.373	-0.391	-0.169
	-0.98	-1.31	-1.60	-1.28	-1.25	-0.86
Acquirer size	-0.259 ***	-0.281 ***	-0.267 ***	-0.306 ***	-0.310 ***	-0.295 ***
	-5.65	*-5.23*	*-5.09*	*-4.83*	*-4.69*	*-8.52*
Relative deal size	-0.896 ***	-0.868 ***	-0.667 **	-0.895 ***	-0.848 **	-0.757 ***
	-3.79	*-2.71*	*-2.17*	*-3.00*	*-2.53*	*-3.97*
Diversifying acquisition	-0.064	-0.010	-0.050	-0.058	-0.074	0.162 **
	-0.53	*-0.09*	*-0.53*	*-0.73*	*-1.27*	*2.02*
Acquirer and target are tech firms	0.245	0.231	0.231	0.308	0.302	0.716
	0.50	*0.47*	*0.43*	*0.64*	*0.63*	*1.40*
Obs.	14282	13230	11958	9553	9242	7672
R^2	0.014	0.015	0.016	0.015	0.015	0.023

Panel C: Additional dependent variable definitions

Dependent variable:	I Acquirer CAR [-1,+1]	II Acquirer CAR [-10,+10]	III Acquirer Cum. Excess Ret. [-1,+1]	IV Acquirer Cum. Excess Ret. [-2,+2]	V Acquirer Cum. Excess Ret. [-10,+10]
Acquirer – weak labor rights	0.213 ***	0.929 ***	0.501 ***	0.230 ***	0.777 **
	3.12	*2.62*	*7.36*	*4.30*	*2.34*
Acquirer size	-0.292 ***	-0.209 ***	-0.280 ***	-0.299 ***	-0.244 ***
	-6.77	-2.60	-5.36	-6.59	-3.94
Relative deal size	-0.880 ***	-0.654 ***	-0.963 ***	-0.942 ***	-1.222 ***
	-3.88	*-2.68*	*-3.52*	*-3.96*	*-4.18*
Diversifying acquisition	0.032	0.004	-0.050	0.040	0.164
	0.45	*0.01*	*-0.68*	*0.54*	*0.58*
Acquirer and target are tech firms	-0.134	0.392	0.301	-0.153	0.733
	-0.35	*0.39*	*0.65*	*-0.39*	*0.82*
Obs.	13843	13739	13838	13843	13739
R^2	0.019	0.010	0.014	0.019	0.011

Table 4. Additional tests and measures of state labor rights

The sample and variables are defined in Appendix A. This table reports regressions of acquirer CAR on additional measures of labor law provisions. In addition to the controls in the tables, regressions in both panels include acquirer two-digit SIC industry effects and year effects; robust *t*-statistics with clustering by acquirer and target state are reported. Statistical significance at the 1%, 5%, and 10% levels is denoted with ***, **, and *, respectively.

Dependent variable: Acquirer CAR	I		II		III	
Acquirer – weak labor rights (right-to-work state)			0.423	**	0.590	***
			2.48		*4.19*	
Acquirer – strong labor rights (implied contract exception to at-will)	-0.067		0.127			
	-0.46		*0.62*			
Acquirer – strong labor rights (public policy exception to at-will)	-0.296	***	-0.311	***		
	-4.63		*-3.88*			
Acquirer – strong labor rights (good faith exception to at-will)	-0.272	*	-0.168			
	-1.81		*-1.09*			
Target – weak labor rights (right-to-work state)					-0.283	
					-1.64	
Target – strong labor rights (implied contract exception to at-will)					0.109	
					0.39	
Target – strong labor rights (public policy exception to at-will)					-0.323	
					-1.66	
Target – strong labor rights (exception to at-will)					0.061	***
					0.41	
Acquirer size	-0.267	***	-0.263	***	-0.264	***
	-5.50		*-5.49*		*-5.34*	
Relative deal size	-0.903		-0.892		-0.887	
	-3.65		*-3.64*		*-3.60*	
Diversifying acquisition	-0.081		-0.079		-0.083	
	-0.92		*-0.88*		*-1.08*	
Acquirer and target are tech firms	0.311	**	0.305	**	0.264	**
	0.65		*0.63*		*0.57*	
Obs.	13838		13838		13838	
R^2	0.014		0.014		0.014	

