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Managerial Entrenchment And Financial Reporting Comparability

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MANAGERIAL ENTRENCHMENT AND FINANCIAL REPORTING COMPARABILITY

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Dedication

To my wife, Xiang Gao, and my newborn son, Owen Wu, thank you all for your love, support, and encouragement.

To Dr. David Folsom, Dr. Giorgio Gotti, Dr. Adam Esplin, and Dr. James Upson, who have been there ready to help during my dissertation phase. Thank you for all of your support, help, and dedication.

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DISSERTATION

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Abstract

This study examines whether managerial entrenchment has an association with firms' financial statement comparability. I find that managerial entrenchment has a significant negative association with financial statement comparability, providing a new notion about the management influence on financial reporting quality. Moreover, by using the business segment as a proxy for business complexity, I find that the variation of accounting comparability with its peer firms mainly stems from managers' investment choice. This finding supports FASB's assertion that financial statement comparability is a reporting quality that should be enhanced among firms with similar economic events. Lastly, I test if managerial entrenchment mitigates the expected positive relationship between financial statement comparability and post-merger returns. The test results show that entrenched managers tend to pay less attention to target firms' financial statement comparability in the process of due diligence. Collectively, these results suggest that managers' negative effect on financial statement comparability often stems from their investment choice. Consistent with prior literature, I document that financial statement comparability improves bidders' investment efficiency.

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Chapter 1: Introduction

As a secondary quality characteristic of financial reporting to relevance and faithful representation that enhances financial reporting quality (Figure 1), comparability helps investors and creditors reduce information asymmetry among industrial peers while investigating alternative firms for investment decisions. The emerging research on financial statement comparability (FSC hereafter) focuses on how FSC increases firm value in various aspects, such as through lower information processing costs or increases in overall information quality and quantity for investors (De Franco et al., 2011). Firms with high FSC also are more highly valued due to reductions in the cost of capital (Kim et al., 2013). Prior studies examine multiple topics associated with FSC, such as the convergence of accounting standards and the mandatory adoption of IFRS globally, auditors enforcement of the U.S. GAAP and the regulatory coordination of global stock markets increase accounting comparability (Barth et al., 2012; Francis et al., 2013). Less examined is how corporate insiders, especially managers, impact on accounting amounts that are comparable with industry peers. In this study, I make this determination by addressing whether and how entrenched managers affect financial statement comparability.

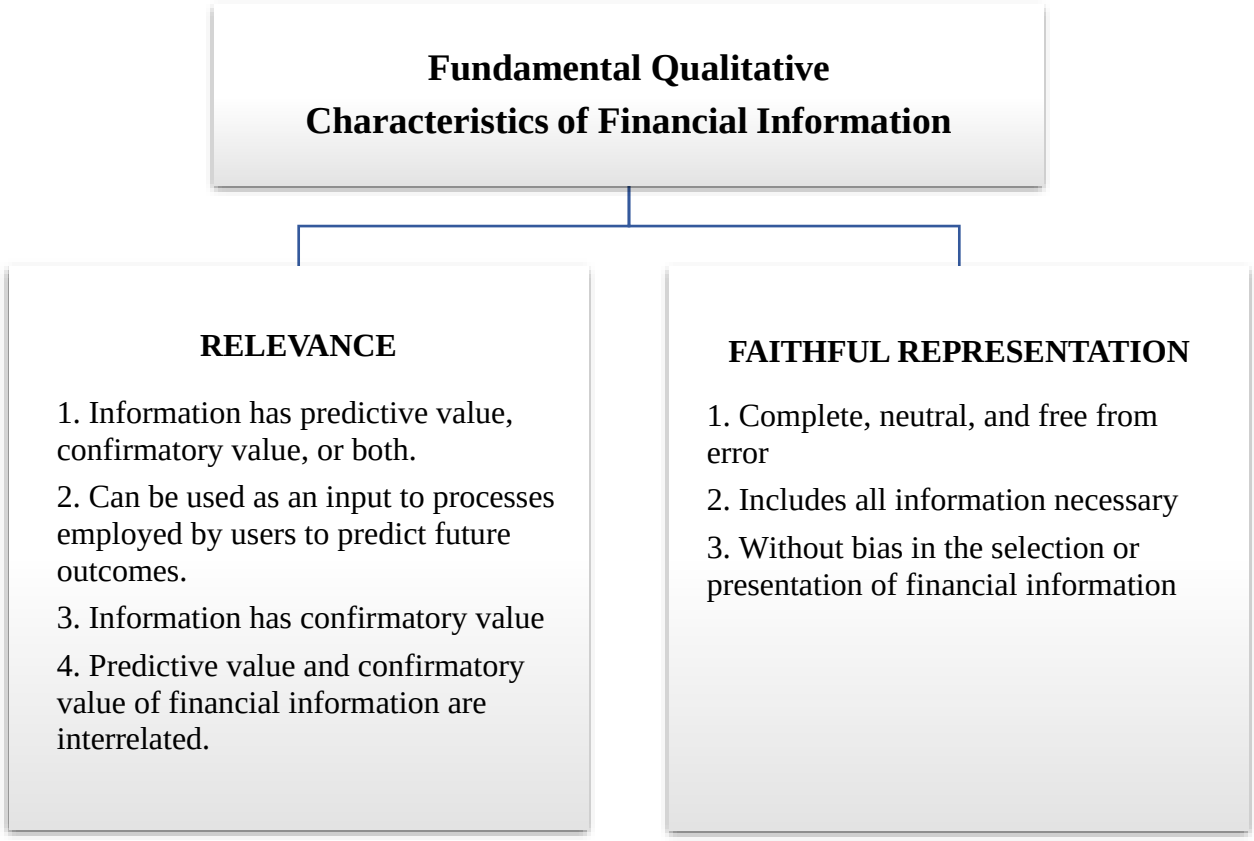

Figure 1: FASB Qualitative Characteristics of Accounting Information

Financial Accounting Standards Board, 2018. Qualitative Characteristics of Accounting Information. Statement of Financial Accounting Concepts No. 8.
Source:https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1218220132570

I posit that management decisions regarding both reporting practices and business operations contribute to cross-sectional differences in comparability either through accounting reporting choices or through the results of economic phenomena. Entrenchment status to managers meaning they have less monitoring from shareholders than those unentrenched managers. Agency costs increase as board monitoring decreases (Berger et al. 1997). With reduced monitoring from shareholders, entrenched managers are more easily conducting business that favors their interest rather than shareholders' interests. Agency theory predicts that entrenched managers make

investment-related decisions to "build an empire" to benefit themselves, such as pursuing aggressive firm growth or increasing business or geographic segments through merger and acquisition deals (Hope and Thomas, 2008). These investment-related decisions may reduce operating profits and reduce the firm value, which may motivate entrenched managers to obfuscate under-performed financial information in their reporting decisions.

Further, entrenched managers' aggressive investment strategies increase the complexity of their business operations, which changes firms' economic phenomena ex-post. The FASB Statement of Financial Accounting Concepts No. 8 (FASB 2018) indicates that when firms' underlying economics change, financial statement comparability should change accordingly. Thus, entrenched managers' operational decisions stem from weak board monitoring turns their firms' economic activities, and their financial reporting decisions together lead to lower accounting comparability than their industry peers.

Entrenched managers usually take advantage of reduced monitoring to protect themselves from keeping themselves entrenched by counter monitoring (Shleifer and Vishny,1997), and one way to reach this goal is to avoid being takeover by any potential acquirers. Thus, entrenched managers wish to avert takeover bids, which may reduce their firms' accounting comparability, which enhances financial information quality by providing comparable accounting amounts with their peers. Financial statement with greater comparability makes financial statement users easier to compare among peer firms for financial statement evaluation. When acquirers consider a target firm to bid upon, the greater financial statement provides higher information quality in selecting and valuing targets, particularly in the initial due diligence process without target firms' private information. Thus, I expect a less comparable FSC will reduce the likelihood of being acquired. Overall, I predict that entrenched managers leverage the advantage of low monitoring from

shareholders in investment decisions change the course of business operations, which leads to less comparable accounting comparability with industry peers. Further, to keep dismissal threat at a low level, entrenched managers may intentionally lower accounting comparability in reporting choices to obfuscate low performance and fend off potential bidders

I use two different test designs to exam how managerial entrenchment related to FSC would serve their purpose of self-protection and investment-related decision making in comparison to those unentrenched managers. First, I examine how managerial entrenchment and accounting comparability vary cross-sectionally. I find that managerial entrenchment reduces firms' financial statement comparability significantly. This result suggests that when managers are entrenched, that these firms have less FSC comparability with their industry peers' financial statements. Following previous literature, I use the number of business segments[1] measuring the complexity of business operations (Bentley et al. 2013). I next examine how managerial entrenchment and business complexity interact in their effects on comparability. I find that firms with multiple business segments reduce their financial statement comparability significantly at a one percent level. The joint effect of business segments and managerial entrenchment on financial statement comparability decreases significantly. Overall, the above reasons suggest that firms with complex business structures associated with less comparable financial statements than their industry peer firms. Also, these reasons indicate managerial entrenchment effects on accounting comparability is possibly through investment decisions, such as business expansion into new segments.

