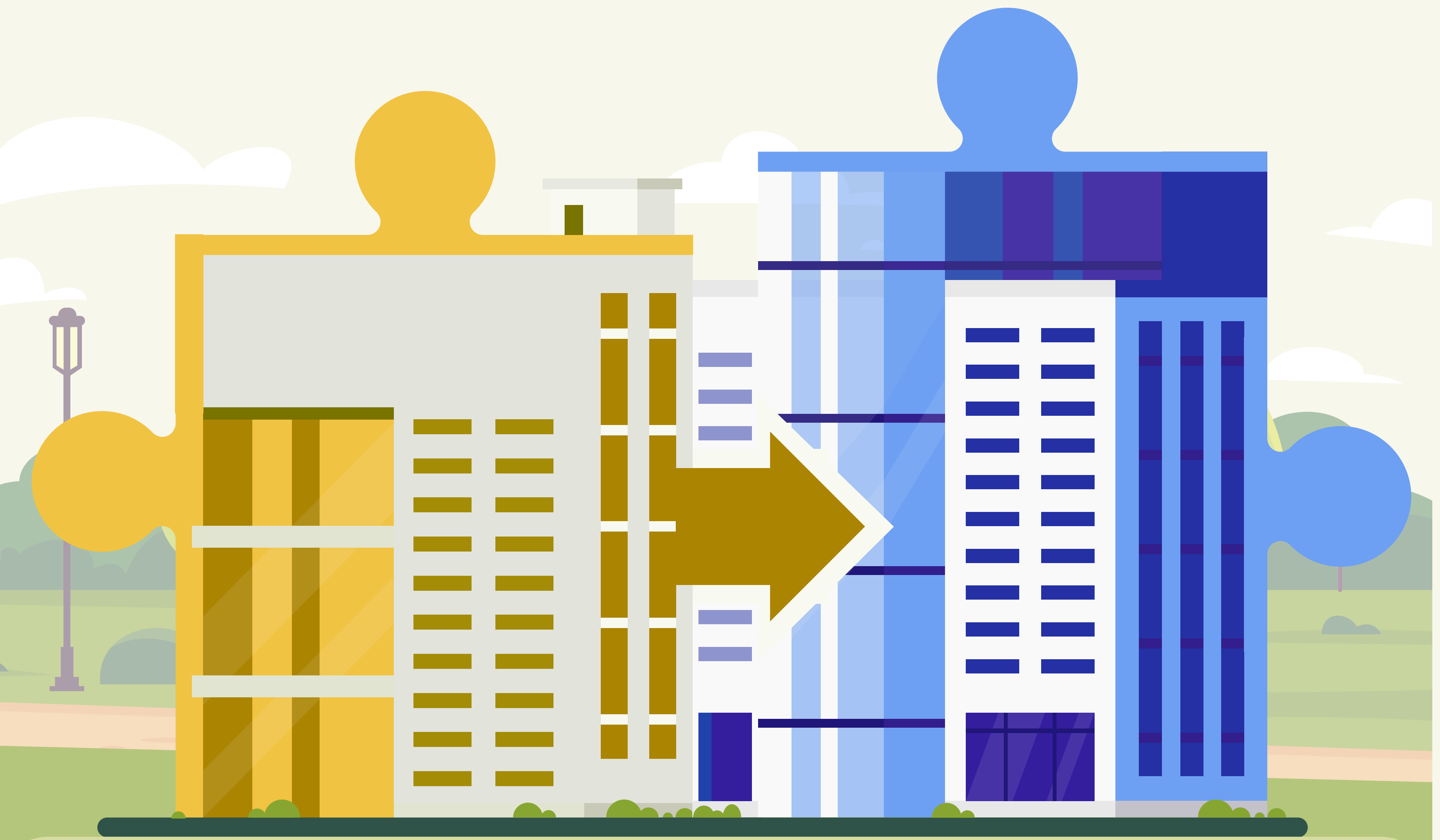
Asymmetric Disclosure of Bad News by Firms Under Control Threat

During corporate control events like mergers and acquisitions, acquirers target firms with good performance records

Negative news disclosures from target firms increases uncertainty about their value, reducing any threat of a takeover attempt



Do firms under control threat promote voluntary disclosure of bad news?

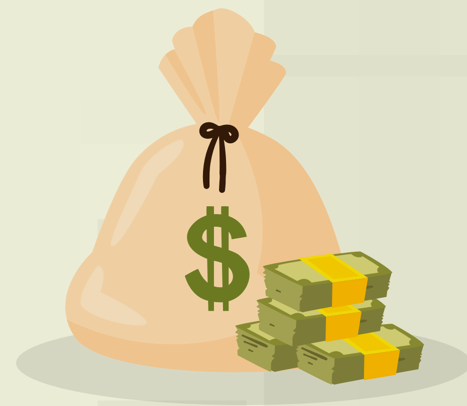
Results from 112 hostile takeover announcements were analyzed

Difference-in-differences technique to study disclosures made by:

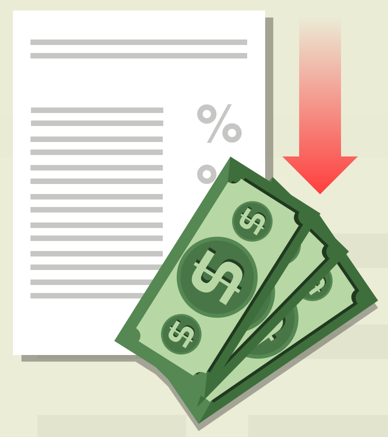
- Treatment firms facing takeover threats
- Control firms in the same industry

Peer firms under control threat:

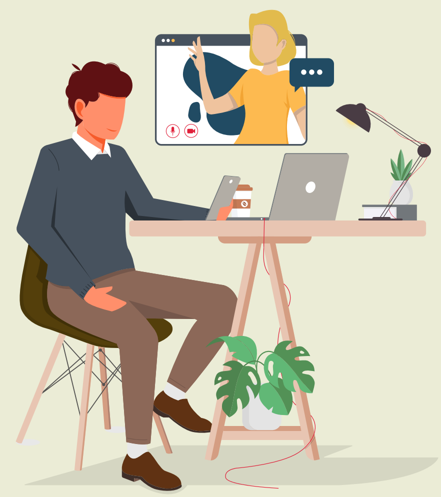
Forecasted more bad news



Bundled bad news forecasts with earnings announcements



Were more likely to manage their accruals downward



Used a more negative tone in conference calls and presentations and highlighted the visibility of negative news

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

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

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

Corporate Control Contests and the Asymmetric Disclosure of Bad News: Evidence from Peer Firm Disclosure Response to Takeover Threat
Chen et al. (2022) | *The Accounting Review* | DOI: 10.2308/TAR-2018-0619