INTERNATIONAL JOURNAL OF BUSINESS, 1(1), 1996 ISSN:1083-4346

# MANAGEMENT'S PERSPECTIVES ON COMMON STOCK DUTCH AUCTION TENDER OFFERS

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A survey on common stock repurchase programs completed through dutch auction tender offers was mailed to 57 firms; 23 firms responded. These firms conducted their dutch auctions during the period 1981-1989. Managers perceive common stock repurchases as a cash investment policy decision and as a medium through which management signals the true value of the firm. The results of the survey indicate that these shares have not been repurchased for use in a future acquisition of another firm. Respondents have not identified the factors which determine the premium in a dutch auction common stock tender offer but they do identify the factors which, they believe, do not affect the premium: these factors include dividend policy of the firm, institutional holdings and the performance of the stock relative to the market. Managers choose dutch auction tender offers over traditional fixed price tender offers for several reasons including: a higher probability of success, and avoidance of the pricing decision associated with a fixed price tender offer. Through dutch auction tender offers, managers are able to signal undervaluation of the firm however remain ambiguous about their true estimate of the value of the firm.

## I. INTRODUCTION AND REVIEW OF THE LITERATURE

Prior to 1981, dutch auctions were uncommon in the U.S. capital markets and serious interest in dutch auctions did not develop until the latter half of the 1980s. Traditionally, firms resorted to fixed price self-tender offers and open market purchases as a means of reacquiring their shares. In a traditional self-tender offer, the firm announces its plans to repurchase a stated number of shares outstanding at a fixed price during a specified period. Conversely, in a dutch auction tender offer, the firm announces the number of shares it intends to purchase but it sets a range of prices from which each tendering

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stockholder must choose. A stockholder can submit multiple bids at different prices. The purchase price however becomes the highest price necessary to acquire all the shares the company seeks. For example, the December 22, 1988, edition of the *Wall Street Journal* [15] reports that Schlumberger announced a dutch action repurchase program for which it specified a price range of $32.50-$37.00 a share. A stockholder who owns 1,000 shares may decide to offer for sale 500 shares at $34.875 a share and 200 shares at $33.25 a share. The target number of shares, 30.6 million, (11% of all shares outstanding) were offered at prices between $32.50 and $35.00. The company thereby reacquired the target number of shares which were tendered at $35.00 or less.

The objective of this study is to build upon the survey studies of Baker, Gallagher and Morgan [3] (hereafter BGM) and Wansley, Lane and Sarkar [16] (hereafter WLS) and Austin [1]. This study discloses management's motivations for the reacquisition of shares through a dutch auction tender offer and identifies the determinants of the dutch auction premium range. The findings will be related to those of WLS [16], BGM [3], and Austin [1]. In addition, the motivations for choosing a dutch auction tender offer over a fixed price tender offer are investigated. BGM [3] conclude that repurchasing stock is an investment decision and not a dividend decision. The reacquired shares are used for employees' bonuses or option plans and not for acquisitions, stock splits and conversions. WLS [16] report the following: attitudes of repurchasers (as opposed to nonrepurchasers in the sample) vary by method of purchase and industry. Managers use repurchase programs to signal their confidence in the firm, repurchasing does not occur when market prices are generally low, repurchase programs do not substitute for dividends and repurchase programs are not employed to enhance proportional managerial ownership.

Cash distributions to the firm's stockholders through repurchase programs have been increasingly used as a significant element of the firm's dividend policy. This has occurred at the expense of regular periodic cash disbursements. Market reaction to traditional repurchase programs has been reported in empirical studies such as those of Dann [5], Vermaelen [13], and Masulis [9] who generally report a two-day announcement period return of 14.0 - 17.0 percent. Vermaelen [14] also documents a return of 3.3 percent for open market purchases. Interestingly, Netter and Mitchell [10] also find an announcement period return of 3.45 percent for open market purchases conducted after the 1987 stock market crash. Comment and Jarrel [4] report average excess returns of 11%, 8% and 2% for fixed-price self-tender offers, dutch auctions and open market repurchases, respectively. Bagwell [2], Hausch and Seward [7] and Comment and Jarrell [4] generally find that dutch auction premia are approximately 3.0 - 17.0 percent.