Next, I test entrenched managers' investment decisions related to accounting comparability. How entrenched managers use the characteristic of financial statement comparability in the

[1] US.GAAP requires segment reporting for publicly traded entities, and defines operating segment as such segment engages in business activities from which it may earn revenue and incur expenses, has discrete financial information available, and segments are regularly reviewed for operating decision. https://www.fasb.org/pdf/fas131.pdf

process of decision making is unclear. I test the relationship between entrenched managers' investment decisions and target firms' accounting comparability in merger and acquisition deals. Prior literature suggests that accounting comparability improves decision making by providing a higher quality of financial information (Chen et al., 2018). I argue that when managers are entrenched, their investment decisions likely exhibits less thorough due diligence in the early screening stage of the deal due to lack of monitoring and less concern of dismissal threat. One of the manifestations of the reduced due diligence could be target firms'financial statement comparability are lower than industry peers when bidders with entrenched managers. The test results show that when the acquirer firms' manager is entrenched, their target firms' FSC is significantly lower than other target firms' FSC. Lastly, I exam post-merger returns for those merger and acquisition deals' where the acquirer firm has entrenched managers. (Chen et al., (2018) show that the target firm's accounting comparability is positively related to post-merger returns, meaning greater FSC reduces information asymmetry between bidders and target firms. However, entrenched managers may leverage the benefits of FSC differently in investment decisions than unentrenched managers since their investment purpose is not focussing on maximizing shareholder value. The test result with the interaction between managerial entrenchment and accounting comparability is consistent with the hypothesis. I find the interaction coefficient between acquirers' managerial entrenchment and target firms comparability is significantly negatively associated with post-merger return, which indicates that entrenched managers tend to ignore the usefulness of comparable financial statements, which improves investment efficiency. This finding also consistent with the earlier studies that negative abnormal return on merger and acquisition announcements are due to the CEO hubris surrounding acquiring firms (Jensen 1986; Roll 1986)

This study makes several contributions to the existing research. First, it contributes to the literature investigating factors related to financial statement comparability. The prior study generally investigates how external factors affect firm FSC, such as auditors and accounting standards (Barth et al. 2012; Francis et al. 2013). In contrast to existing literature, I examine the entrenched managers' effect on accounting comparability; particularly, their investment decisions on accounting comparability. Second, this study contributes to the corporate governance literature by highlighting the importance of shareholder monitoring in governance mechanisms. There is a large body of study in corporate governance that examines how functional corporate governance increases shareholder value and how managerial entrenchment damages shareholder interests (Jensen and Meckling 1976; Shleifer and Vishny 1989). However, managers are required to responsible[2] for their financial statements; therefore, managers should have a first-order effect on financial statement comparability. To fill this gap, I shift the focus of financial reporting outcomes by managers from those low monitoring firms through operational decisions. I test the joint effect of business complexity and managerial entrenchment on accounting comparability. The test result suggests that the change in reporting comparability is not necessarily solely due to managers' direct manipulation, instead mainly driven by their investment-related decision making, such as business expansion.

Finally, test results from this study are relevant to standard setters and regulators. While both FASB and SEC have highlighted the importance and usefulness of financial statement comparability, much of the prior research focuses on the outcome of FSC; and outside factors effect on FSC (Kim et al. 2013; Francis et al. 2013). This paper sheds light on the managerial effect on financial statement comparability, mainly through managerial investment decisions that

[2] Sarbanes-Oxley Act of 2002 requires corporate CEOs to personally assure the assurance of financial statements

contribute to the variation of comparability. Further, my empirical evidence confirms SFAS No. 8 that describes FSC, where firms only with similar economic events should have greater accounting. The evidence from this study is consistent with SFAS No. 8 that financial statement comparability is not uniformity[3] in accounting. Hence, this study is of interest to standard setters and regulators in enforcing reporting qualities to differentiate the comparability from others since low comparability between two firms who have different economic phenomena not necessarily a negative sign of reporting quality. More importantly, investors and creditors who employ comparability to evaluate potential investment targets should understand that while accounting comparability is an important characteristic, the concept should be applied with the scope of similar firms.

[3] In this study, I define uniformity as the coefficient of earnings and return from De Franco et al. (2011)

Chapter 2: Literature Review

My work draws on several different and disparate streams of research in economics, finance, and accounting. Primarily, this paper is related to the literature on corporate governance and financial reporting comparability. Financial statement comparability plays a role in information in mapping firms' closeness of economic activities. Thus, my study draws on work in broader corporate governance and information asymmetry literature. Also, this paper examines the managers' decision making by using merger and acquisition deals as an event in using the usefulness of accounting comparability. Within this area, continuous study about managerial decision making and information asymmetry in merger and acquisition deals. I discuss prior work in each of these areas.

2.1 Financial Statement Comparability

Financial statement comparability, as a secondary characteristic of financial reporting quality, plays a critical role in reducing information asymmetry and improving reporting quality. The objective of financial reporting is to provide useful information to current and potential investors, lenders, and other creditors, who may be current or potential equity or debt investors (FASB, 2018). When outsiders, especially potential investors and creditors, consider alternative investment opportunities, with limited resources, their decision process usually includes a comparison of multiple target firms. The comparison helps them identify the ultimate choice that could maximize investment return. In this setting, potential target firms with comparable financial statements help investors reduce opportunity costs because financial statement comparability contributes to the overall reporting quality (FASB 2018), which is positively related to investment efficiency (Chen et al., 2012). Therefore, comparable financial reporting enhances the objective of the financial statement.

The Financial Accounting Standard Board's (FASB) Conceptual Framework lists *comparability, verifiability, and timeliness* as enhancing qualitative characteristics (FASB, 2018) after *relevance* and *faithful representation* (Figure 2.1). Statement of Financial Accounting Concept (SFAC hereafter) No. 8 describes comparability as a critical element when users are considering alternative investment opportunities. FASB believes financial information "is more useful if it can be compared with similar information about other entities" (FASB, 2018). Hence, the benefits of comparability may not be realized without relevance and faithful representation in financial reporting. The design of my empirical tests on the impact of financial statement comparability is based on assumptions that the fundamental financial reporting characteristics of relevance and faithful representation are constant in financial reporting systems.

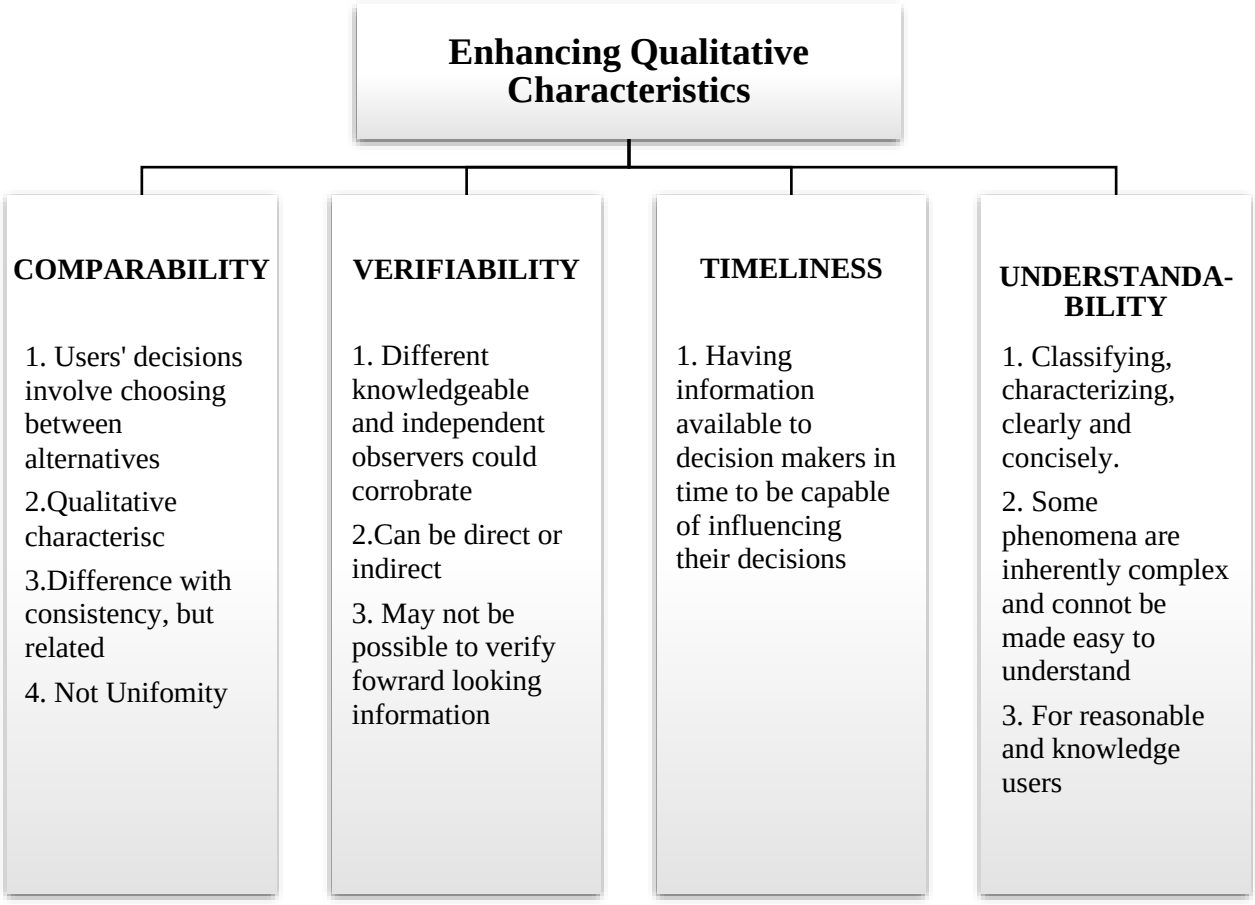

Figure 2: Qualitative Characteristics of Accounting Information

Financial Accounting Standards Board, 2018. Qualitative Characteristics of Accounting Information. Statement of Financial Accounting Concepts No. 8.
Source:https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1218220132570

2.2 Empirical Studies on Financial Statement Comparability

FSC increases firm value in multiple ways. Previous research documents that firms experience a lower cost of equity through the improvement of the investor decision process with greater FSC (De Franco et al. 2011; Francis et al. 2014). In the capital market, greater comparability may increases the relevance of accounting information to investors as they can more easily compare and predict future firm performance (Kim, Li, Lu, and Yu., 2016). Kim et al. (2016)

find a negative relationship between FSC and expected crash risk. Kim, Kraft, and Ryan (2013) also find evidence that traded corporate bonds bid-ask and credit spreads are lower for firms that have greater FSC than peer firms. Their results imply that accounting comparability helps market participants reduce the uncertainty of firms' information about credit risk, which may reduce firms' cost of debt. Taken together, previous research provides evidence that enhancing comparability in firms' financial reporting practice benefits both corporations and their capital providers.

