Control Transfer, Cash Holdings, and the Ownership Structure of the Target Firm

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We consider a situation under which raiders with toeholds seek to improve the value of firms controlled by inside minority blockholders who holds cash at their discretion. Raiders can attempt to gain control either by bilateral negotiation for friendly acquisition or by public tender offer for hostile takeover. We show that raiders can gain control only by bilateral block trade, provided that synergy created by friendly acquisition improves firm value more than managerial replacement followed by hostile takeovers. Raiders tend to make a tender offer to firms with larger cash holdings, not for acquiring control but for forcing insiders to distribute cash to existing shareholders as additional dividends. Raiders with lager takeover costs need larger toeholds to undertake takeover strategies. However, the smaller are cash holdings, control transfer is more likely to occur with smaller toeholds, provided that inside ownership is sufficiently large to create large ownership concentration ex post. Our results capture the main features of the changes in the U.S. corporate governance activity throughout the 1980s and 1990s.