This is the only study which uses a survey to obtain direct evidence on managerial perspectives on dutch auction tender offers. However, while surveys may provide direct evidence on managerial views, the potential no-response or wrong response biases invite a careful interpretation of the results.

## II. SAMPLE DATA AND THE QUESTIONNAIRE

The subject of the Wall Street Journal [15] Index titled "Reacquired Shares" was thoroughly researched to identify all firms that made use of dutch auctions to reacquire their shares during the period 1981-1989. A total of 57 firms were identified. In January 1991, a questionnaire was mailed to the Chief Financial Officers of the identified corporations. Sixteen firms responded to the first mailing. In order to increase the response rate and reduce the non-response bias, a second mailing was sent out to the firms which did not respond to the first mailing. Only seven firms responded to the second mailing. One firm did not complete the survey because it was involved in a pertinent law suit.

The questionnaire consists of three parts. Part I covers the reasons why the firm employs a tender offer, Part II investigates how the auction premium range are determined, and Part III looks into why the dutch auction is chosen over a fixed price tender offer. Tables 1, 2 and 3 detail the survey. The mean response of each statement is also presented and these means are ranked from one (highest) to the lowest.

## III. RESULTS

### Motivations For Reacquisition of Shares

Table 1 shows the responses for motivations for reacquisition of shares. Forty eight percent of respondents report that the repurchase program is not a substitute for a cash dividend (1.10). Managers do not resort to repurchase programs to enable the firm to pay higher dividends in the future, (1.21). Thirty percent of respondents have no opinion on whether investors prefer tax-favored capital gains or cash dividends, (1.23). Responses to Statements 1.4 and 1.22 suggest that managers neither employ common stock repurchase programs to increase the firm's debt ratio nor do they do so to quickly revert to an optimal capital structure. Ironically, more than 50 percent of the respondents believe that repurchase programs provide a speedy and effective mechanism for maintaining an optimal capital structure.

## Table 1

*Which of the following reasons were significant to your firm when your firm repurchased its stock through a dutch auction tender offer? Indicate the extent to which you disagree or agree by using values from the following scale:*

| **The Shares Were Repurchased:** | **Strongly Disagree** | | | **No Opinion** | **Strongly Agree** | | | **Mean** | **Rank** |
|---|---|---|---|---|---|---|---|---|---|
| | **-3** | **-2** | **-1** | | **1** | **2** | **3** | | |
| 1.Because manag- ement believed that the stock was undervalued. | 0% | 4% | 0% | 9% | 17% | 26% | 43% | 1.91[1] | 1 |
| 2.Because the firm was lacking sufficient invest- ment opportun- ities to use available cash. | 9% | 13% | 17% | 13% | 13% | 13% | 22% | 0.35 | 7 |
| 3.To eliminate an overhanging block of shares. | 48% | 22% | 4% | 0% | 13% | 4% | 9% | -1.43[1] | 18 |
| 4.As a means to increase the firm's leverage. | 22% | 9% | 9% | 13% | 30% | 4% | 13% | -0.13 | 10 |
| 5.To increase the fraction of stock held by insiders. | 48% | 9% | 9% | 13% | 9% | 9% | 4% | -1.30[1] | 16 |
| 6.Because the firm has excess cash. | 9% | 9% | 9% | 9% | 13% | 22% | 30% | 0.96[2] | 4 |
| 7.As a part of a defensive meas- ure to fend off a potential hostile takeover. | 48% | 9% | 4% | 0% | 27% | 9% | 5% | -1.09[2] | 15 |
| 8.As a method to convey to invest- | 9% | 0% | 0% | 4% | 35% | 13% | 39% | 1.52[1] | 2 |