Emerging research documents that are enhancing comparability in financial reporting helps reduce information asymmetry between firms' insiders and outsiders. Specifically, financial report users experience reduced information acquisition and processing costs, and higher quality of financial information when firms have greater FSC (De Franco et al., 2011; Barth et al., 2012). Kim et al., (2016) document that FSC helps reduce "asymmetric market reaction" to voluntary disclosure between good news and bad news regarding both current change and future analysts' consensus forecast. Their findings suggest that FSC helps mitigate managers' discretion over firm disclosure by increasing information transparency, which helps improve disclosure quality as well.

The existing research on factors has impact FSC focuses on the regulations and the application of reporting standards. Barth et al. (2012) study the comparability after the adoption of IFRS by non-US firms. They find that mandatorily adopted IFRS firms' financial statement comparability has increased more than the application of domestic regulations. Their findings suggest that the IFRS adoption among the international community helps improve accounting comparability. Further, Lang et al. (2010, W.P.) provide evidence that the adoption of IFRS increases earnings co-movement, does not necessarily enhance financial statement users' ability to take advantage of a better reporting environment.

In contrast, the US-based research shows different results for financial statement users' ability to absorb improved information quality with enhanced accounting comparability. For example, US GAAP financial statement comparability is positively associated with analyst earnings forecast accuracy (De Franco et al.,2011). The style of applying accounting standards has an impact on FSC as well. Each of the Big-4 audit firms has its way of implementing US GAAP standards, and evidence shows that clients who share the same big four auditors have greater FSC than those firms with different Big-4 auditors (Francis et al., 2014).

2.3 Managerial Entrenchment

The finance literature has no consensus regarding the definition of firm entrenchment, nor for the empirical measurement of entrenchment. Shleifer and Vishny (1989) define that entrenched managers are valuable to shareholders through the choice of substantial investment and have a high cost of replacement through the structure of their contracts. Their model demonstrates that managers entrench themselves by making a manager-specific investment, which could be detrimental to shareholder value. In contrast, Berger et al. (1997) define entrenchment as a dysfunction of corporate governance rooted from shareholder monitoring and low risk of replacement. Stulz (1988) models managerial entrenchment using controlling voting rights through which managers affect potential bidders' behavior in an attempt to control of the firm. More recently, Gompers et al. (2003) define entrenchment as managerial power reservation with strong restrictions on shareholders' ability to replace incumbents, including both board members and managers. Following existing studies on managerial entrenchment, this study defines entrenchment as the decreased protection of shareholder rights, coupled with relatively more challenging to replace the incumbent managers.

Prior corporate governance studies employ multiple proxies for managerial entrenchment. Berger et al. (1997) measure entrenchment by using CEO compensation schemes, CEO tenure, and board composition. Stulz (1988) models managerial control of voting rights to measure entrenchment as he argues that managers control voting rights affect the likelihood of losing control. Gompers et al. (2003) argue that entrenchment exists when firms adopt governance provisions, by-laws, and other takeover laws to restrict shareholder rights. They use a total of twenty-four provisions tracked by the Investor Responsibility Research Center (IRRC), which compiles the "Governance Index" (G-index). The purpose of adopting these provisions mainly to delay hostile takeovers, to restrict shareholder voting rights, and to protect directors and managers. The more governance provisions firms adopt, the higher level of managerial entrenchment.

Bebchuk et al. (2008) argue that the twenty-four provisions used in G-index do not affect firm value equally. They identify six provisions from the G-index and develop a simplified entrenchment proxy named Entrenchment Index (E-index). The correlation between G-index and E-index is 0.7 (Bebchuk et al., 2008). Consistent with G-index, higher E-index are monotonically associated with lower firm values and negative abnormal returns (Bebchuk et al., 2008). Thus, managerial entrenchment is detrimental to firm value.

2.4 Business Operating Segment

The disclosures of operating segments help financial statement users to understand firms' performance better, better evaluate firms' future cash flows, and make more informed judgments to the entire firm's performance (FASB 1997)[4]. Statement of Financial Accounting Standards 131(FASB 1997) defines the operating segment as a component of an enterprise that engages in business activities with revenues and expenses incurred has its discrete financial information

[4] Statement of Financial Accounting Standards 131
https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1218220124541&acceptedDisclaimer=true

available to report. SFAS 131 describes an operating segment should have similar economic characteristics, such as similar nature of products and services, similar nature of the production process, a similar type of class of customer for their products and services, similar methods used to distribute their products and provide their services, or similar nature of the regulatory environment. Further, this statement requires publicly traded companies to report certain information about business operating segments with full sets of financial information. Prior literature uses the business segment as a measurement for business complexity, for example, Berger and Hann (2002) find that SFAS 131 increased financial reporting on the number of segments and more disaggregated financial information.

Chapter 3: Hypothesis Development

3.1 Hypothesis One: Mangareial Entrenchment and Financial Statement Comparability

Entrenched managers may opt to use their power on investment-related decisions that could lead to suboptimal outcomes for outside shareholders (La Porta et al., 1999), and these types of management decisions may connect to FSC. Two primary explanations that managerial entrenchment, due to low monitoring and less turnover risk, may relate to the accounting comparability. First, entrenched managers are commonly observed with empire building-related investments (Hope and Thomas 2008). A manifestation of this type of investment is an increase in business segments[5], which changes economic activities and subsequently impact on accounting amount due to the change of economic phenomena. Thus, the shift in complexity may break accounting comparability due to the shifting of economic events. Secondly, entrenchment provides managers a low turnover risk working environment, which lets them choose specific riskier projects that may have negative net present value in the short-term or long-term. For example, an entrenched manager at a traditional oil energy company may choose to expand investment into clean energy that may commonly have a short-term loss; however, a potential profit in the long run. Apparently, the economic phenomena for the oil business are different than the clean energy business, and thus accounting comparability between these two industry sectors is mixed.

Moral hazard models suggest that due to lack of monitoring, managers tend to make the investment-related decisions that may have negative net present value (Biddle et al. 2009). For any publicly traded companies, managers are subject to be monitored by shareholders and other stakeholders, such as creditors, analysts, and regulators. Entrenched managers are lack monitoring by shareholders. However, there is no evidence indicates firms with entrenched managers have

[5] Unablated test results show that the likelihood of multiple segments is positively related with managerial entrenchment.

less monitoring by other public outsiders, such as analysts, creditors, etc. Therefore, despite being entrenched, managers may concern about the cost of capital and have the incentive to obfuscate negative financial information from those outside financial statement users. Hence, entrenched managers still have the motivation to increase information asymmetry between managers and outsiders to conceal poor investment outcomes. A lower FSC could be one avenue that entrenched managers employ to reduce the potential scrutiny from outsiders.

One of the primary reasons for adopting entrenchment related governance provisions is to prevent hostile takeovers. FSC improves financial information usefulness for alternative investments among different entities (FASB, 2018). Target firms with greater FSC indicate a high potential synergy in merger and acquisition deals (Chen et al. 2018). Thus, it is reasonable to expect lower FSC may signal to prospective bidders a lower return in merger and acquisition deals. Evidence shows in merger and acquisition deals, and hostile acquirers involved bidding is more likely to be terminated if the target firm has low financial reporting quality (Skaife and Wangerin 2013). Thus, I predict entrenched managers prefer lower accounting comparability as to avoid being a potential target by hostile bidders.

In summary, business complexity, overinvestment, and obscure low financial performance, and avoid takeover observed from firms with entrenched managers. Together, these reasons may contribute to lower financial statement comparability as opposed to firms with non-entrenched managers. Cross-sectionally, I expect that firm-level managerial entrenchment has a negative association with financial statement comparability. I formally describe the first hypothesis as follows:

H1: Firms' level of managerial entrenchment has a significantly negative association with their financial statement comparability.

3.2 Hypothesis Two: Firm segments and Managerial Entrenchment Vs. Financial Statement Comparability

The basic notion of the FASB Conceptual framework for accounting comparability is that comparability reflects similar economic outcomes between two firms; otherwise, these two firms should have different accounting amounts. For a company that reports multiple business segments, it indicates that each of these operating segments engages in different types of business activities, and operates in different economic environments (SFAS 131). Therefore, there are various risk levels and earnings persistence in each segment, which will undoubtedly reflect on accounting amounts. For example, Apple announced the start of a news subscription service and a co-branded credit card segment in March 2019[6]. The news business and credit card business for apple will change its earnings model from the current hardware and software industry. Accordingly, Apple will have different operating risks that will drive Apple's financial statement to be less comparable with its rivals in the smartphone industry, such as Samsung. Therefore, I expect lower accounting comparability between two firms who own multiple business segments, despite being in the same industry.

A common strategy for entrenched managers to keep being entrenched is to invest in a project that can reduce the likelihood of being replaced (Shleifer and Vishyn 1989). Therefore, firms with entrenched managers tend to have multiple business segments as a result of empire building. It is reasonable to expect that more operating segments a firm has, such a firm's accounting amounts will reflect less similar economic events from its peer firms. Thus I expect the increase of business segments is more pronounced under the watch by those entrenched managers. My second hypothesis regarding the number of business segments to firm FSC is as follows:

[6] Introducing Apple Card, a new kind of credit card created by Apple. (2019, April 30). Retrieved from https://www.apple.com/newsroom/2019/03/introducing-apple-card-a-new-kind-of-credit-card-created-by-apple/

H2a: Firms' number of business segments has a significantly negative association with their financial statement comparability.

H2b: The negative association between the number of business segments and financial statement comparability is more pronounced when firms have entrenched managers.

