Hubris Amongst U.K. Bidders and Losses to Shareholders

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ABSTRACT

This paper examines the performance of bidders with a hubris management during a takeover bid. Data for the study comprises of successful bids in the UK during the 1990s, which have been identified as having a hubris management. Valuation ratios and bid premium sizes are the measures used to identify the sample of hubris bidders. Results show that hubris bidders significantly lose on the announcement of a bid.

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Keywords: Mergers, Acquisitions, Event-study, Hubris, Bid Premium

I.   INTRODUCTION

In the area of corporate control there exist many individual theories explaining the rationale behind mergers and acquisitions. Roll (1986) specifies that the basis for many acquisitions is a hubris management, resulting in overpayment for the target. The mistake of paying too much stems from management who overrate the synergistic gains from the acquisition. This is due to the high self-worth they have in their own managerial ability.

The aim of this paper is to identify companies whose management are most likely to be associated with 'hubris' and study the effects on shareholder wealth. Past studies report mixed findings in regard to bidder returns surrounding the announcement of an acquisition. This may be due to studying a larger sample that includes many different motives for the takeover, distorting the results. To separate and examine a specific takeover motive may shed new light on bidder returns.

II.   TAKEOVER MOTIVATIONS AND RETURNS

In recent years there have been numerous empirical studies on takeover activity, and these studies provide a wealth of information. Nevertheless, differing research methods, samples, and sample periods show an ambiguous picture concerning the value of takeovers. As a result, there are many individual theories or explanations for mergers and takeovers. Berkovitch & Narayanan (1993) summarised these into three main categories - efficiency; agency conflicts; and hubris which will be discussed in more detail.

One convincing motive for merger is 'synergy', where two firms combined are worth more together, than they are separate (Bradley, Desai, & Kim 1983, 1988; Jensen & Ruback 1983; Healey, Palepu, & Ruback 1992). Sales enhancement, operating economies, economies of scale, and new management may have synergistic effects. However, a large body of evidence indicates that the target enjoys most of the gains (Jensen & Ruback 1983; and Bradley, Desai, & Kim 1988).

Agency costs arise where managerial motives conflict with the interests of shareholders. There are various reasons to explain this conflict in interests. The pursuit of management's personal gains rather than those of the shareholders result in the removal of value from the acquiring firm. The impacts of managerial objectives on acquisitions are reflected in the studies of Morck *et al.*, (1990); and Holl & Pickering, (1988). Continuing with the pursuit of personal interests, Shleifer & Vishny (1988), state that management pursue companies that need the skills they possess, thus adding managerial security. In addition, remuneration may be an important individual factor in the search of acquiring a company. Firth (1991) shows that in the UK managerial remuneration increases after takeovers occur, regardless of gains to shareholders.

III.   THE HUBRIS HYPOTHESIS

Due to the mixed empirical findings regarding bidder returns, left unsettled is the question concerning the motivation of the bidding firm and its management in the

market for corporate control. In addition to the possibility of operational and financial synergy, takeovers may be occurring due to perceived managerial synergy. Managerial synergy will arise when management of the bidder is superior to that of the target. It is argued that the stock market provides a real assessment of a company and how it is managed by means of the price placed on its equity. If this is so, managerial quality will be reflected in measures such as the firm's market to book value and price to earnings ratio. As a measure of managerial and financial performance prior to a bid, Lang, Stulz, & Walking (1989) and Servaes (1991) use a valuation ratio (a proxy for Tobin's q ratio). Lang, Stulz, & Walking (1989) find a direct relation between well-managed firms (q>1) and bidder gains in tender offers. High-q bidders experienced gains of approximately 10%, while low-q bidders had losses of approximately 5%. Servaes (1991) supports the findings of Lang, Stulz, & Walking (1989), and finds the relation also holds for mergers. Holl & Kyriazis (1997) also found similar results to that of Servaes (1991) in that high-valued bidding companies are acquiring lower-valued target companies in order to obtain wealth gains. In general, previous studies show that bidders do not gain, but do not lose by a large amount on the announcement of a takeover bid, (Limmack, 1991; Parkinson and Dobbins 1993; and Barnes 1998). Support also comes from the US (Jensen and Ruback, 1983; and Datta *et al*, 1992). Past studies regarding merger activity study a sample that is susceptible to all three major motivations mentioned previously. As a result, it would be difficult to identify which major underlying factors are attributed to shareholder losses or gains. This emphasises the importance of studying the major theoretical debates of mergers separately.

