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Shantaram P. Hegde, Dev R. Mishra

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Strategic Risk-Taking and Value Creation: Evidence from the Market for Corporate Control

Shantaram P. Hegde[a], Dev R. Mishra[b]

[a]School of Business, University of Connecticut Storrs, CT 06269, USA
[b]Edwards School of Business, University of Saskatchewan Saskatoon, SK S7N 5A7, Canada

Shantaram.hegde@business.uconn.edu
Mishra@edwards.usask.ca

In a large sample of U.S. M&As over 1990-2007 we find that the bidders' poor governance leads to lower levels of internal and external risk-taking, but the risk propensity of target firms does not appear to be compromised by their governance structure. Further, value is created when risk-takers acquire risk-avoiding target firms, but it is destroyed when bidders with a conservative investment policy takeover risk-taking target firms. This value effect is particularly pronounced when bidders are relatively better governed. Thus, our study offers new direct evidence that strategic risk transfer is an important channel of value creation in M&As.

JEL Classification: G3, D2

Keywords: Corporate Governance, Market for Corporate Control, Acquisitions, Takeovers, Agency Problems, Event Study, Risk Taking and Abnormal Returns

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