3.3 Hypothesis Three: Merger and Acquisition Deals Vs. Target firms' Financial Statement Comparability

The empire building-style of investment commonly conducted by entrenched managers poses value destruction to shareholders but benefits managers, meaning that managers' investment decisions are not fully aligned with shareholder value. Given the prior evidence shows target firms' accounting comparability can often be used to predict higher post-merger synergy (Chen et al., 2018). Therefore, a reasonable approach for managers is to put some weight on target firms' financial statement comparability in the initial due diligence process in the merger and acquisition decision model. However, if a merger and acquisition deal serves the purpose of "empire building," entrenched managers might pay less attention to alternative targets, which could have higher post-merger synergy. In this scenario, the target firms' financial statement may not be greater than their peers when such merger and acquisition deals acquirers have entrenched managers. Hence, I expect that, on average, in merger and acquisition deals, acquirers with managerial entrenchment is negatively associated with their target firms' FSC. My third hypothesis state as follows:

H3: In merger and acquisition deals, the target firms' financial statement comparability is negatively associated with acquiring firms' managerial entrenchment.

3.4 Hypothesis Four: Target Firms' FSC and Managerial Entrenchment Vs. Post-merger Return

Hypothesis three tests the relationship between the acquirer's managerial entrenchment and target firms' accounting comparability. The expected result helps explain that entrenched managers ignore the accounting comparability mitigation effect in the process of due diligence. As existing studies show that many merger and acquisition deals have been found a negative NPV project to acquires, such as a negative market reaction and a plethora of asset write-down following several years of the deal closing (Klein 2018). Two explanations are agency problems, such as CEO hubris, and information asymmetry between acquirers and target firms. Chen at al. (2018) suggest that accounting comparability mitigates concerns of the negative post-merger returns. However, how substantial accounting comparability in mitigating these concerns is not clear. Specifically, between managerial hubris and information asymmetry, which one contributes more to the negative merger and acquisition deals, ex post, is not clear. I test the joint effect between managerial entrenchment and accounting comparability to the post-merger return on assets. I expect a negative relationship since entrenched managers may ignore the usefulness of accounting comparability. Thus, my fourth hypothesis states as follows:

H4: The post-merger return on assets is negatively associated with target firms' financial statement comparability when its acquirer firms' management is entrenched.

Chapter 4: Data Selection, Variable Definitions, and Methodology

4.1 Main Sample

The main sample period covers from the year 1990 to 2011 due to the availability of E-Index. The sample excludes the firms in the transportation, communications, and utility service industry (SIC 4000-4999), the finance, insurance, and real estate industry (SIC 6000-6799), and the public administration sector and non-classifiable firms (SIC 9100-9999). I also exclude the firm-quarters after a fiscal year-end change. To construct the main financial statement comparability variable $COMPACCT_{it}$, it requires that all remaining sample firms have at least 16 continuous quarterly earnings and returns available. Major variables are constructed using data from COMPUSTAT, CRSP, SDC M&A database, IBES, and Thomson Reuters Insiders Filling database. CEO entrenchment measurements are from Gompers, Ishil, and Metrick (2003) and Bebchuk, Cohen, and Ferrell (2009).[7] The G-index is given to the full sample of Investor Responsibility Research Center (IRRC) firms for each publication of Corporate Takeover Defenses by Virginia Rosenbaum. Each publication provides the date for which information is current. The first full months following these "current-dates" are September 1990, July 1993, July 1995, February 1998, November 1999 (for 2000 publication), January 2002, January 2004, and January 2006. Similar to Di Meo et al. (2017), for the years with missing data, I use the value of the index corresponding to the most recent year for which the information is available, assuming that corporate governance characteristics tend to be stable over time (Gompers et al. 2003). The detail on how I construct these variables are described in the Variable Construction section.

[7] Gompers, Ishil, and Metrick (2003) uses G-index, the data is available on Dr. Andrew Metrick's website http://faculty.som.yale.edu/andrewmetrick/data.html from 1990 to 2006. Bebchuk, Cohen, and Ferrell (2009) uses E-index, and the data is available on Dr. Lucian Bebchuk's website http://www.law.harvard.edu/faculty/bebchuk/data.shtml from 1990 to 2006.

I start with COMPUSTAT and CRSP to form the financial statement comparability measurements, then merge with COMPUSTAT to compute control variables, finally merge with E-Index and G-Index. I require all firm-quarters in the final sample with all variables available. The main sample is consistent with 21,616 firm-quarter observations.

4.2 Business Segment Sample

To form the business segment sample, I require that the sample firms in the main sample be in the COMPUSTAT Historical Segments database, to compute the business segment variable (*BUSSEG*). With this additional requirement, the business segment sample includes 19,614 firm-quarter observations.

4.3 Merger and Acquisition Sample

The sample period covers from 1990 to 2011 due to the availability of E-Index. I use the SDC database, search for all U.S. mergers and acquisitions with announcement dates between January 1, 1990, and December 31, 2011. I begin with all deals deemed "Completed" as to their status reported by SDC. To clean the merger and acquisition data, I remove any merger and acquisition deals considered as stock repurchase or self-tender. I keep the merger and acquisition deals with both bidders and targets as public firms listed on the U.S. stock market. Following Chen et al. (2018), I eliminate merger and acquisition with a deal value below $1 million to ensure the deals are material (Moeller et al. 2004; McNichols and Stubben 2015). Further, I drop deals without the acquirer firm's E-Index or G-Index score, a sufficient amount of data to calculate the comparability of the target firm, and control variables in my regression models. This process yields a final sample of 1,130 observations. The sample size varies across different analyses due to additional data requirements.

4.4 Entrenchment Measurements

E-index data is downloaded from Dr. Andrew Metrick's website. The updated E-index table covers the years of 1990, 1993, 1995, 1998, 2000, 2002, 2004, 2006, 2007, and 2008. I use each available year data to fill the following three years if the same firm is missing in these years. This process gives 41,728 firm-year observations from 1990 to 2011. G-index data is downloaded from Dr. Lucian Bebchuk's website. The G-index table covers the years of 1990, 1993, 1995, 1998, 2000, 2002, 2004, and 2006. Again, I use each available year data to fill the following three years, if the same firm is missing in these years. This yields 40,854 firm-year observations from 1990 to 2009.

4.5 Financial Statement Comparability Measurements

To measure financial statement comparability, I follow De Franco et al. (2011) and define comparability as the closeness between two firms' fin financial accounting systems while mapping economics events into financial systems. To measure the accounting function of individual firm *i* in each quarter, I use firm *i*'s continuous 16 previous quarters of earnings and stock returns in the following time-series regression. Here, earnings and stock returns are proxies for financial statements and economic events, respectively. The model is as follows:

$$EARNINGS_{it} = \alpha_i + \beta_i RETURN_{it} + \epsilon_{it} \qquad (1)$$

Where $EARNINGS_{it}$ is the quarterly net income before extraordinary items deflated by the market value of equity at the end of the previous quarter, and $RETURN_{it}$ is the raw stock return during quarter *t*. The estimated coefficient $\widehat{\alpha_i}$ and $\widehat{\beta_i}$ are firm *i*'s accounting system or function that maps firm *i*'s economic events into its financial statement. For firm *j* from the same three-digit industry as firm *i*, and has the same fiscal year-end month as firm *i*, the accounting system is proxied as $\widehat{\alpha_j}$ and $\widehat{\beta_j}$.

To measure the closeness of the functions between firms *i* and *j*, I use firm *i*'s economic events (proxied by $RETURN_i$) to calculate the estimated earnings difference from each firm-pair's accounting system parameters ($\widehat{\alpha_\iota}$, $\widehat{\beta_\iota}$ or $\widehat{\alpha_J}$, $\widehat{\beta_J}$), respectively. Specifically, I apply firm i's and firm j's estimated accounting functions to firm i's economic events, $RETURN_{it}$:

$$E(EARNINGS)_{iit} = \widehat{\alpha_\iota} + \widehat{\beta_\iota} RETURN_{it} \quad (2)$$

$$E(EARNINGS)_{ijt} = \widehat{\alpha_J} + \widehat{\beta_J} RETURN_{it} \quad (3)$$

Where $E(EARNINGS)_{iit}$ refers to the predicted earnings of firm *i*, given the accounting function of firm *i* and return of firm *i* in quarter *t*. Similarly, $E(EARNINGS)_{ijt}$ refers to the predicted earnings of firm *i*, given firm *j*'s accounting function and firm *i*'s return in quarter *t*. The pairwise comparability score between firm *i*'s and firm *j*'s accounting systems ($COMPACCT_{ijt}$) is calculated as a negative one (-1) times the average of all pairwise comparability scores between firm *i* and firm *j*, that is, the absolute differences between the predicted earnings using firm *i*'s and firm *j*'s accounting functions, for the past 16 quarters:

$$COMPACCT_{ijt} = -\frac{1}{16} \times \sum_{t-15}^{t} | E(EARNINGS)_{iit} - E(EARNINGS)_{ijt} | \quad (4)$$

Given that $COMPACCT_{ijt}$ in the equation is nonpositive, I note that a higher value of $COMPACCT_{ijt}$, that is, a smaller absolute difference between $E(EARNINGS)_{iIt}$ and $E(EARNINGS)_{ijt}$, indicates greater financial statement comparability of firms *i* to firm *j*.

Further, I construct three comparability measurements of firm *i*'s financial statements from $COMPACCT_{it}$, using: (*i*) a firm-year measure of accounting comparability ($COMPACCTY_{it}$) by aggregating the firm *i* – firm *j* $COPMACCT_{ijt}$ for a given firm *i*; (ii) rank all the *J* values of $COMPACCT_{ijt}$ for each firm *i* from the highest to the lowest, then create $COMPACCT4_{it}$, as the average $COMPACCT_{ijt}$ of the four firms *j* with the highest comparability scores to firm *i* during

period *t*, and (iii) the median $COMPACCT_{ijt}$ for all firms *j* in the same industry as firm *i* during period *t* ($COMPACCTIND_{it}$).

