

# **Internet Appendix**

## **For**

### **Employee-Manager Alliances and Shareholder Returns from Acquisitions**

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We report three sets of results in this Internet Appendix.

1. In Table IA.1, we show that our acquirer returns regression results are robust to excluding potentially endogenous firm and deal characteristics as control variables.
2. In Table IA.2, we confirm the managerial entrenchment role of employee block ownership in a comprehensive sample consisting of all firms (acquirers and non-acquirers) in the ISS database during our sample period. Specifically, we estimate a probit model similar to that in Table 8, except that we replace acquirer CAR with a firm's past-one-year buy-and-hold abnormal stock returns. The regression results show that employee block ownership significantly reduces a firm's unconditional probability of becoming a takeover target, and it also significantly weakens the sensitivity of takeover probability to low abnormal stock returns.
3. In Tables IA.3-5, we provide additional evidence for the worker-manager alliance hypothesis by examining whether the relation between employee block ownership and acquirer returns displays any cross-sectional variations that support a causal interpretation. Section III.F.1 discusses these results in more details.

TABLE IA.1

**Baseline Regressions of Acquirer Returns without Controlling for Firm and Deal Characteristics**

The sample consists of 3,778 U.S. acquisitions between 1996 and 2009 made by firms in the ISS database. The dependent variable in columns 1–4 is the 5-day acquirer cumulative abnormal returns (CAR, in percentage points) around the announcement date. In column 5, the dependent variable is an indicator variable that is equal to one if the 5-day acquirer CAR is negative and zero otherwise. The explanatory variables are indicator variables for employee block ownership of at least 5%, 10%, and 15% in columns 1–3 and the continuous measure of employee block ownership (in percentage points) in columns 4 and 5. In parentheses are 2-sided *p*-values based on standard errors adjusted for heteroskedasticity and acquirer clustering. \*, \*\*, and \*\*\* indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

	(1) OLS	(2) OLS	(3) OLS	(4) OLS	(5) Probit
EMPLOYEE_BLOCK_DUM	-0.893** (0.016)				
EMPLOYEE_BLOCK_DUM10		-1.221** (0.012)			
EMPLOYEE_BLOCK_DUM15			-2.324*** (0.001)		
EMPLOYEE_BLOCK_PERCENT				-0.085*** (0.002)	0.010* (0.097)
Year fixed effects	Yes	Yes	Yes	Yes	Yes
Acquirer industry fixed effects	Yes	Yes	Yes	Yes	Yes
No. of obs.	3,778	3,778	3,778	3,778	3,778
Adj./Pseudo $R^2$	0.95%	0.93%	0.99%	0.99%	1.18%

TABLE IA.2

**The Managerial Entrenchment Effect of Employee Block Ownership: Larger Sample Evidence**

Table IA.2 presents results from probit regressions of the likelihood of receiving a takeover bid. The sample consists of 14,648 firm-year observations in the ISS database between 1996 and 2009. The dependent variable is equal to 1 if a firm receives a takeover bid during a fiscal year, and 0 otherwise. EMPLOYEE\_BLOCK\_PERCENT is the percentage of shares held by employee blockholders (in percentage points). “BHAR” is a firm’s past one-year buy-and-hold abnormal returns. LOW\_BHAR is an indicator for firms with past 1-year buy-and-hold abnormal returns that are in the bottom quartile of the sample. The 2-sided *p*-values based on standard errors adjusted for heteroskedasticity and firm clustering are shown in parentheses. \*, \*\*, and \*\*\* indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)
EMPLOYEE_BLOCK_PERCENT	-0.014*** (0.005)	-0.010** (0.020)
BHAR	-0.085** (0.038)	
LOW_BHAR		0.130*** (0.005)
EMPLOYEE_BLOCK_PERCENT × LOW_BHAR		-0.016** (0.020)
FIRM_SIZE	-0.019 (0.135)	-0.015 (0.200)
TOBIN_Q	-0.054*** (0.006)	-0.056*** (0.005)
LEVERAGE	0.209** (0.014)	0.202** (0.022)
ROA	-0.209 (0.128)	-0.179 (0.186)
Year fixed effects	Yes	Yes
Acquirer industry fixed effects	Yes	Yes
No. of obs.	14,648	14,648
Pseudo <i>R</i> <sup>2</sup>	3.47%	3.57%

TABLE IA.3

**Acquirer Returns Regression: Subsample Analysis Based on ATP Indices**

The sample consists of 3,778 U.S. acquisitions between 1996 and 2009 made by firms in the ISS database. The dependent variable is the 5-day acquirer cumulative abnormal returns (in percentage points) around the announcement date. The key explanatory variable is the continuous measure of employee block ownership (in percentage points). Definitions of other independent variables are in the Appendix. In parentheses are 2-sided  $p$ -values based on standard errors adjusted for heteroskedasticity and acquirer clustering. \*, \*\*, and \*\*\* indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

TABLE IA.3 (continued)