Table 5. Total shareholder value generated by the deal

The sample and variables are defined in Appendix A. The dependent variable is the combined acquirer and target CAR on acquisition announcement (and combined acquirer and target cumulative excess return around the announcement, where specified). Firms located in right-to-work states are classified as having weak labor rights. Firms located in states without a right-to-work statute are classified as having strong labor rights. Panel A uses two-sided t-tests are used to determine significance of differences in means. Panel B reports regressions of combined acquirer and target CAR on employee rights, controls, acquirer and target two-digit SIC industry effects, and year effects; robust *t*-statistics with clustering by acquirer and target state are reported. Statistical significance at the 1%, 5%, and 10% levels is denoted with ***, **, and *, respectively.

Panel A: Univariate tests

Combined announcement returns	Mean *Combined CAR* (%)	Mean *Combined Cum. Excess Ret*. (%)
Acquirer labor law regime		
Acquirer - weak labor rights	1.49	1.61
Acquirer is from a strong labor rights state	0.67	0.85
Difference (weak labor rights – strong labor rights)	0.81 **	0.77 **
Target labor law regime		
Target - weak labor rights	1.24	1.38
Target - strong labor rights	0.78	0.95
Difference (weak labor rights – strong labor rights)	0.46	0.43

Panel B: Multivariate tests

Dependent variable: *Combined CAR*	I	II	III
Acquirer – weak labor rights	0.855 ***	0.796 ***	0.735 ***
	4.08	*4.05*	*4.03*
Target – weak labor rights		0.165	0.156
		0.47	*0.44*
Acquirer size	-0.164 **	-0.166 **	-0.176 **
	-2.31	*-2.37*	*-2.39*
Relative deal size	1.175 ***	1.171 ***	1.140 ***
	2.86	*2.87*	*2.61*
Diversifying acquisition	-0.389	-0.391	-0.426
	-1.46	*-1.47*	*-1.59*
Acquirer and target are tech firms	-0.467	-0.473	-0.523
	-0.45	*-0.46*	*-0.49*
Acquirer/target size			-5.E-04
			-0.51
Stake			-0.007
			-0.24
Obs.	2918	2918	2895
R^2	0.090	0.090	0.089

Table 6. Target announcement returns

The sample and variables are defined in Appendix A. The dependent variable is target CAR on acquisition announcement (and target cumulative excess return around the announcement, where specified). Firms located in right-to-work states are classified as having weak labor rights. Firms located in states without a right-to-work statute are classified as having strong labor rights. Panel A uses two-sided t-tests are used to determine significance of differences in means. Panel B reports regressions of target CAR on employee rights, controls, acquirer and target two-digit SIC industry effects, and year effects; robust *t*-statistics with clustering by acquirer and target state are reported. Statistical significance at the 1%, 5%, and 10% levels is denoted with ***, **, and *, respectively.

Panel A: Univariate tests

Target announcement returns	Mean Target CAR (%)	Mean Target Cum. Excess Ret. (%)
Acquirer labor law regime		
Acquirer - weak labor rights	12.13	12.41
Acquirer - strong labor rights	13.58	13.90
Difference (weak labor rights – strong labor rights)	-1.45 *	-1.49 *
Target labor law regime		
Target - weak labor rights	12.25	12.58
Target - strong labor rights	13.54	13.83
Difference (weak labor rights – strong labor rights)	-1.29	-1.26

Panel B: Multivariate tests

Dependent variable: *Target CAR*	I	II	III
Acquirer –weak labor rights	-0.784	-0.619	-0.584
	-1.19	*-1.05*	*-1.05*
Target – weak labor rights		-0.475	-0.449
		-0.74	*-0.70*
Target size	-0.205	-0.201	-0.219
	-1.34	*-1.34*	*-1.50*
Relative deal size	-2.959 ***	-2.953 ***	-3.002 ***
	-4.01	*-3.98*	*-4.09*
Diversifying acquisition	-0.702	-0.695	-0.676
	-0.56	*-0.55*	*-0.55*
Acquirer and target are tech firms	-0.778	-0.766	-0.731
	-0.31	*-0.31*	*-0.31*
Stake			0.128 *
			1.92
Obs.	2860	2860	2860
R^2	0.089	0.089	0.090