In addition to De Franco et al. (2011)'s comparability measures, I include a comparability measure used in Chen et al. (2018). I convert the comparability measures into ranks to reduce noise in the estimates with the variable name $RankComp_{it}$. For each fiscal year, I rank the comparability measures into deciles (from zero to nine) and then divided these ranked values by nine so that they range between zero and one. Using scaled-rank values of the comparability measure provides two benefits: first, it allows for possible nonlinearities in the relationship between financial statement comparability and each of these variables; also, this technique facilitates the interpretation of the coefficients on this variable (Chen et al., 2018). For example, when the dependent variable is investment efficiency, the coefficient value on *RankComp* measures the difference in investment efficiency for firms with higher comparability scores to firms with lower comparability scores.[8]

4.6 Additional Major Variables Constructed by Hypothesis

I construct the business segment (*BUSSEG*) from COMPUSTAT Historical Segments database by counting the number of units reported under BUSSEG for each firm-quarter. After merging with the main sample, the *BUSSEG* mean (median) of the new sample is 2.95 (3.00). I further create a dummy variable (*BUSSEGD*) to indicate whether a firm has more business segments than its industry median number of business segments.

4.7 Merger and Acquisition deals sample

In the Merge and Acquisition sample, following De Franco et al. (2011) and Chen et al. (2018), I compute the financial statement comparability for each target firm as the *CompAcct4* defined in De Franco et al. (2011). To achieve a better industry match while computing the

[8] See Abarbanell and Bushee (1998) for further explanation of this technique.

financial statement comparability, I use a three-digit SIC code to limit the matching firm instead of two-digit SIC code. For straightforward interpretation, I rank the *CompAcct4* into deciles then divided by 9 to have the ranked value of CompAcct4 (*TAR_RANKCOMP4*) that range zero to one. Target firms' financial statement comparability is computed for the year before M&A announcements.

To explore the relation among entrenchment, financial statement comparability, and acquisition efficiency, I use three different measurements to proxy the acquisition efficiency: *ChROA*, *ACQ_CAR*, and *SYNERGY*. *ChROA* is an indicator of the change in the operating performance of the acquirer firm from prior to after the acquisition. The prior and after acquisition ROAs are benchmark-adjusted three-year average ROA in the period of (t-3 to t-1) and (t+1 to t+3). To compute the benchmark-adjusted ROA, I first pair each acquiring firm with a firm in the same 2-digit SIC industry classification and having ROA most close to and between 80 percent to 120 percent of the acquirer firm's ROA in the year prior to the acquisition announcement. As suggested by Chen et al. (2018), using a three-year average could "mitigate the effects of artificial growth due to business combinations and the effects of divestitures or asset write-downs subsequent to acquisitions". *ACQ_CAR* is the absolute value of three-day cumulative abnormal returns around the acquisition announcement date from the acquirer firm (-1, +1). I use the absolute value of the three-day CAR rather than the signed abnormal return, to emphasize the size of the "surprise" instead of the direction of the "surprise." SYNERGY is the expected synergies from the M&A deals, measured as the weighted average of the acquirer firm and the target firm three-day cumulative abnormal returns. The weights are the market values of the acquirer and target for the fiscal year prior to the acquisition announcement.

4.8 Control Variables

Following previous studies (De Franco et al. 2011, Francis et al. 2013), I use a set of controls for other factors that might create frictions or otherwise affect the comparability of financial statements and earnings for firms. Precisely, I control for the firm's market return (RET), operating cash flow (CFO), common auditor (COMN), firm size (SIZE) measured as the log value of total assets, total accrual (T.A.), leverage ratio (LEV), market to book ratio (M.B.), probability of loss (LOSSP), and sales revenue (SALES). Details of how to construct these variables are described in Appendix A.

4.9 Merger and Acquisition Model

I control acquirer firms' characteristics in the period before the acquisition announcement, target firms' characteristics in the period prior to the acquisition announcement, and characteristics of the M&A deal. The acquirer firm characteristics include firm size (*ACQ_SIZE*), leverage ratio (*ACQ_LEV*), Tobin's Q (*ACQ_TobinQ*), return on assets (*ACQ_ROA*), and free cash flow (*ACQ_FCF*). The target firm characteristics include firm size (*TAR_SIZE*), leverage ratio (*TAR_LEV*), Tobin's Q (*TAR_TobinQ*), return on assets (*TAR_ROA*), and the existence of blockholder (*TAR_BLOCK*). Deal characteristics include the method of payment (*AllCash, AllStock*), the relative deal size (*REL_SIZE*), whether the acquisition is classified as a tender offer (*TENDER*), whether the merger and acquisition deal is crossing different industries (*DiffIND*). The details of contrasting these control variables are described in Appendix A.

Since my sample is very similar to Chen et al. (2018), my variables descriptive are comparable to their reported value as well. For example, the mean (median) of my sample acquirer firm three-day acquisition announcement return is -0.011 (-0.005) comparing to Chen et al. (2018) reported -0.02 (-0.01). The mean (median) of my sample target firm three-day acquisition announcement return is 0.248 (0.191) comparing to Chen et al. (2018) reported 0.21 (0.16). The

mean (median) of my sample SYNERGY is 0.012 (0.004) comparing to Chen et al. (2018) reported 0.01 (0.01). The mean (median) of my sample ChROA is 0.013 (0.008) comparing to Chen et al. (2018) reported -0.02 (0.00). The mean (median) of my sample target firm financial statement comparability is -0.051 (-0.005) comparing to Chen et al. (2018) -3.01 (-1.89), and De Franco et al. (2011) reported -0.6 (-0.2).

4.10 Regression Models

To tests the cross-sectional association between accounting comparability and management entrenchment (Hypothesis 1). I use the entrenchment proxies as independent variables to test with comparability individually. I regress the variables as follows:

$$Comp_{it} = \beta_0 + \beta_1 Ent_{it} + \beta_2 RET_{it} + \beta_3 CFO_{it} + \beta_4 BIG4_{it} + \beta_5 TA_{it} + \beta_6 LEV_{it} + \beta_7 MB_{it} + \beta_8 LOSSP_{it} + \beta_9 SALES_{it} + \beta_{10} NMANST_{it} + \epsilon_{it} \quad (5)$$

The Ent_{it} represents the proxies for each entrenchment variable. The $Comp_{ijt}$ represents the proxies for two measurements of accounting comparability $CompAcct_{ijt}$ and $RankComp_{ijt}$ from both De Franco et al. (2011) and Chen et al. (2018).

My second hypothesis is how underlying business and firm entrenchment associated with financial statement comparability. First, I use OLS regression to test the overall relationship between the business segment variable and the entrenchment variable. Second, I employ the reverse regression model to examine the relationship between comparability and entrenched management on business segments. I use dummy variable BUSSEGD equals 1 if such a firm has more than the industrial average business segments. Otherwise, BUSSEGD equals 0. This design allows me to test the differences in entrenchment effect to comparability between multiple segment firms and regular segment firms.

$$Comp_{it} = \beta_0 + \beta_1 BUSSEGD_{it} + \beta_2 RET_{it} + \beta_3 CFO_{it} + \beta_4 COMN_{it} + \beta_5 TA_{it} + \beta_6 LEV_{it} + \beta_7 MB_{it} + \beta_8 LOSSP_{it} + \beta_9 SALES_{it} + \beta_{10} NUMANST_{it} + \epsilon_{it} \quad (6)$$

$$Comp_{it} = \beta_0 + \beta_1 BUSSEGD_{it} + \beta_2 Ent_{it} + \beta_3 BUSSEGD_{it} \times Ent_{it} + \beta_4 RET_{it} + \beta_5 CFO_{it} + \beta_6 COMN_{it} + \beta_7 TA_{it} + \beta_8 LEV_{it} + \beta_9 MB_{it} + \beta_{10} LOSSP_{it} + \beta_{11} SALES_{it} + \beta_{12} NMANST_{it} + \epsilon_{it} \quad (7)$$

The third hypothesis is to test the entrenched managers' investment behavior. I argue that due to the special status of managerial entrenchment, the typical behavior observed from entrenched managers' decision making on an investment project with comparability will impact on the efficiency of firm investment for both M&A deals and internal development. Accordingly, I exam the relationship between the entrenched acquirer existence and its target firms' accounting comparability. I expect that the target firm's FSC is lower for the entrenched acquirer than the non-entrenched acquirer.

$$TARComp_{it} = \beta_0 + \beta_1 ACQ\_Ent_{it} + \beta_2 TAR\_SIZE_{it} + \beta_3 TAR\_LEV_{it} + \beta_4 TAR\_TobinQ_{it} + \beta_5 TAR\_ROA_{it} + \beta_6 ACQ\_ROA_{it} + \beta_7 ACQ\_FCF_{it} + \beta_8 REL\_SIZE_{it} + \beta_9 TENDER_{it} + \beta_{10} ALLCash_{it} + \beta_{11} ALLStock_{it} + \beta_{12} DiffIND_{it} + \epsilon_{it} \quad (8)$$

The fourth hypothesis is to test the impact on acquiring firms' investment efficiency with entrenched managers and the benefits of accounting comparability. This test uses the interaction between target firms' comparability and acquiring firms' managerial entrenchment. This test design able to identify the two common hypotheses between managerial overconfidence and information asymmetry for average negative return for merger and acquisition deals. I expect the target firms FSC is negatively associated with post-merger change of return on assets, when acquirers' management is entrenchment, meaning the entrenched managers may ignore the targets'

FSC to improve post-merger synergy. This test result may indicate that managers overconfidence may be the primary driver of the average negative merger and acquisition deals. Here, I use the regression model by creating dummy variable EntD, which equals 1 if Eindex greater than or equal to 3, otherwise EntD equals 0.

$$ChROA_{it} = \beta_0 + \beta_1 TAR\_RANKCOMP_{it} + \beta_2 EntD + \beta_3 EntD \times TAR\_RANKCOMP_{it} + \beta_4 TAR\_SIZE_{it} + \beta_5 TAR\_LEV_{it} + \beta_6 TAR\_TobinQ_{it} + \beta_7 TAR\_ROA_{it} + \beta_8 ACQ\_ROA_{it} + \beta_9 ACQ\_FCF_{it} + \beta_{10} REL\_SIZE_{it} + \beta_{11} TENDER_{it} + \beta_{12} ALLCash_{it} + \beta_{13} ALLStock_{it} + \beta_{14} DiffIND_{it} + \epsilon_{it} \quad (9)$$

Chapter 5: Empirical Results

5.1 Descriptive Evidence

Panel A of Table 1 provides descriptive statistics for the variables of interest and the control variables used in my hypothesis 1 and 2 empirical analysis. Table 1 indicates that the mean value of RANKCOMPQ4 is 0.673, meaning that the comparability for any two firms within the same industry in any given year is 0.673 on average, with the range between 0 and 1. The amount of business segments on average is 2.5, with a minimum of 1 to highest 19 business segments. However, 90% of the overall sample has no more than five business segments, which indicates only some conglomerates own more than five business segments. Both E-index and G-Index are normal distributed. For G-index, any firm less than 2 are grouped as a minimum, and any firm greater than 17 grouped as a maximum group.

