

CORPORATE INEFFICIENCY AND THE RISK OF TAKEOVER

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Abstract

The present study, using the Cox proportional hazard model, suggests a firm faces a significantly higher risk of takeover if its cost performance lags behind its industry benchmark. The effects of variables capturing cost inefficiency on the risk of takeover appear to be remarkably stable over the nearly two decades spanned by the sample, while the effect of the variables measuring the risk-size relationship indicate temporal changes. Once cost inefficiency is accounted for, the paper fails to find consistent evidence for the effects of other conventionally used performance measures, such as profitability and q , on the risk of takeover.

JEL Keywords: G3 - Corporate Finance and Governance: G34 – Mergers, Acquisitions; C2 - Econometric Methods: C23 - Models with Panel Data, C24 - Truncated and Censored Models.

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