The objective of this study is to separate and examine bidding firms that are likely to have management who suffer from hubris. Roll (1986) assumes that hubris stems from management's excessive self-confidence, linking this arrogance and pride to being in control of a highly valued, successful firm, which is bidding for a lower-valued firm. Takeovers, in some regards, are seen as a method for ousting incompetent management where they have failed to generate adequate shareholder returns with the firm's assets. The market evaluates the performance of the target company through the price it places on the equity of the firm. In the case of a poorly performing target, bidder management can create value by improving the managerial quality or forming profitable opportunities the present management are not capable of. Higher managerial quality and the introduction of new business prospects are expected from firms that have been operating successfully in the past. However, past-success may lead to a degree of arrogance and a feeling of supremacy, leading to the overestimation of possible synergies or value creation from the takeover, resulting in unnecessary overpayment.

The acquisition premium is defined as the ratio of the final price paid per target share, divided by the price prior to the takeover bid. The premium paid by the bidder signifies how much value can be drawn from the target firm. Jensen (1993) reported that between 1976 and 1990 premiums averaged 41%. Barnes (1998) notes that the market expects a premium of above 30% to be offered by the bidder to be viewed as a serious offer. Raj & Forsyth (1999) find that the average bid premium in the case of undervalued takeovers is 32% implying that a lower premium is paid in this case. Hubris management may believe that the present performance of the target is

inadequate, and that the firm's prospects will be superior in their hands. Hence the high premium offered.

Furthermore, the prospect of many companies striving to gain control of one company will usually result in the management suffering from the concept of the 'winners curse' - where the successful bidder overpays for the target, a feature common in an auction environment. Due to being part of a high market-valued company, the management is confident that it can continue this success once the target has been attained. However, even if synergies were to exist from acquiring the target, competition between bidders may exist, and result in overpayment. Even if there was the presence of a single bidder, the possibility of other bidders entering the race may cause the prospective winning bidder to pay too much, and remove much of the value that may occur from the acquisition. The overpayment for a company whose true value may be uncertain, along with integration costs suggests the winning bidder has been 'cursed' in the sense that the payment exceeds the value of the purchase.

Hubris may also be connected to Mueller's (1969) managerialism hypothesis where managers are motivated to increase the size of their company. Lewellen & Huntsman (1970) also show that compensation is significantly correlated with profit levels. This may link management's confidence in its ability to ensure a firm is operating successfully while adding further to personal gain - believing a 'no lose' situation exists from the takeover. Furthermore, management striving to increase market power may also be subject to hubris. Management who perceive themselves as highly successful would naturally want to increase their standing and power. Hayward & Hambrick (1997) state that exaggerated self-confidence contributes to the overall CEO / management hubris. However, the hubris hypothesis maintains that acquisitions are motivated by manager's mistakes and that no synergistic gains are evident (Berkovitch & Narayanan, 1993).

IV.   HUBRIS SCREENING PROCESS

We apply specific measures to examine the evidence of hubris within bidding companies that were successful companies before the acquisition, and the effect the resulting hubris has on the shareholders. The market-to-book and price-to-earnings ratios are used to identify companies that are successful compared to that of other companies within the same industry. These ratios reflect how the stock market evaluates incumbent management. High ratios as compared to industry peers indicate management is competent and successful. In contrast, low valuation ratios perhaps indicate management's ineffective use of assets to maximise corporate wealth.