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| ors management's confidence in the future level of earnings and stock prices. | | | | | | | | | |
| 9.To establish a floor under the firm's stock price. | 22% | 4% | 35% | 26% | 9% | 4% | 0% | -0.91[1] | 14 |
| 10.As a substitute for a cash divid-end | 35% | 9% | 4% | 9% | 13% | 22% | 9% | -0.43 | 12 |
| 11.Because the general level of stock prices was low. | 13% | 9% | 13% | 22% | 30% | 9% | 4% | -0.09 | 9 |
| 12.To enhance the market's awareness of the firm through press releases of the repurchase program. | 30% | 26% | 9% | 26% | 4% | 4% | 0% | -1.39[1] | 17 |
| 13.To provide shares for divid-end reinvestment plans. | 70% | 22% | 0% | 9% | 0% | 0% | 0% | -2.52[1] | 23 |
| 14.To provide shares for conv-ersion of conv-ertible securities. | 83% | 9% | 4% | 4% | 0% | 0% | 0% | -2.7[1] | 25 |
| 15.To accumu-late shares for stock splits and stock dividends. | 70% | 22% | 4% | 4% | 0% | 0% | 0% | -2.57[1] | 24 |
| 16.To provide shares for em-ployee bonuses, stock options, and retirement plans. | 70% | 9% | 9% | 0% | 9% | 4% | 0% | -2.17[1] | 21 |
| 17.To provide shares for an Employee Stock | 74% | 9% | 4% | 4% | 0% | 4% | 4% | -2.22[1] | 22 |

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|---|---|---|---|---|---|---|---|---|---|
| Ownership Plan. | | | | | | | | | |
| 18.Because the firm's stock price had recently under-performed the market. | 13% | 13% | 13% | 17% | 22% | 13% | 9% | -0.04 | 8 |
| 19.To buy out minority interests in the firm. | 91% | 4% | 0% | 4% | 0% | 0% | 0% | -2.83[1] | 26 |
| 20.Because re-acquired shares are less expensive than newly issued shares, planned for acquisition purposes. | 61% | 13% | 4% | 22% | 0% | 0% | 0% | -2.13[1] | 20 |
| 21.Because re-purchases en-hance the firm's ability to pay higher dividends per share, thus making the stock more appealing to investors. | 57% | 9% | 13% | 17% | 4% | 0% | 0% | -1.96[1] | 19 |
| 22.Because repurchase prog-rams provide a speedy and effective mechanism for maintaining an optimal capital structure. | 22% | 4% | 17% | 4% | 30% | 17% | 4% | -0.13 | 10 |
| 23.Because investors prefer tax-favored capital gains to cash dividends (if applicable). | 17% | 0% | 0% | 30% | 26% | 13% | 13% | 0.39 | 6 |
| 24.Because repurchase programs can have a desirable | 13% | 4% | 0% | 17% | 39% | 17% | 9% | 0.52 | 5 |

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| impact on the firm's image. | | | | | | | | | |
| 25.Because the firm has a poor growth rate. | 39% | 9% | 22% | 17% | 9% | 4% | 0% | -1.39[1] | 3 |
| 26.Because small investors are more likely to participate than institutional investors, the firm can reduce the cost of servicing small share holdings. | 13% | 13% | 30% | 26% | 17% | 0% | 0% | -0.78[1] | 13 |

1, 2, 3 denote statistical significance at the 0.01, 0.05 and 0.10 levels, respectively.
Entries in the Rank column represent the ranking of the respective statements based upon the decreasing order of the mean value.
Some of the percentages do not add up to 100% due to rounding.

The means of Statements 1.13 through 1.17 are all negative and statistically different from zero, at the 0.01 confidence level. Firms do not reacquire their shares to later reassign them to an employee retirement or compensation plan, or use them for stock splits, stock dividends and future conversion of securities. The firms also do not use repurchase programs to remove a block of shares, (1.3) or buy out minority interests, (1.19). The costs of servicing small investors are not a factor in implementing a repurchase program, (1.26). These results contrasts sharply with the findings of the Austin [1] survey on the reasons for stock repurchase in 1960s. He reports that stock options are cited as the most important reason for the repurchase.