Panel B of Table 1 provides correlations between entrenchment variables and comparability variables as the main interest examined in Table 3 and Table 4. The correlation between G-index and E-index is 0.713, which is the same as Bebchuk et al. (2008). Overall all the entrenchment variables have a significant negative correlation with all the accounting comparability variables. These correlations provide some preliminary evidence that entrenchment is negatively associated with lower accounting comparability.

Table 1: Descriptive Statistics and Correlation

Panel A: Descriptive Statistics

Variable	N	Mean	Std Dev	Percentile				
				Min	25th	50th	75th	Max
EIndex	21616	2.325	1.254	0.000	1.000	2.000	3.000	6.000
GIndex	21616	9.095	2.688	2.000	7.000	9.000	11.00	17.000
RANKCOMPQ	21616	0.598	0.308	0.000	0.333	0.667	0.889	1.000
RANKCOMPQ4	21616	0.673	0.282	0.000	0.444	0.778	0.889	1.000
RET	21616	0.124	0.883	-0.958	-0.200	0.048	0.290	46.729
CFO	21616	0.121	0.114	-1.790	0.068	0.118	0.176	0.978
COMN	21616	0.960	0.196	0.000	1.000	1.000	1.000	1.000
Size (USD, millions)	21616	6124.3	66956	0.001	27.810	160.52	1001.6	3,771,199
TA	21616	-0.063	0.175	-8.338	-0.092	-0.053	-0.023	7.048
LEV	21616	0.239	1.946	0.000	0.041	0.183	0.306	120.943
MB	21616	3.997	78.201	-996.927	1.601	2.493	3.954	5603.07
LOSSP	21616	0.171	0.272	0.000	0.000	0.000	0.250	1.000
SALES (USD, millions)	21616	2167	11428	0.001	20.063	115.49	673.74	496785

Panel B: Correlation Matrix

This table presents a correlation matrix of comparability, entrenchment, and other firm characteristics on both acquirers and targets on merger and acquisition deals. All variables are defined in Appendix A.

Labels are: (1)EIndex; (2)GIndex; (3)COMPACCTQ; (4)RANKCOMPQ4; (5)BUSSEGD; (6)CFO; (7)COMN; (8)SIZE; (9)TA; (10)LEV; (11)MB; (12)LOSSP; (13)SALES.

	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**	**(11)**	**(12)**	**(13)**
(1)	1.000												
(2)	**0.713**	1.000											
(3)	**-0.031**	**-0.005**	1.000										
(4)	-0.031	**-0.004**	0.130	1.000									
(5)	**-0.029**	**0.009**	**0.040**	**0.116**	1.000								
(6)	-0.039	**0.007**	0.017	**0.157**	-0.023	1.000							
(7)	**0.042**	**0.078**	**0.056**	**0.171**	**0.062**	0.150	1.000						
(8)	**-0.018**	**0.165**	0.015	0.245	0.036	0.305	0.414	1.000					
(9)	**0.010**	**0.015**	0.013	0.020	-0.010	**0.009**	0.038	0.064	1.000				
(10)	**-0.021**	**-0.013**	-0.018	-0.048	0.001	-0.048	-0.019	-0.018	-0.196	1.000			
(11)	0.003	0.005	0.007	0.010	0.008	-0.005	**0.013**	0.013	0.000	-0.001	1.000		
(12)	**-0.024**	**-0.113**	-0.081	-0.339	**0.021**	-0.471	-0.210	-0.452	**-0.117**	0.052	-0.007	1.000	
(13)	**-0.007**	**0.175**	0.030	0.187	-0.002	0.405	0.393	0.922	0.081	-0.024	0.013	-0.532	1.000

Panel A of Table 2 provides descriptive statistics for the variables of interest and control variables used in my third empirical analysis. Table 2 indicates that mean chROA is 0.03, meaning the average change of ROA post-M&A is 3%, on a scale from minimum -0.377 to a maximum 1.418. TAR_RANKCOMPQ4 average is 0.675, which is similar to the overall sample firms' comparability. My control variables include both target firms' characteristics and acquiring firms' characteristics, such as firm size, leverage, and ROA. I also include deal characteristics, about 46.1% of my sample deals use all cash, and 26% of transactions are all-cash deals. Noticeably, on average, 42% of sample deals are cross-industry.

Panel B of Table 2 provides correlations between my entrenchment variables and the main variables of interest examined in this test. Similar to Bebchuck et al. (2008), the correlation between G-index and E-index is 0.77. The chROA is significantly negatively correlated with both entrenchment measures, which provides preliminary evidence that entrenched acquirers invest in negative present value projects. Also, TAR_RANKCOMPQ4 is negatively correlated with bidding firms' entrenchment level; the correlation is -0.038 and -0.067 for E-index and G-index, respectively. These results also support the hypothesis that acquiring firms with entrenchment status pay less attention to shareholder value increasing targets. However, the positive correlation (0.188) between chROA and TAR_RANKCOMPQ4 further proves that target firms' financial statement comparability has a positive correlation with the return of post-M&A deals.

Table 2: Descriptive Statistics and Correlation

Panel A: Descriptive Statistics

This table presents descriptive statistics on the merger and acquisition (M&A) post-merger returns, entrenchment, and other firm characteristics for both acquirers and targets. All variables are defined in Appendix A.

					Percentile		
Variable	N	Mean	Std Dev	Min	10th	50th	90th	Max
chROA	1130	0.030	0.156	-0.377	-0.124	0.019	0.180	1.418
TAR_RANKCOMPQ4	1130	0.675	0.276	0.000	0.222	0.778	1.000	1.000
EIndex	1130	2.105	1.385	0.000	0.000	2.000	4.000	5.000
Gindex	1130	9.411	2.793	4.000	6.000	9.000	13.000	16.000
TAR_SIZE	1130	6.015	1.626	1.294	4.072	5.991	8.110	10.139
TAR_LEV	1130	0.237	0.407	0.000	0.000	0.168	0.465	3.232
TAR_TobinQ	1130	2.186	1.408	0.589	0.997	1.807	3.655	8.673
TAR_ROA	1130	-0.029	0.275	-1.595	-0.366	0.040	0.134	0.543
ACQ_SIZE	1130	9.127	1.433	5.046	7.403	9.267	10.977	12.269
ACQ_LEV	1130	0.184	0.113	0.000	0.027	0.178	0.341	0.512
ACQ_TobinQ	1130	2.600	1.749	0.869	1.118	1.982	4.782	9.356
ACQ_ROA	1130	0.091	0.070	-0.092	0.005	0.082	0.174	0.345
ACQ_FCF	1130	0.105	0.060	-0.158	0.032	0.104	0.188	0.286
REL_SIZE	1130	0.247	0.439	0.000	0.003	0.052	0.673	2.697
TENDER	1130	0.255	0.436	0.000	0.000	0.000	1.000	1.000
AllCash	1130	0.461	0.499	0.000	0.000	0.000	1.000	1.000
AllStock	1130	0.259	0.438	0.000	0.000	0.000	1.000	1.000
DiffIND	1130	0.420	0.494	0.000	0.000	0.000	1.000	1.000
TAR_BLOCK	1130	0.122	0.328	0.000	0.000	0.000	1.000	1.000

Panel B: Correlation Matrix

This table presents a correlation matrix of comparability, entrenchment, and other firm characteristics on both acquirers and targets on merger and acquisition deals. All variables are defined in Appendix A.

Lables are: (1)chROA; (2)TAR_RANKCOMPQ4; (3)EIndex; (4)GIndex; (5)TAR_SIZE; (6)TAR_LEV; (7)TAR_TOBINQ; (8)TAR_ROA; (9)ACQ_SIZE; (10)ACQ_LEV; (11)ACQ_TOBINQ; (12)ACQ_ROA; (13)ACQ_FCF; (14)REL_SIZE; (15)TENDER; (16)ALLCASH; (17)ALLSTOCK; (18)DIFFIND; (1)TAR_BLOCK.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
(2)	0.188																	
(3)	-0.164	-0.038																
(4)	-0.204	-0.067	0.772															
(5)	-0.044	0.101	-0.064	0.010														
(6)	-0.005	-0.019	0.052	0.160	0.060													
(7)	0.067	0.154	-0.014	0.103	-0.082	0.176												
(8)	-0.036	0.018	-0.084	-0.081	0.366	-0.499	-0.236											
(9)	0.216	0.173	-0.394	-0.153	0.252	0.082	0.174	0.002										
(10)	-0.049	0.011	0.144	0.081	0.079	0.059	-0.108	0.075	0.061									
(11)	0.161	0.152	-0.150	0.033	-0.026	-0.001	0.538	-0.088	-0.020	-0.258								
(12)	0.236	0.163	-0.060	-0.128	-0.089	0.058	0.105	0.018	0.133	-0.052	-0.054							
(13)	0.310	0.169	-0.182	-0.056	0.076	0.051	0.047	0.229	0.229	-0.059	0.185	0.497						
(14)	0.038	-0.031	0.103	0.011	0.040	-0.007	-0.004	0.019	-0.201	-0.067	-0.058	-0.019	-0.038					
(15)	0.059	0.177	0.007	0.021	-0.066	0.203	0.073	-0.164	0.074	-0.029	0.046	0.112	0.084	-0.026				
(16)	0.081	0.094	0.014	-0.075	-0.227	-0.057	-0.083	-0.163	0.212	-0.006	-0.105	0.112	0.033	-0.047	0.206			
(17)	-0.047	0.067	0.055	0.100	0.094	-0.048	0.231	0.099	-0.183	-0.064	0.135	-0.013	-0.103	0.084	-0.173	-0.538		
(18)	0.058	0.034	-0.028	0.008	-0.035	-0.118	-0.110	0.106	0.264	0.056	-0.143	-0.069	0.004	0.052	0.039	0.055	-0.055	
(19)	-0.024	-0.029	-0.015	-0.021	-0.180	-0.087	0.047	-0.006	0.009	-0.023	-0.078	-0.007	-0.037	0.018	-0.030	0.012	-0.024	0.004