Table 7. Target selection: labor law regime

The sample and variables are defined in Appendix A. The dependent variables reflect the labor law regime in the target's state. In addition to the controls in the table, regressions include acquirer two-digit SIC industry effects and year effects; ordinary least squares estimation is used in column III; logit estimation is used in the remaining columns; robust *t*-statistics with clustering by acquirer and target state (ordinary least squares) and by acquirer state (logit) are reported; all observations, including observations with insufficient data to compute acquirer CARs are added into the sample in these tests; deals where the target and the acquirer are from the same state are excluded in column II. Statistical significance at the 1%, 5%, and 10% levels is denoted with ***, **, and *, respectively.

	I	II	III	IV	V	VI
Dependent variable:	Target – weak labor rights (right-to-work state)		Target – strong labor rights (# exceptions to at-will)	Target – strong labor rights (implied contract exception)	Target – strong labor rights (public policy exception)	Target – strong labor rights (good faith exception)
	All deals	Different states	All deals	All deals	All deals	All deals
Acquirer – weak labor rights (right-to-work state)	1.611 ***	0.469 ***	-0.407 ***	-1.020 ***	-0.617 **	-0.604 ***
	16.60	*3.13*	*-4.25*	*-4.38*	*-2.12*	*-3.61*
Acquirer size	-0.025	-0.033 *	0.010 *	0.026	-0.004	0.029
	-1.27	*-1.87*	*1.90*	*0.88*	*-0.14*	*1.50*
Acquirer market-to-book ratio	-0.059 ***	-0.061 *	0.027 ***	0.022	0.028	0.097 ***
	-2.58	*-1.73*	*3.74*	*0.93*	*1.62*	*5.27*
Acquirer cash flow	0.028	-0.173	-0.075	-0.224	0.227	-0.401 *
	0.10	*-0.48*	*-0.98*	*-0.56*	*0.84*	*-1.86*
Obs.	14214	9976	14214	14214	14214	14214
R^2			0.08			
Pseudo-R^2	0.138	0.046		0.073	0.035	0.040

Table 8. Other target and deal characteristics

The sample and variables are defined in Appendix A. Firms located in right-to-work states are classified as having weak labor rights. Firms located in states without a right-to-work statute are classified as having strong labor rights. The columns examine the incidence of diversifying acquisitions (from the business/industry and geographic standpoint), unsolicited bids, bids for publicly listed targets, deal completion and deal fees (the latter two tests use all observations, including observations with insufficient data to compute acquirer CARs, are used). In addition to the controls in the table, regressions include acquirer two-digit SIC industry effects and year effects; ordinary least squares estimation is used in columns IV and VII; logit estimation is used in the remaining columns; robust *t*-statistics with clustering by acquirer and target state (ordinary least squares) and by acquirer state (logit) are reported. Statistical significance at the 1%, 5%, and 10% levels is denoted with ***, **, and *, respectively.