Responses to Statement 1.6 suggest that if the firm had excess cash, it would invest this cash in its common stock. The repurchase program is implemented independently from a shortage of investment opportunities facing the firm. Statement 1.2 has a positive mean but does not emerge statistically different from zero. The tender offer repurchasers in the WLS [16] sample responded similarly to a similar statement. Additionally, response to Statements 1.18, 1.11 and 1.25 indicate that the repurchase program is initiated independent of the recent stock price performance relative to the market, the general level of stock prices and the firm's growth rate. These results are rather revealing. They imply that firms which maintain substantial liquid asset balances may be inclined to implement a repurchase program, regardless of the prevailing general market and investment conditions. While Austin [1] reports that the second most important purpose for the reacquired stock is acquisitions of other firms, seventy-eight percent of respondents to this survey disagree with statement 1.20 which states that the reacquired shares are intended for acquisition of other firms.

Ninety-one percent of the respondents state that they make use of repurchase programs to signal their perception of the true value of the firm. Eighty-seven percent use repurchase programs to convey to investors management's confidence in future earnings and prices to investors. The means of Statements 1.1 and 1.8 exhibit the highest and second highest mean scores, respectively, and are statistically different from zero. In addition, sixty-five percent of the respondents believe that repurchase programs bring about a desirable impact on the firm's image, (1.24). Managers however claim that the repurchase program did not contribute to the awareness of market participants through the press releases about the program, (1.12). Survey responses indicate that managers strongly object to the idea that they employ repurchase programs to effectively increase their ownership interest, (1.5). The mean of statement 1.5 is statistically different from zero, at the 0.01 level. WLS [16] obtain similar results for a similar statement.

Managers strongly assert, (63% of respondents), that the repurchase program is not part of a defensive strategy planned to combat a hostile takeover, (1.7). Managers also deny that they attempt to establish a floor for the firm's stock price, (1.9). These responses indicate that firms do not integrate repurchase programs in an anti-takeover defense strategy. The means of Statements 1.7 and 1.9 are statistically different from zero, at the 0.05 and 0.01 levels, respectively.

## Determinants of Auction Premium Range

Respondents were presented with ten possible determinants of auction premium range, listed in Table 2. The survey identifies the factors that respondents believe did not affect the premia. Of the ten Statements, only 2.10 has a positive and statistically (albeit marginally) significant mean, and ranks the highest.

**Table 2**

| **Auction Premia Are Larger:** | **Strongly Disagree** | | | **No Opi-nion** | **Strongly Agree** | | | **Mean** | **Rank** |
|---|---|---|---|---|---|---|---|---|---|
| | **-3** | **-2** | **-1** | | **1** | **2** | **3** | | |

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|---|---|---|---|---|---|---|---|---|---|
| 1. If the repurchase program allows the firm to reduce its total dividend payout. | 43% | 13% | 9% | 30% | 4% | 0% | 0% | -1.61[1] | 10 |
| 2.As a result of the Tax Reform Act of 1986, which eliminated the difference between taxes on dividends and capital gains (if applicable). | 39% | 9% | 0% | 52% | 0% | 0% | 0% | -1.35[1] | 9 |
| 3.The larger the fraction of shares targeted for reacquisition. | 26% | 0% | 0% | 13% | 26% | 22% | 13% | 0.30 | 3 |
| 4.The greater management's confidence in future earnings prospects and stock prices. | 9% | 0% | 13% | 17% | 39% | 13% | 9% | 0.52 | 2 |
| 5.The lower the institutional holdings of the firm's stock. | 13% | 17% | 17% | 43% | 9% | 0% | 0% | -0.83[1] | 8 |
| 6.The higher the prepurchase debt ratio. | 9% | 13% | 17% | 30% | 22% | 9% | 0% | -0.30 | 4 |
| 7. The greater the fraction of the firm's stock held by management. | 13% | 9% | 13% | 48% | 13% | 4% | 0% | -0.48[3] | 5 |
| 8. The larger the number of shareholders (i.e., the wider the distribution of shares). | 13% | 9% | 13% | 43% | 22% | 0% | 0% | -0.48[3] | 5 |
| 9. The poorer the performance of the stock relative to the market. | 13% | 9% | 22% | 43% | 9% | 4% | 0% | -0.61[2] | 7 |
| 10.When the share repurchase is part of a plan to combat a takeover. | 4% | 9% | 4% | 30% | 26% | 13% | 13% | 0.57[3] | 1 |