Once the bidding companies were identified using the two valuation measures, a sub-set was then formed, where high bid premiums were used as a proxy to identify a hubris management. This paper as a result attributes a hubris management to a firm who has operated very successfully in the past, and pays a large premium in an acquisition. Following Crawford and Lechner (1996) the acquisition premium is calculated over a period that does not include information regarding the takeover. The window begins 50 trading days before the first announcement of the takeover and ends when the offer is accepted by the target shareholders. Bid premiums were calculated as:

$$\left(\text{BidOffer} - \text{Targetprice}_{-50}\right)/\text{Targetprice}_{-50} \qquad\qquad (1)$$

Where BidOffer is the final price paid per target share by the bidder and Targetprice_{-50} is the value of the target shares fifty days prior to the first bid announcement.

The study specifically tests the hubris hypothesis by means of a thorough screening process to single out bidders who are most likely to have a hubris management. Therefore, by undertaking a detailed procedure, we specifically examine one major motivation behind the market for corporate control. It is important to understand if the market identifies hubris management who overestimate the synergistic gains and as a result pay too much.

Franks and Mayer (1996) indicate that multiple and hostile bidders are associated with paying excessive premiums and so we have eliminated these types of bids from our sample. Based on a news search of McCarthy between 1990 and 1998, while also eliminating multiple and hostile bids, a sample of 270 bidders acquiring 270 target firms was constructed. The following screens were applied to the data set of 270 bidding firms to identify a hubris management:

1. The price/earnings ratio and market-to-book ratio of each bidder firm within the sample were collected in the year the first bid announcement occurred.
2. The average price/earnings ratio and market-to-book ratio of the industry the bidder firm belonged to were obtained.
3. Further screening took place to identify bidder firms that possessed both ratios above the industry average.
4. The bid premium paid was above that of the average paid by a control sample of bidders.

Roll (1986) argues that excessive optimism in evaluating merged opportunities leads to an excess premium paid for the target firm. Even with perceived synergistic benefits and the possibility of competing rival bids, the management under the 'winner's curse phenomenon' will ensure success in completing the deal, regardless of cost. In effect, the target firm shareholders will greatly benefit from the excess premium offered, but the shareholders of the bidding firm will suffer a loss in wealth. This is the basis of the hypothesis tests within this paper:

H1: Hubris bidder performance around the announcement of a takeover bid is inferior to the control bidder sample.
H2: The gains to target shareholders would be greater in hubris motivated bids as compared to the control target sample.

Previous literature has reported that bidders earn approximately zero returns around the announcement of a takeover. If this is the case, the returns from the 90 bidders that make up the control sample should report similar results. This leads onto the third hypothesis:

H3:   Control sample bidder shareholders experience no excess returns surrounding the announcement of a takeover.

We also examine the control sample to determine the average bid premiums paid in the UK during a similar time period. In addition, we study the method of payment in the acquisitions motivated by hubris to determine any systematic pattern, and if there is any significant difference to the control sample.

V.   DATA AND METHODOLOGY

A.   Data

A sample of successful takeovers by UK public firms was obtained from 1990 to 1998. The daily share price data was collected from Sequencer. The dates and information content of the first bid announcement was gathered from a news search using McCarthy CD-ROM. Application of the screening process described above resulted in a final sample of 22 bidders in completed takeovers, from an original sample of 270 bidding firms. Share price data for the corresponding targets of the 22 'hubris' bidders were also collected. We also selected a control sample consisting of 90 bidders and the corresponding targets from the initial 270 bidding firms.

B.   Methodology

To assess the market reaction to the firms suffering from hubris, stock prices of the companies identified from the screening process above are identified. The sensitivity of each bidder's daily return is measured to the market with the market adjusted return method. Standard event study methodology is employed to measure abnormal returns. Daily stock returns are defined as:

$$R_{it} = (P_{it} - P_{it-1})/P_{it-1} \qquad (2)$$

The next step is to calculate the predicted or normal return ($ER_{i,t}$), this is the return that would be observed if no event occurred. In this case, $ER_{i,t}$ is represented by the return on the FT-SE 100 Index for each day in the event period.
Each bidder's abnormal return is calculated over each day of the event period as:

$$AR_{it} = R_{it} - ER_{it} \qquad (3)$$

The abnormal returns of the n bidder in each group (hubris/control) are collected to determine the average abnormal return for each day:

$$AAR_t = \sum_{i=1}^{n} AR_{it} \bigg/ n \qquad (4)$$

The final step is to calculate the cumulative average abnormal return for each day over the entire event window:

$$CAAR = \sum_{+5}^{-20} AARt \tag{5}$$

To test AARt for significance the following t-stat is applied:

$$t = AARt/S(AARt) \quad where\, S(AARt) = \left[\frac{1}{25} \sum_{+5}^{-20} \left(AARt - \overline{AARt}\right)^2 \right]^{1/2} \tag{6}$$