5.2 Managerial Entrenchment on Financial Statement Comparability (H1)

Table 3 reports the results of my H1 tests, which examine whether firm-level managerial entrenchment is negatively associated with the financial statement comparability. Table 3 reports estimates of equation 6 for the full sample with both E-index (column 1&2) and G-index (column 3&4). The coefficient for univariate regression with G-index is -0.016 ($p<0.001$), and E-index is -0.015 ($P<0.001$). Further, after control for firm characteristics, the coefficient for the fixed effect regression has -0.005 ($p<0.001$) and -0.007 ($p<0.001$), for G-index and E-index, respectively. The results from both univariate and multivariate tests indicate, cross-sectionally, that accounting comparability has a significantly negative association with firm-level managerial entrenchment. These results are consistent with evidence from prior research that dysfunctional corporate governance negatively impacts on financial reporting quality. Also, the results provide direct evidence to support my hypothesis (H1), because of the reduced monitoring and low dismissal threat, managers with entrenchment status will lead to overall less FSC. However, this test result does not explain how entrenched managers lead to less accounting comparability.

Table 3: Entrenchment and Financial Statement Comparability

Regression of the financial statement comparability and firm-level entrenchment. E-index and G-index used as proxies for firm level entrenchment, as shareholders' voting power and takeover readiness. All other variables are defined in Appendix B.

$$Comp_{it} = \beta_0 + \beta_1 Ent_{it} + \beta_2 Controls_{it} + \varepsilon_{it}$$

Dependent Variable: RANKCOMPQ4

	(1)		**(2)**		**(3)**		**(4)**	
GIndex	**-0.016**	***	**-0.005**	***				
EIndex					**-0.015**	***	**-0.007**	***
RET			-0.017	***			-0.017	***
CFO			0.019	*			0.039	**
COMN			0.024	***			0.024	***
Size			0.073	***			0.072	***
TA			-0.096	***			-0.096	***
LEV			-0.010	***			-0.010	***
MB			0.000				0.000	
LOSSP			-0.334	***			-0.334	***
SALES			-0.066	***			-0.068	***
NUMANST			0.005	***			-0.001	
Year Control			Yes				Yes	
Observation	26,161		21,616		21,616		21,616	
Adjusted R^2	0.001		0.302		0.002		0.300	
R^2	0.001		0.304		0.002		0.310	

*Note: * represents p<0.1; ** represents p<0.05; *** represents p<0.01.*

5.3 Association Between Business Segments and Financial Statement Comparability with the Effect of Managerial Entrenchment (H2).

Table 4 presents the results of estimating the association between the number of business segments and accounting comparability. First, the univariate analysis between BUSSEGD and RANKCOMPQ4 shows a coefficient of -0.002($p<0.001$), while adding control variables that included regression between business segments and comparability, the coefficient is -0.007 ($P<0.001$), which is still strong and indicates that firms' who own multiple business segments are negatively associated with accounting comparability. These results provide very first empirical evidence to prove the FASB framework QC23, that when the underlying economics are different between two firms, their comparability should not be enhanced. Thus, a negative coefficient between BUSSEGD and RANKCOMPQ4 is consistent with my hypothesis (H2a).

Table 4 also presents the results of business segments and comparability on the effect of managerial entrenchment. I am able to see a higher coefficient on the interaction between BUSSEGD and EIndex (column 4) of -0.003 ($p<0.001$). This result indicates that when firms with multiple business segments which also happen to be entrenched. Notice, when entrenchment variable interacting with business segment variable into the multivariate regression, the coefficient is -0.008 ($p<0.001$), this also provides evidence that entrenched firms further deviate from comparability, meaning entrenched firms are more likely to expand operating on different industries. The G-index has a smaller coefficient than the E-index when interaction with BUSSEGD. Overall, empirical evidence supports my third hypothesis that multiple business segment is negatively associated with accounting comparability. Also, managerial entrenchment further deviates the financial reporting comparability when firms have multiple business segments.

Table 4: Financial Statement Comparability and Business Segments

Regression of financial statement comparability and business segments with the effect of entrenchment. BUSSEGD =1 for firms who have more than industry median, zero otherwise. All other variables are defined in Appendix B.

$$Comp_{it} = \beta_0 + \beta_1 BUSSEGD_{it} + \beta_2 Ent_{it} + \beta_3 BUSSEGD_{it} \times Ent_{it} + \beta_4 Controls_{it} + \epsilon_{it}$$

	Dependent Variable: RANKCOMPQ4					
Variable	(1)	(2)	(3)	(4)	(5)	(6)
BUSSEGD	-0.002**	-0.007***	-0.008***	-0.002	0.003***	0.007***
EIndex			-0.007***	0.001		
BUSSEGD*EIndex				-0.003***		
GIndex					0.001***	0.001**
BUSSEGD*GIndex						-0.001**
RET		-0.016***	-0.016***	-0.016***	-0.001***	-0.001***
CFO		0.066***	0.058***	0.058***	0.004**	0.004**
COMN		0.000	0.002	0.003	0.002***	0.001**
Size		0.080***	0.078***	0.078***	0.003***	0.003***
TA		-0.088***	-0.092***	-0.091***	-0.014***	-0.014***
LEV		-0.009***	-0.010***	-0.009***	-0.002***	-0.002***
MB		0.000	0.000	0.000	0.000	0.000
LOSSP		-0.325***	-0.326***	-0.328***	-0.017***	-0.016***
SALES		-0.071***	-0.070***	-0.070***	-0.003***	-0.003***
NUMANST		0.036***	0.021	-0.000	0.003***	0.041***
Year Control	Yes	Yes	Yes	Yes	Yes	Yes
Observation	19,614	19,614	19,614	19,614	19,614	19,614
Adjusted R^2	0.251	0.351	0.352	0.353	0.564	0.572
R^2	0.303	0.354	0.355	0.355	0.564	0.573

*Note: * represents p<0.1; ** represents p<0.05; *** represents p<0.01.*

5.4 Target Firm Comparability with Entrenched Acquirers in Merger and Acquisition Deals (H3).

Table 5 presents the evidence of the relationship between target firms' comparability and entrenched acquires. Both the univariate analysis and multivariate analysis provide evidence that when acquires managers are entrenched, their average coefficient with target firms' comparability is -0.038 ($p<0.001$), using E-index as the entrenchment proxy, when control with characteristics of acquirers, targets, and deals. The G-index Coefficient is smaller but still significant at a 1% level with a coefficient -0.016. The test results provide strong support for my hypothesis (H3). When entrenched managers considering potential target firms to merge, financial statement comparability can be leveraged as a useful tool in the initial due diligence process to reduce information asymmetry, tend to be ignored by these managers. One of the control variable DiffIND is also significantly negatively associated with TAR_RANKCOMPQ4, for the coefficient of -0.078 ($p<0.001$) and -0.08 ($p<0.001$), with E-index and G-index controlled, respectively. This result also indicates that an entrenched firm is more likely to look for a target that is not within their industry. Moreover, this result suggests that the cross-industry deals partially drive the reduction of comparability from entrenched acquires. Overall, Table 5 provides evidence that supports the hypothesis 3 that entrenched managers are making decisions, not maximizing shareholder value.

Table 5: Target Firms Comparability and Acquires' Managerial Entrenchment

OLS regression results of regressing the target firms' financial statement comparability and the entrenchment level of acquiring firms. *Eindex* and *Gindex* used as proxies for entrenchment. *TAR_RANKCOMP* as the target firm's comparability. Control variables are included. All other variables are defined in Appendix B.

$$TARComp_{it} = \beta_0 + \beta_1 ACQ\_Ent_{it} + \beta_2 Controls_{it} + \epsilon_{it}$$

	Dependent Variable: TAR_RANKCOMPQ4			
Variable	**(1)**	**(2)**	**(3)**	**(4)**
EIndex	**-0.039*** **	**-0.038*** **		
Gindex			**-0.014*** **	**-0.016*** **
TAR_SIZE		0.038***		0.037***
TAR_LEV		-0.119***		-0.111***
TAR_TobinQ		0.007		0.005
TAR_ROA		-0.102**		-0.102**
ACQ_SIZE		0.002		0.015**
ACQ_LEV		0.295***		0.297***
ACQ_TobinQ		0.014*		0.017**
ACQ_ROA		-0.132		-0.081
ACQ_FCF		0.588***		0.629***
REL_SIZE		-0.071***		-0.065***
TENDER		0.128***		0.129***
AllCash		0.099***		0.092***
AllStock		0.203***		0.206***
DiffIND		-0.037**		-0.043***
TAR_BLOCK		0.078***		0.080***
Intercept	0.757***	0.264***	0.805***	0.221***
Controls	Yes	Yes	Yes	Yes
Observation	1,130	1,130	1,130	1,130
Adjusted R^2	0.038	0.186	0.019	0.233
R^2	0.039	0.199	0.02	0.244

*Note: * represents p<0.1; ** represents p<0.05; *** represents p<0.01.*

5.5 M&A Returns and Targets Financial Statement Comparability in Conjunction with Managerial Entrenchment (H4)

Table 6 shows multiple regression results designed to test the relationship between chROA and TAR_RANKCOMPQ4. Column 1 and 2 is the direct test between these two interested variables, which is similar to Chen et al. (2018). The multiple regression (column 2) has a coefficient of TAR_RANKCOMPQ4 0.09 ($p<0.001$), which is similar to Chen et al. (2018). This result indicates that the post-merge return is positively related to target firms' accounting comparability, which proves that my test design is robust in testing the relationship between post-merger return and target firms' accounting comparability. Based on Chen et al. (2018), I further test dummy variable acquirer with managerial entrenchment interacting with target firm comparability. The test result shows the coefficient of the interreacting variable is -0.042 ($p<0.001$), meaning that when acquires with entrenched managers, the post-merge return on assets (chROA) is 4.2% less than acquirers with unentrenched managers in merger and acquisition deals. This empirical evidence is consistent with my fourth hypothesis that entrenched managers making investment decisions could be value destructive to shareholders. Further, the test result indicates that the FSC impact on post-merger return on assets is mitigated if the acquirer management is entrenched. Therefore, managers' overconfidence in merger and acquisition deals may be the primary reason for the average negative return in merger and acquisition deals.