1, 2, 3 denote statistical significance at the 0.01, 0.05 and 0.10 levels, respectively.
Entries in the Rank column represent the ranking of the respective statements based upon the decreasing order of the mean score.
Some of the percentages do not add up to 100% due to rounding.

Sixty-five percent of the respondents indicate that repurchase programs, through dutch auctions, do not allow the firm to reduce its total dividend payout, (2.1). Fifty-two percent of respondents have no opinion as to whether or not the Tax Reform Act of 1986 affects the premium range of the auction, (2.2). The survey results imply respondents believe that the premium is not influenced by the firm's dividend policy. WLS [16] also obtain negative responses to similar statements. In addition, the auction premium range is determined independent of the debt ratio prior to the repurchase program, (2.6) as was also found by WLS [16] for tender offers. Apparently the firm's leverage and firm's borrowing capacity do not affect the premium paid to tendering shareholders.

No evidence is obtained which suggests that the fraction of shares sought or the distribution of outstanding shares among institutional and individual investors affect the premium in a dutch auction, as shown by responses to Statements 2.3, 2.5 and 2.8. Although Statement 2.3 does not emerge statistically significant, 61 percent of the respondents agree with it. Respondents disagree with Statement 2.5 which states that the premium increases as institutional holdings of the firm's stock decrease. However, more than 60 percent of the respondents to Statement 2.3 agree that the premium increases as the fraction of shares targeted for reacquisition increases.

More than fifty percent of the respondents thought that the premium is larger if the tender offer had been a part of a defensive plan designed to combat a takeover. Statement 2.10 ranks highest among the determinants of the auction premium range. The same respondents assert however that the repurchase was not part of a strategy to fend off a hostile takeover. The response is consistent with the findings of WLS [16]. While, respondents claim that the repurchase program is not part of a defensive strategy, they acknowledge that the premium would be higher under the threat of a hostile takeover attempt.

Survey results propose that the premium does not reflect management's information about the company, as represented by management's confidence in future earnings prospects and the fraction of the firm's stock held by management, (2.4 and 2.7). The mean of Statement 2.4 ranks second and is not statistically significant even though 61 percent of the respondents agree with 2.4. Respondents believe that the premium is not affected by the performance of the stock relative to the market, prior to the tender offer as indicated by the mean response of Statement 2.9 (ranks seventh) which is negative and significant. Forty-three percent of the respondents have no opinion on the impact of the stock price performance relative to the market. In addition, 35 percent of the respondents disagree with Statement 2.7 and 48 percent have no opinion on the influence of managerial holdings on the auction premium range. The mean of Statement

2.7 (ranks fifth) is negative and marginally significant. WLS [16] report similar findings for the repurchase (as opposed to the nonrepurchase) sample and conjecture that managerial ownership does not magnify the premium, it merely serves as a signal.

## Choosing a Dutch Auction over a Fixed Price Tender Offer

Of the 12 possible reasons listed in Table 3 for choosing a dutch auction instead of a traditional fixed price tender offer, only five were accepted by the respondents. According to the responses to Statement 3.7, dutch auctions are less costly, in that premia paid to tendering shareholders are smaller than those of traditional fixed price tender offers. These results support the results of Comment and Jarrell [4] who document a median of 12.6 percent for the premium paid in dutch auction and 16.0 percent in a fixed price tender offer. Respondents are also indifferent on whether or not dutch auctions are less likely to be oversubscribed, (3.11), and on the length of time necessary for their completion compared to fixed price tender offers, (3.2).