The test statistic for the cumulative daily average abnormal return (CAAR), for the sample and cumulating over the period specified is computed as follows:

$$t = CAAR/S(CAAR) = \sum_{+5}^{-20} AARt \bigg/ \sqrt{26}\, S(AAR) \tag{7}$$

This study also employs non-parametric testing. The test that is used is the generalised sign test. Non-parametric tests used in event studies do not require the stringent assumptions concerning return distributions as does parametric tests. The generalised sign test compares the proportion of positive cumulative abnormal returns around an event to the proportion from a period not affected by the event. The number expected is from the abnormal returns seen in a 40-day estimation period (-60 to -21) and the 26-day event period (-20 to +5).

$$p = \frac{1}{n} \sum_{j=1}^{n} \frac{1}{40} \sum_{t=E1}^{E40} Sit, where, Sit = \begin{cases} 1 if ARit>0 \\ 0\, otherwise \end{cases} \tag{8}$$

Define w as the number of stocks in the event window (-20, +5) for which the cumulative abnormal return CAR_i, $(_{D1,Dd})$ is positive. The generalised sign test statistic is:

$$ZG = \frac{w - np}{[np(1-p)]^{1/2}} \tag{9}$$

The Wilcoxon Signed Rank Sum Test for matched pairs is also employed to examine whether the two populations are from the same location. If in this instance the returns of the hubris sample and the control sample are close in location, the ranks should be randomly mixed between the two samples, and the null hypothesis cannot be rejected. This test is done within the hubris and control sample to determine whether a significant difference exists between the abnormal returns in the period surrounding the takeover announcement.

VI.   RESULTS

This section reports the results of the hypotheses tested. The results for all the announcements appear in Tables 1-4 and Figures 1 and 2. Table 5 shows the wealth effects of takeover bids by the hubris sample and the control sample. Table 6 displays the method of payment in hubris acquisitions and also the control sample.

Table 1
The behaviour of share prices around the announcement date – bidder (hubris) sample

Days	AAR	CAAR	Std. Dev.	T-stat. (AAR)
-20	0.00093	0.00093	0.01574	0.891
-19	-0.00303	-0.00210	0.03133	-2.904
-18	0.00483	0.00273	0.01262	4.636
-17	-0.00800	-0.00527	0.02075	-7.679
-16	0.00410	-0.00117	0.02214	3.934
-15	-0.00133	-0.00250	0.01957	-1.275
-14	0.00056	-0.00194	0.02634	0.538
-13	-0.00556	-0.00750	0.02018	-5.339
-12	-0.00793	-0.01544	0.00996	-7.615
-11	-0.00011	-0.01555	0.01573	-0.109
-10	0.00431	-0.01124	0.02090	4.133
-9	0.00176	-0.01300	0.01671	-1.689
-8	-0.00559	-0.01859	0.02105	-5.366
-7	-0.00667	-0.02527	0.02400	-6.404
-6	0.00125	-0.02401	0.01695	1.201
-5	0.00391	-0.02011	0.02879	3.749
-4	-0.00152	-0.02163	0.01348	-1.456
-3	0.00341	-0.01821	0.01230	3.274
-2	-0.00876	-0.02697	0.02586	-8.404
-1	-0.00940	-0.03637	0.06442	-9.020
0	-0.00862	-0.04499	0.04116	-8.277
1	0.01343	-0.03156	0.04436	12.889
2	-0.00737	-0.03893	0.02713	-7.074
3	-0.00294	-0.04187	0.03952	-2.820
4	-0.00162	-0.04349	0.01646	-1.553
5	0.00216	-0.04133	0.01077	2.071