	I	II	III	IV	V	VI	VII
Dependent variable:	Diversifying acquisition	Unsolicited bid	Target from the same state	Distance to target	Target is a public firm	Acquisition completed	Advisory fees
Acquirer – weak labor rights	-0.077 *	-0.225 *	-0.080	0.211 **	-0.286 ***	-0.149 **	-0.096 **
	-1.78	*-1.69*	*-0.51*	*2.17*	*-3.84*	*-2.44*	*-2.42*
Acquirer size	0.006	0.243 ***	-0.217 ***	0.112 ***	0.474 ***	0.089 ***	-0.014
	0.33	*4.80*	*-3.88*	*3.40*	*28.25*	*4.42*	*-0.76*
Acquirer market-to-book ratio	-0.044 ***	-0.050	0.024	0.001	-0.001		
	-2.88	*-0.71*	*0.95*	*0.05*	*-0.05*		
Sales growth	0.023	-0.176	-0.087 ***	0.098 ***	-0.021		
	0.78	*-1.32*	*-4.10*	*5.61*	*-0.51*		
Acquirer cash flow	-0.129	0.558	-0.277	0.420 **	-1.730 ***		
	-0.49	*0.91*	*-1.04*	*2.07*	*-9.42*		
Acquirer is a dividend payer	-0.087	-0.117	-0.010	-0.051	0.037		
	-1.07	*-0.64*	*-0.08*	*-0.64*	*0.55*		
Acquirer debt ratio	0.203	0.919 **	-0.789 ***	0.162	-0.375		
	1.50	*2.30*	*-4.64*	*1.17*	*-1.28*		
Acquirer industry size	-0.047 **						
	-2.10						
Acquirer state size			0.242 ***	-0.092 *			
			4.21	*-1.75*			
Relative deal size						-0.759 ***	0.111 **
						-12.89	*2.36*
Diversifying acquisition						-0.042	0.052
						0.393	0.214
Acquirer and target are tech firms						0.366 ***	0.196 **
						2.93	*2.33*
Target is a public firm						-0.984 ***	0.419 ***
						-10.42	*6.33*
Industry acquisitions						0.009	-0.012
						0.60	*-0.96*
Obs.	13513	13497	13513	8283	13513	14614	3465
R^2				0.120			0.225
Pseudo-R^2	0.180	0.109	0.115		0.168	0.092	

Table 9. Labor rights and the incidence and volume of acquisition activity

Compustat/CRSP sample for 1985–2009. Variables are defined in Appendix A. The dependent variable is the indicator for having acquisition activity in a given year (columns I and III) and the level of acquisition activity scaled by total assets (columns II-IV), as reported in Compustat in a given year. Firms located in right-to-work states are classified as having weak labor rights. Firms located in states without a right-to-work statute are classified as having strong labor rights. Industry acquisition activity in column III is defined as the proportion of firms reporting acquisition activity in a given year among industry firms and in column IV as the median of acquisition volume across industry firms in a given year, based on two-digit SIC definitions. Firm size is measured as log of market value of the firm. In addition to the controls in the table, regressions include acquirer two-digit SIC industry effects and year effects. Robust *t*-statistics are clustered by firm. Statistical significance at the 1%, 5%, and 10% levels is denoted with ***, **, and *, respectively.

	I	II	III	IV
Dependent variable:	Acquisition activity indicator	Acquisitions/ Total assets	Acquisition activity indicator	Acquisitions/ Total assets
Weak labor rights	0.011	0.002 **	0.003	0.001 *
	1.02	*2.15*	*0.30*	*1.76*
Weak labor rights*Industry acquisition activity			0.018	-0.018
			0.64	*-0.11*
State anti-takeover laws	-2.5E-04	-1.9E-04	-8.2E-05	-1.2E-04
	-0.07	*-0.75*	*-0.02*	*-0.57*
Firm size	0.077 ***	0.013 ***	0.074 ***	0.013 ***
	9.74	*8.52*	*10.08*	*8.54*
Market-to-book ratio	0.062 ***	0.003 ***	0.061 ***	0.002 ***
	34.18	*13.13*	*39.14*	*13.42*
Sales growth	0.087 ***	0.009 ***	0.095 ***	0.012 ***
	8.09	*8.70*	*9.98*	*11.17*
Cash flow	-0.029 ***	-0.002 ***	-0.027 ***	-0.002 ***
	-22.72	*-14.85*	*-23.24*	*-12.14*
Dividend payer dummy			-0.009	-0.003 ***
			-1.04	*-3.62*
Debt ratio			0.081 ***	0.021 ***
			8.98	*18.23*
Industry acquisition activity			0.913 ***	1.014 ***
			26.42	*11.39*
Obs.	99489	99489	98933	98933
R^2	0.19	0.09	0.20	0.10
Pseudo-R^2	0.19	0.09	0.20	0.10