**Table 3**

| **A DUTCH AUCTION WAS CHOSEN *BECAUSE:*** | **Strongly Disagree** | | | **No Opinion** | **Strongly Agree** | | | **Mean** | **Rank** |
|---|---|---|---|---|---|---|---|---|---|
| | **-3** | **-2** | **-1** | | **1** | **2** | **3** | | |
| 1.They take up less time from management. | 22% | 17% | 22% | 26% | 13% | 0% | 0% | -1.09[1] | 12 |
| 2.They can be completed in a shorter period of time. | 9% | 17% | 13% | 17% | 4% | 22% | 17% | 0.26 | 6 |
| 3.Investment | 13% | 13% | 22% | 35% | 13% | 0% | 4% | -0.61[3] | 11 |

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|---|---|---|---|---|---|---|---|---|---|
| Bankers play a smaller role in the repurchase program. | | | | | | | | | |
| 4.Firm can reduce investment banker's fees. | 9% | 13% | 26% | 35% | 13% | 0% | 4% | -0.52[3] | 10 |
| 5.They convey a stronger positive signal to stock-holders about the firm's level of earnings and stock prices. | 9% | 9% | 4% | 43% | 26% | 0% | 9% | 0.04 | 7 |
| 6.They provide a more effective tool against hostile takeovers than traditional fixed price tender offers. | 9% | 9% | 9% | 39% | 22% | 13% | 0% | 0.04 | 7 |
| 7.Premium paid to tendering stock-holders is smaller. | 0% | 4% | 9% | 17% | 35% | 17% | 17% | 1.04[1] | 5 |
| 8.Management does not have to struggle with selecting a tender offer price. | 0% | 4% | 4% | 17% | 30% | 26% | 17% | 1.22[1] | 3 |
| 9.Probability of success of the repurchase program is higher. | 0% | 0% | 0% | 9% | 26% | 35% | 30% | 1.87[1] | 1 |
| 10.Management can affect the repurchase program it desires and still remain ambiguous about its valuation of the company's stock. | 4% | 4% | 9% | 9% | 22% | 39% | 13% | 1.09[1] | 4 |
| 11.They are less likely to be over-subscribed. | 9% | 4% | 26% | 30% | 13% | 13% | 4% | -0.09 | 9 |
| 12.Dutch auctions are similar to open market repurchase programs in that | 0% | 0% | 0% | 26% | 35% | 22% | 17% | 1.30[1] | 2 |

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| they are less risky than fixed p- rice tender offers, allow for a speedy accum-ulation of shares and at the same time signal under valuation of the stock to the market. | | | | | | | | | |

1, 2, 3 denote statistical significance at the 0.01, 0.05 and 0.10 levels, respectively.
Entries in the Rank column represent the rankings of the respective statements based upon the decreasing order of the mean value.
Some of the percentages do not add up to 100% due to rounding.

Obviously the mechanics of actually completing a dutch auction tender offer are not an important consideration. According to responses to Statement 3.1, dutch auctions do not require less time from management and the investment banker's role in a dutch auction is no smaller than that in a fixed price tender offer, according to 3.3 (ranks eleventh). In addition, Statement 3.4 (ranks tenth) has a negative while not statistically significant mean. Managers report that investment bankers' fees for dutch auctions are not lower than those of fixed price tender offers. Firms benefit from the reduced premium that they pay to tendering shareholders rather than on the fees they pay to investment bankers. Therefore, firms opting for dutch auctions realize their savings only through the lower premia paid to exiting shareholders. This finding confirms the conclusions of Comment and Jarrell [4] on dutch auction tender offer premia.

The mean of the responses to Statement 3.5 is close to zero. Thus firms do not employ dutch auctions to send a stronger signal about the firm's future earnings and stock price. Comment and Jarrel [4] theoretically demonstrate that dutch auctions are less informative than fixed price tender offers which corroborate the results of this survey. Firms not only avoid the price setting responsibility of traditional tender offers but also favor ambiguity about their valuation of the firm's stock as seen by the responses to Statement 3.10. In other words, firms want to signal the undervaluation of their stock and at the same time do not want to establish a price which could adversely impact the firm by inviting unsolicited hostile bidders.