T-test on cumulative abnormal returns
CARR$_{-20, +5}$ = -0.04133 (sig. at 5% level, one-tail)
Non-parametric tests
Generalised sign test   Z = 2.015 (sig. different at 5% level)
Wilcoxon Matched-pair test   Z = -3.721 (sig. at 1% level, based on -'ve values)

C.   Bidder Results

Table 1 presents the abnormal returns for the sample of bidding firms that have been identified as suffering from hubris, (referred to as bidder[hubris] from now). As Table 1 indicates the AAR for the bidder[hubris] on the announcement date is -0.8%, and is significantly different from zero. The CAAR graph as illustrated in Figure 1 provides some interesting insights. The bidder's CAAR decreases by more than 4% in the event period studied, the t-test on this CAAR result is significantly negative at the 5% one-tail level. This is an important finding as the cumulative returns are much lower from what has been found in previous studies. It is also in contrast to the findings of Lang, Stulz, & Walking (1989) who find that high-q bidders experience wealth gains of around 10% in tender offers involving low-q targets. Even when high-q bidders acquire high-q targets the shareholders of the bidder still gain around 3%. In this paper we examine high performing bidders using two valuation measures as proxies for managerial quality. We find that when the takeover involves high bid premiums (as a proxy for hubris) the bidders lose by approximately 4% over the -20, +5 day event window. Prior studies have attributed the observed negative returns as occurring due to hubris, without directly testing it. This study however goes one step further by filling the void in the corporate control literature.

As the sample size was small, we decided to use non-parametric testing, the results of which are found in Table 1. The generalised sign test was conducted based on an estimation period of 40 days (-60 to -21) and compared against the event-window from -20 to +5. The results of the non-parametric test support the findings of the event-study, as there is a significant difference between the estimation period and that of the event window.

To further test the validity of our results we examine a control sample of 90 takeovers, and examine the market reaction towards the bidders. The control sample was obtained from the same time-period and is a sub-set of the original sample of 270 bidders and targets. The control sample (referred to as bidder[control] from now) returns were then analysed with regard to adding support to the returns of the bidder[hubris] sample. Table 2 presents the abnormal returns, and Figure 2 illustrates the CAAR's over the event period studied. As Table 2 and Figure 2 illustrate, the shareholders of bidder[control] do not gain/lose over the period studied (consistent with Barnes, 1998 and Datta *et al.*, 1992), whereas the bidder[hubris] sample clearly shows significant negative returns and tends to be negative for most of the event period. The results emphasise the negative returns to the bidder[hubris] sample and supports H1.

The Wilcoxon Signed Rank Sum Test for matched pairs is also employed to test whether a significant difference exists in returns between the bidder[hubris] and bidder[control] samples. The results of the test is shown in Table 1, and the findings show that the abnormal returns found in the bidder[hubris] sample over the event-window differs significantly from the bidder[control] sample. Again, this finding reinforces the results from the initial event-study and go on to support H1 where the shareholders of the bidder[hubris] sample lose significantly over the event-period and to a far greater extent as compared to the shareholders of the bidder[control] sample.

Table 2
The behaviour of share prices around the announcement date – bidder (control) sample

Days	AAR	CAAR	Std. Dev.	T-stat. (AAR)
-20	0.00502	0.00502	0.02201	6.853
-19	0.00009	0.00511	0.02482	0.120
-18	-0.00488	0.00022	0.01744	-6.667
-17	-0.00499	-0.00477	0.03078	-6.821
-16	-0.00137	-0.00614	0.02035	-1.871
-15	-0.00345	-0.00959	0.01889	-4.705
-14	0.00108	-0.00850	0.01207	1.479
-13	0.00219	-0.00632	0.02651	2.987
-12	-0.00023	-0.00655	0.02110	-0.319
-11	0.00203	-0.00452	0.01486	2.766
-10	-0.00048	-0.00500	0.01546	-0.655
-9	-0.00040	-0.00540	0.01978	-0.545
-8	0.00093	-0.00447	0.02044	1.268
-7	-0.00151	-0.00598	0.01549	-2.062
-6	-0.00065	-0.00663	0.03072	-0.884
-5	-0.00529	-0.01192	0.02402	-7.220
-4	-0.01010	-0.02202	0.02693	-13.792
-3	0.01068	-0.01133	0.03043	14.590
-2	0.00575	-0.00558	0.02435	7.857
-1	-0.00273	-0.00831	0.02432	-3.723
0	0.01339	0.00508	0.05057	18.288
1	-0.00452	0.00057	0.02510	-6.171
2	0.00475	0.00531	0.01873	6.482
3	0.00059	0.00590	0.02364	0.805
4	-0.00139	0.00452	0.02511	-1.894
5	-0.00179	0.00272	0.01919	-2.446