	E-INDEX <= E-INDEX >=	
	≤ 2	≥ 3
	1	2
EMPLOYEE_BLOCK_PERCENT	-0.130*** (0.007)	-0.058 (0.123)
E-INDEX	-0.512** (0.033)	-0.151 (0.521)
FIRM_SIZE	-0.346** (0.010)	-0.453*** (0.000)
TOBIN_Q	-0.071 (0.633)	-0.324 (0.173)
LEVERAGE	-1.527 (0.338)	1.904 (0.245)
ROA	3.310 (0.136)	2.992 (0.382)
MANAGEMENT_OWNERSHIP	0.006 (0.819)	-0.071*** (0.006)
RELATIVE_DEAL_SIZE	-0.299 (0.733)	-1.272 (0.125)
PUBLIC_TARGET	-3.253*** (0.000)	-1.760*** (0.000)
PRIVATE_TARGET	-0.884* (0.058)	-0.790** (0.012)
STOCK_FINANCING_PERCENT	-0.013* (0.053)	-0.013*** (0.002)
DIVERSIFYING_ACQUISITION	0.018 (0.963)	-0.188 (0.650)
TENDER_OFFER	2.352*** (0.003)	-0.313 (0.618)
COMPETED_DEAL	-0.476 (0.740)	-0.548 (0.653)
TARGET_INDUSTRY_M&A_ACTIVITY	-3.682 (0.103)	0.751 (0.804)
Year fixed effects	Yes	Yes
Acquirer industry fixed effects	Yes	Yes
No. of obs.	1,903	1,875
Adj. R <sup>2</sup>	5.18%	6.04%

TABLE IA.4

**Acquirer Returns Regressions: Subsample Analysis Based on Acquirer CEO Delta**

The dependent variable is the 5-day acquirer cumulative abnormal returns (in percentage points) around the announcement date. The key explanatory variable is the continuous measure of employee block ownership (in percentage points). Definitions of other independent variables are in the Appendix. In parentheses are 2-sided  $p$ -values based on standard errors adjusted for heteroskedasticity and acquirer clustering. \*, \*\*, and \*\*\* indicate statistical significance at the 10%, 5%, and 1% levels, respectively. Both regressions control for year and industry fixed effects, whose coefficient estimates are suppressed for brevity.

TABLE IA.4 (continued)

	(1) CEO's Delta Is below Sample Median	(2) CEO's Delta Is above Sample Median
EMPLOYEE_BLOCK_PERCENT	-0.117*** (0.010)	-0.055 (0.120)
E-INDEX	-0.190 (0.213)	-0.380*** (0.004)
FIRM_SIZE	-0.567*** (0.001)	-0.219 (0.159)
TOBIN_Q	0.207 (0.443)	-0.209 (0.246)
LEVERAGE	2.874* (0.090)	-1.400 (0.356)
ROA	0.294 (0.888)	4.903* (0.081)
MANAGEMENT_OWNERSHIP	-0.008 (0.837)	-0.021 (0.420)
RELATIVE_DEAL_SIZE	0.200 (0.821)	-2.280*** (0.008)
PUBLIC_TARGET	-2.812*** (0.000)	-2.447*** (0.000)
PRIVATE_TARGET	-0.745* (0.065)	-0.951** (0.031)
STOCK_FINANCING_PERCENT	-0.015** (0.019)	-0.010* (0.096)
DIVERSIFYING_ACQUISITION	-0.309 (0.423)	0.123 (0.749)
TENDER_OFFER	1.033 (0.241)	0.667 (0.322)
COMPETED_DEAL	0.550 (0.771)	-1.241 (0.275)
TARGET_INDUSTRY_M&A_ACTIVITY	1.095 (0.714)	-2.916 (0.163)
Year fixed effects	Yes	Yes
Acquirer industry fixed effects	Yes	Yes
No. of obs.	1,799	1,798
Adj. $R^2$	4.27%	6.48%

TABLE IA.5

**Acquirer Returns Regressions: Subsample Analysis Based on Product Market Threats**

The dependent variable is the 5-day acquirer cumulative abnormal returns (in percentage points) around the announcement date. An acquirer is defined as facing high (or low) product market threats if its product market fluidity measure as constructed by Hoberg et al. (2014) is above (or below) the sample median. The key explanatory variable is the continuous measure of employee block ownership (in percentage points). Definitions of other independent variables are in the Appendix. In parentheses are 2-sided  $p$ -values based on standard errors adjusted for heteroskedasticity and acquirer clustering. \*, \*\*, and \*\*\* indicate statistical significance at the 10%, 5%, and 1% levels, respectively. Both regressions control for year and industry fixed effects, whose coefficient estimates are suppressed for brevity.



TABLE IA.5 (continued)

	(1) High Product Market Threats	(2) Low Product Market Threats
EMPLOYEE_BLOCK_PERCENT	-0.059 (0.224)	-0.145*** (0.004)
E-INDEX	-0.213 (0.194)	-0.314** (0.043)
FIRM_SIZE	-0.374** (0.018)	-0.365** (0.013)
TOBIN_Q	-0.137 (0.465)	0.391 (0.180)
LEVERAGE	0.633 (0.730)	0.878 (0.638)
ROA	1.046 (0.682)	-1.449 (0.688)
MANAGEMENT_OWNERSHIP	-0.058** (0.046)	-0.001 (0.960)
RELATIVE_DEAL_SIZE	-2.110** (0.022)	-0.047 (0.962)
PUBLIC_TARGET	-2.577*** (0.000)	-2.675*** (0.000)
PRIVATE_TARGET	-0.694 (0.180)	-0.823** (0.038)
STOCK_FINANCING_PERCENT	-0.015** (0.037)	-0.017** (0.018)
DIVERSIFYING_ACQUISITION	-0.134 (0.771)	-0.284 (0.462)
TENDER_OFFER	0.912 (0.316)	1.246 (0.186)
COMPETED_DEAL	-1.514 (0.293)	1.040 (0.531)
TARGET_INDUSTRY_M&A_ACTIVITY	-2.897 (0.236)	0.126 (0.964)
Year fixed effects	Yes	Yes
Acquirer industry fixed effects	Yes	Yes
No. of obs.	1,581	1,581
Adj. $R^2$	5.05%	4.76%