Respondents appear indifferent between the effectiveness of dutch auctions and that of fixed price tender offers as a means of fighting hostile takeovers (3.6). Although managers will take measures to protect their interests against hostile takeovers (74 percent of respondents agree with Statement 3.10), they do not agree that dutch auctions is the more effective route. Responses to Statement 3.9 suggest that firms are very

concerned about the success of the tender offer; 91 percent of the respondents agree with Statement 3.9 and generally associate dutch auctions with higher probabilities of success. The mean of Statement 3.9 (ranks first) is positive and significantly different from zero. Responses to Statement 3.8, whose mean is positive and statistically significant, establish that firms dislike the price setting part of the traditional fixed price tender offer. Seventy five percent of respondents agree with Statement 3.8. Dutch auctions effectively immunize management against the price setting responsibility and shift it to investors. Results of 3.12 parallel those of 3.9 and 3.8. Only 26 percent of respondents are neutral on 3.12 and none disagree with it. Firms perceive a dutch auction as a less risky yet a speedy medium for reacquiring shares and it signals that the market currently underestimates the value of the firm. The mean of Statement 3.12 is also positive and significantly different from zero
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## IV. SUMMARY AND CONCLUSIONS

Unlike other studies which make use of security prices to study dutch auction common stock repurchase programs, this study makesuse of the survey methodology. Survey findings indicate that dutch auction repurchase programs are implemented to signal management's perception of the true value of the firm and confidence in future earnings. Other factors such as dividend policy considerations, capital structure targets, shortage of investment opportunities, reissuance of shares in future and fending off a hostile takeover attempt are not primary motivations for conducting reacquisition programs. This paper extends the works of BGM [3] and WLS [16] to common stock dutch auction tender offers. The conclusions of the three studies are similar. The repurchase is always documented as a vehicle through which management of the firm conveys true value of the firm and as an investment decision in the firm's stock. Repurchase programs are not perceived as either financing policy or dividend policy decisions in any of the studies.

The determinants of the auction premium range in a dutch auction tender offer remains an unresolved issue. Respondents disagree with the statements pertaining to dividend policy considerations. They also do not believe that institutional holdings and performance of the stock price relative to the market influence the premium. However, respondents imply that the premium would be higher in the presence of a hostile bidder. WLS [16] report similar findings. This is the only study which reports on why firms select dutch auctions instead of fixed price tender offers. Respondents report that they choose dutch auctions because they associate them with higher probabilities of success and that they do not have to establish a single price for the tender offer. Dutch auctions effectively serve management's objectives. Dutch auctions are speedy, signal undervaluation, absolve management of setting a price, and allow management to remain ambiguous about the true value of the firm. Because of their price ambiguity, dutch auctions are more instrumental in fighting unsolicited takeover attempts than fixed price tender offers. In a dutch auction, the firm is required to disclose only the number of shares tendered at and below the final purchase price. In contrast, in a fixed price tender offer the firm discloses the total number of shares tendered; this information coupled with the tender offer price conveys to the market the price at which the firm can be acquired. Lastly, the firm reduces the premium it pays its departing stockholders. Respondents do not claim that dutch auctions enjoy smaller investment banking fees.

The findings of this survey question two of the accepted theories of repurchases: the dividend substitution hypothesis and anti-takeover defense hypothesis. The responses of the managers in this sample demonstrate that neither rationale seems to be instrumental in explaining the motivations for a dutch auction repurchase program. While the anti-takeover defense hypothesis may affect the premium, the dividend substitution hypothesis is not perceived by respondents as applicable.

## ACKNOWLEDGEMENT

The author thanks Gilbert McKee, Jeanne Morrison, anonymous referee and the editor for their valuable comments.

## NOTES

1. 1.10 denotes Table 1, Item 10. The procedure is used throughout our discussion of the results.

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