T-test on cumulative abnormal returns
$CAAR_{-20, +5}$ = 0.00272 (not sig.)

D.   Target Results

It is well known that shareholders of the target gain from a takeover approach. Previous studies have found that target shareholders benefits in the region of around 22-30% in both the UK and US (Franks, Harris, & Mayer 1988; Datta *et al.* 1992). Table 3 presents the abnormal returns for the sample of target firms with regard to the hubris sample. The AAR on the announcement day is 0.2091 and is significant at the 1% level. The CAAR over the event window is also statistically significant. Over the entire event period studied the returns to target shareholders that have been subject to an approach from a hubris management have experienced a CAAR of 29%. This is in contrast to the target firms of the control sample who experience a CAAR over the entire event period of 27.8%, as shown in Table 4. Although not significantly different, the evidence does provide some support towards accepting H2.
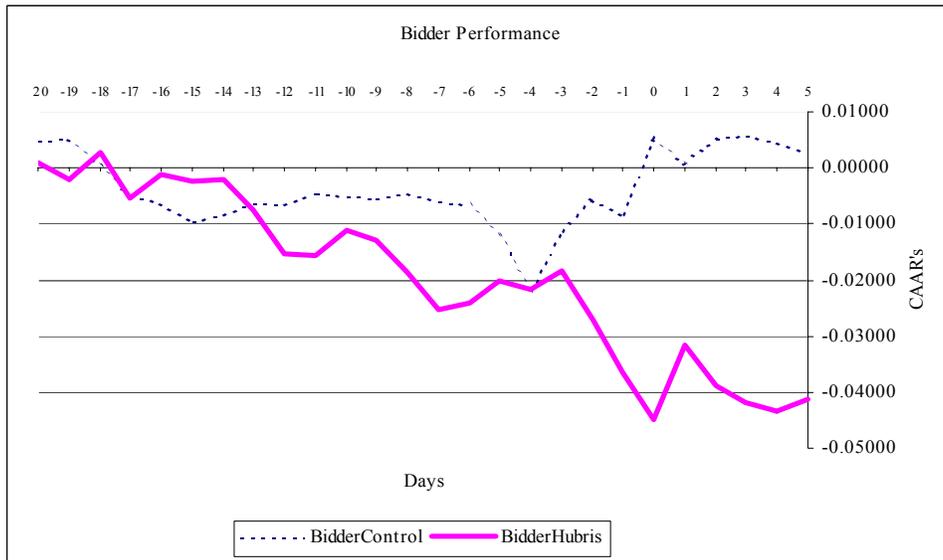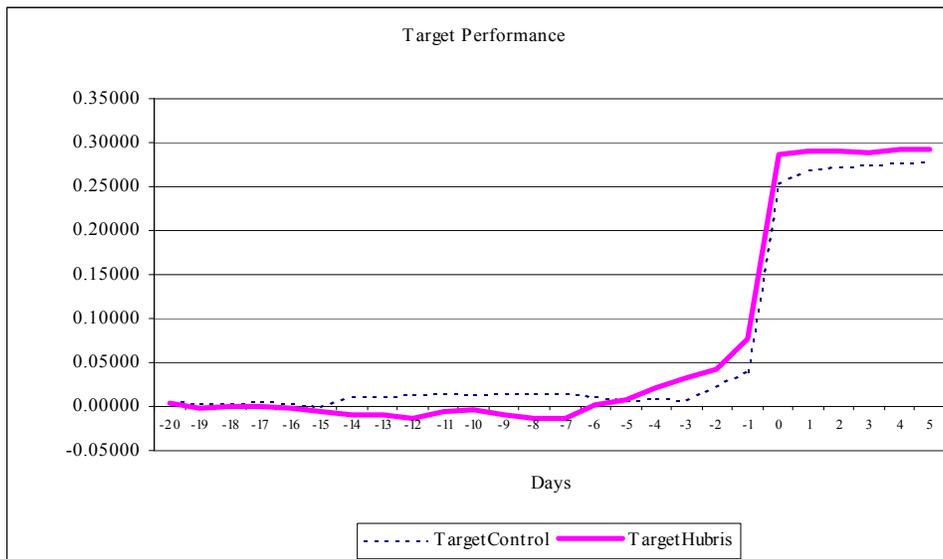
Figure 1

Figure 2

Table 3
The behaviour of share prices around the announcement date – target (hubris) sample

Days	AAR	CAAR	Std. Dev.	T-stat. (AAR)
-20	0.00334	0.00334	0.01739	0.562
-19	-0.00442	-0.00108	0.02723	-0.744
-18	0.00053	-0.00055	0.03996	0.090
-17	0.00026	-0.00029	0.02564	0.044
-16	-0.00112	-0.00141	0.01663	-0.189
-15	-0.00373	-0.00514	0.03924	-0.627
-14	-0.00478	-0.00992	0.01244	-0.804
-13	-0.00028	-0.01020	0.01264	-0.048
-12	-0.00365	-0.01385	0.02339	-0.615
-11	0.00878	-0.00507	0.02044	1.478
-10	0.00154	-0.00354	0.01469	0.259
-9	-0.00527	-0.00881	0.01999	-0.888
-8	-0.00550	-0.01431	0.00973	-0.926
-7	0.00106	-0.01325	0.01247	0.178
-6	0.01505	0.00180	0.02959	2.534
-5	0.00631	0.00812	0.03219	1.063
-4	0.01212	0.02023	0.04416	2.040
-3	0.01301	0.03325	0.03082	2.191
-2	0.00820	0.04145	0.03413	1.381
-1	0.03561	0.07707	0.07025	5.996
0	0.20909	0.28615	0.21819	35.200
1	0.00467	0.29082	0.02321	0.787
2	0.00001	0.29083	0.01912	0.001
3	-0.00183	0.28900	0.00964	-0.308
4	0.00338	0.29238	0.02464	0.569
5	-0.00009	0.29229	0.01650	-0.014

T-test on cumulative abnormal returns
CAAR$_{-20, +5}$ = 0.29229 (sig. at 5% level)

Table 5 displays the wealth effects on shareholders in the period surrounding a bid announcement by a hubris bidder and the control sample. Overall, the findings show that hubris bidders are associated with significant negative returns around the announcement of a takeover as compared to the control sample of bidder firms. The shareholders of the firms targeted by the hubris bidder gain significantly and also by a small margin as compared to the general target sample studied.

E.   Bid Premiums and Method of Payment

As expected the hubris management will pay a premium that is exceedingly high as a result of over-estimating the synergistic benefits from the takeovers due to the arrogance and self-assurance management possesses. Table 6 reports the method of payment with regard to the hubris sample and the control sample.

Table 4
The behaviour of share prices around the announcement date – target (control) sample

Days	AAR	CAAR	Std. Dev.	T-stat. (AAR)
-20	0.00555	0.00555	0.02737	1.93
-19	-0.00188	0.00367	0.01624	-0.66
-18	-0.00010	0.00357	0.01739	-0.03
-17	0.00149	0.00506	0.02776	0.52
-16	-0.00156	0.00350	0.01602	-0.54
-15	-0.00290	0.00060	0.02066	-1.01
-14	0.01112	0.01172	0.12014	3.87
-13	0.00061	0.01233	0.01768	0.21
-12	0.00112	0.01345	0.03106	0.39
-11	0.00137	0.01482	0.01737	0.48
-10	-0.00190	0.01292	0.02453	-0.66
-9	0.00320	0.01612	0.02756	1.11
-8	-0.00150	0.01462	0.02953	-0.52
-7	0.00146	0.01609	0.03028	0.51
-6	-0.00497	0.01112	0.04565	-1.73
-5	-0.00291	0.00821	0.02148	-1.01
-4	0.00054	0.00875	0.01950	0.19
-3	-0.00011	0.00864	0.03043	-0.04
-2	0.01445	0.02309	0.04976	5.03
-1	0.01749	0.04058	0.04829	6.09
0	0.21293	0.25351	0.17148	74.10
1	0.01568	0.26920	0.05551	5.46
2	0.00417	0.27336	0.04825	1.45
3	0.00226	0.27562	0.03715	0.79
4	0.00156	0.27718	0.02592	0.54
5	0.00103	0.27821	0.01770	0.36

T-test on cumulative abnormal returns
CAAR$_{-20, +5}$ = 0.27821 (sig. at 5% level)

Table 5
Shareholder returns surrounding takeover announcement

CAAR Results	Bidder Returns (-20, +5)	Target Returns (-20, +5)
Hubris	-0.0413$^{\nabla}$	0.2923**
Control	0.0027	0.2782**

** denotes significance at 5% level, $^{\nabla}$denotes significance at 5% one-tail level

Table 6
Bid premiums of bidder samples

	Cash	Share	Mixed
Sample[Hubris]	36%	41%	23%
Bid premium	*53%*	*63%*	*52%*
	Average bid premium of Hubris sample: 57%		
Sample[Control]	77%	12%	11%
Bid premium	*39%*	*33%*	*37%*
	Average bid premium of Control sample: 38%		

As shown in Table 6, the bid premiums in hubris acquisitions are far greater than in general acquisitions, represented by the control sample. The average bid premium is 57% for the hubris sample as compared to 38% in the control sample.

It is found that a share offer is the preferred method of payment in hubris acquisitions. Shares are used as the method of payment in 64% (41% all-share offer plus 23% mixed offer) of hubris acquisitions, as compared to 23% (12% all-share offer plus 11% mixed offer) in the control sample. This could lend support to the overvaluation hypothesis where management believes their firm to be overvalued by the market and view this as a cheaper way to pay for the acquisition. This finding may also suggest the reasoning behind the payment of such a large premium by the 'hubris' sample. Due to the management believing the market has mispriced their stock, they can afford to pay such a large premium.

VII.   CONCLUSION

This study set out to examine the performance of bidding firms wherein the takeover was driven by a hubris management. A novel process of identifying firms most likely to suffer from hubris was used in this study based on accounting ratios and bid premiums. Prior studies on takeovers are ambiguous concerning bidder returns. As the takeovers in this study are motivated through management suffering from hubris you would expect this to have a harmful effect on bidder shareholders. The results of the study lend some new support to the hubris hypothesis as the cumulative abnormal returns from day -20 to day +5 are in the region of -4%, which is notably less than what previous studies have reported. The results of the Wilcoxon test show that the hubris bidder returns are significantly different from the control sample studied. An analysis of the method of payment and the bid premiums within the hubris sample provide some interesting insights and avenues for future research. It was found that shares were favoured far more as the method of payment in hubris acquisitions, and the bid premium of these acquisitions was greater as compared to hubris acquisitions using cash and also all-share acquisitions of the control sample.

The results of this study provide some distinctive insights into the market for corporate control. The market has valued companies that have operated well before a

bid-offer was made as shown by the high accounting ratios used. Nevertheless, the implications of this high market value and being in control of a successful company has led to management making mistakes in valuing new investments - in this case, taking over another company. The over-estimation of synergistic benefits, the arrogance of the management, and the resulting high premium paid will result in an adverse market reaction. This has valuable insights for management presently in charge of a successful company and embarking on the first steps of a bid approach. As a result, it is in the management's interest, to take heed of how the market senses the overall approach. Therefore, initiation of the bid must be taken with the utmost care and consideration instead of acting on their own past success, the high market valuation placed on this success, and the arrogance and self-belief stemming from these issues.

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