Table 6: Merger and Acquisition returns and Targets Financial Statement Comparability with Managerial Entrenchment

Regression results of comparability when acquiring firms are entrenched. E-index and G-index used as proxies for entrenchment. Rankcompq4 proxy as comparability, Change of ROA (ChROA) proxy for M&A synergy. Control variables are included. All other variables are defined in Appendix B.

$$ChROA_{it} = \beta_0 + \beta_1 TAR\_RANKCOMP_{it} + \beta_2 EntD + \beta_3 EntD \times TAR\_RANKCOMP_{it} + \beta_4 Controls_{it} + \epsilon_{it}$$

	Dependent Variable: ChROA					
Variable	(1)	(2)	(3)	(4)	(5)	(6)
TAR_RANKCOMPQ4	**0.118*** **	**0.090*** **	**0.187*** **	**0.199*** **	**0.197*** **	**0.110*** **
EIndexD			0.000	0.020**		
EindexD x COMP			**-0.042*** **	**-0.053*** **		
GindexD					-0.006	0.019
GindexD x COMP					**-0.010***	**-0.051***
TAR_SIZE		-0.011***		-0.008**		-0.011***
TAR_LEV		-0.016		-0.019		-0.016
TAR_TobinQ		-0.036***		-0.036***		-0.035
TAR_ROA		-0.034		-0.058**		-0.038*
ACQ_SIZE		0.029***		0.017***		0.027
ACQ_LEV		-0.050		0.010		-0.033
ACQ_TobinQ		0.030***		0.034***		0.031
ACQ_ROA		0.176*		-0.026		0.126
ACQ_FCF		0.059		0.175		0.093
REL_SIZE		-0.013		-0.028**		-0.017
TENDER		-0.007		-0.001		-0.006
AllCash		0.015		0.017		0.014
AllStock		0.002		0.000		-0.001
DiffIND		0.007		0.008		0.005
TAR_BLOCK		-0.026**		-0.025**		-0.028**
Year Controls	Yes	Yes	Yes	Yes	Yes	Yes
Observation	1,130	1,130	1,130	1,130	1,130	1,130
Adjusted R^2	0.043	0.249	0.119	0.273	0.102	0.276
R^2	0.440	0.259	0.121	0.284	0.104	0.288

*Note: * represents p<0.1; ** represents p<0.05; *** represents p<0.01.*

5.6 Alternative measures of comparability

I next examine whether my results correspond to recent research examining alternative measures of comparability. I focus on two alternative measures based on Brochet et al. (2013) and Francis et al. (2014).

I first employ the insiders' trading profit measure used by Brochet et al. (2013). This proxy is insiders' trade returns to purchases of their firm equity. They argue that returns to insider purchases provide a useful measure of information asymmetry between insiders and outsiders. I use the cumulative abnormal buy-and-hold return for firm *j* (aggregated alternatively over one-month, three-month, or six-month widows), starting one day following insider purchases executed during fiscal year *t* minus the same window return to the NASDAQ S&P 500 index. I expect entrenched managers are more likely to have positive abnormal inside trading profit because of low financial statement comparability by these firms.

My second alternative proxy for financial statement comparability is based on Francis et al. (2014). Consistent with their measurement of comparability, I use absolute total accrual differences between signed total accruals for firm-pairs in the same SIC two-digit industry classification in year *t*. I calculate this comparability metric for each firm *i* and firm *j* pairwise combination, for *j* firms in the same industry and fiscal year. I calculate the comparability measure as follows:

$$Diff\_Total\_Accruals_{ijt} = abs(Total\_Accruals_{it} - Total\_Accruals_{ij}) \qquad (10)$$

Table 7 presents the multivariate analysis. I focus first on columns 1 and 2, which present the G-index and E-index coefficients with absolute total accrual differences. Both coefficients of the two entrenchment measurements are significantly positive (0.005, t-stat =2.88 and 0.002, t-stat=2.56 for E-index and G-index, respectively). Column 3 and 4 present results using insiders'

trading as a proxy for comparability measure. These two regression results with G-index and E-index are significantly negative (-0.012, t-stat =-3.55 and -0.005, t-stat=-3.44 for E-index and G-index, respectively). Both of the results are consistent with my expectation that managerial entrenchment is positively associated with less total accruals between two paired firms, meaning less comparability when firms with managerial entrenchment. Similarly, the insider trading profit proxy for accounting comparability indicates that managerial entrenchment is negatively associated with insider trading profit. This result is consistent with Armstrong et al. (2012) that when firms are entrenched private information collection activities decreased.

Table 7: Alternative Measures of Financial Statement Comparability

Francis et al. (2014) use total accrual differences between signed total accruals for firm-pairs in the same SIC two-digit industry classification in year t. Brochet et al. (2013) employ insiders' trade returns to purchases their firm equity.

	Comparability Measure			
	Francis et al. (2013)		Brochet et al. (2013)	
EIndex	**0.005*** **		**-0.012*** **	
	-2.88		**(-3.55)**	
Gindex		**0.002** **		**-0.005*** **
		-2.56		**(-3.44)**
RET			0.060***	0.060***
			-10.52	-11.05
CFO	0.021	0.003	0.149***	0.109**
	-1.09	-0.11	-3.47	(-2.47)
Big4	0.037***	0.039***	0.037*	0.016
	-3.34	-3.18	-1.86	(-0.8)
Size	0.036***	0.036***	-0.028***	-0.033***
	-8.80	-7.45	(-3.57)	(-4.06)
TA			0.008	0.003
			-0.21	(-0.09)
LEV	-0.003*	-0.003*	-0.023	-0.042*
	(-1.74)	(-1.77)	(-0.93)	(-1.71)
MB2	0.000*	0.000**	0.000***	0.000***
	(-1.78)	(-2.2)	(-3.15)	(-3.3)
LOSSP	-0.129***	-0.126***	0.029	0.030*
	(-14.57)	(-11.97)	-1.64	(-1.73)
SALES	-0.019***	-0.021***	0.003	0.013
	(-4.7)	(-4.39)	-0.34	(-1.56)
Year Control	Yes	Yes	Yes	Yes
Observation	11578	11578	3413	3413
Adjusted R^2	0.02	0.06	0.13	0.14

*Note: * represents p<0.1; ** represents p<0.05; *** represents p<0.01.*

Chapter 6: Conclusion

Academics and standard setters have emphasized the importance of financial statement comparability to investors, creditors, and other stakeholders. As outlined in the FASB Conceptual framework (2018), accounting comparability helps investors make better decisions in the choice of several alternative investment opportunities. Accounting comparability lessens information asymmetry between managers and outsiders, reduces firms' cost of capital, and increases analyst following and forecast accuracy. The process of preparing financial statements has a direct impact on accounting comparability, such as common auditors among firms experience greater accounting comparability (Francis et al., 2013). However, the role of managers' influence on comparability remains a gap in accounting comparability research. I use managerial entrenchment as an exogenous variable to exam how managers' investment decisions associated with financial statement comparability.

I shed light on this question by examining whether entrenched managers have a direct or indirect relationship with accounting comparability. The results contribute to the literature in three folds. First, I find the significant relationship between managers and financial statement comparability by making investment decisions. Second, I confirm the FASB Conceptual Framework (2018) that FSC is a product of similar economic events. Third, entrenched managers often ignore the usefulness of accounting comparability in decision making for new investment.

My findings suggest that firms with managerial entrenchment experience significantly negative association with financial statement comparability. Consistent with the FASB conceptual framework, I provide evidence that when a pair of firms have different business operations have low FSC. I further demonstrate two empirical pieces of evidence for the relationship between target firms' FSC and bidder firms with managerial entrenchment in merger and acquisition deals. First,

empirical evidence documents that target firms' FSC is negatively associated with acquirers' managerial entrenchment. This result indicates that when entrenched managers seeking a target firm to bid, they tend to pay less attention to alternative targets, which could have higher post-merger and acquisition synergy. Second, the post-merger change of return on assets (*changeofROA*) is negatively associated with the interaction of acquirers' managerial entrenchment and target firms' FSC. This finding supports the explanation that the overall negative return from merger and acquisition deals due to CEO overconfidence.

Taken as a whole, my evidence supports hypotheses and implies that managerial discretion has a direct relation to financial statement comparability. My results reinforce the FASB Conceptual Framework (2018) on financial statement comparability and confirm prior studies that functional corporate governance contributes to financial reporting quality and increases shareholder value.

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Appendix

Appendix A1:

Variable Definitions - Variables Used in the Main Model and the Business Segment Model

Variable	Definition
Dependent Variables	
COMPACCT	The absolute value of the difference of the predicted value of regression of firms' earnings on a firm's return using the estimated coefficients for this firm and its paired firms. These paired firms are in the same three-digit SIC industry as the sample firm. (De Franco et al. 2011)
COMPACCT4	Average of the four highest COMPACCT values for the sample firm. (De Franco et al. 2011)
RANKCOMP4	Scaled-decile-rank value of COMPACCT4 for the sample firm. (Chen et al. 2018)
Explanatory Variables	
EIndex	The E-index score is downloaded from Dr. Andrew Metrick's website. Each available firm-year is used to fill in the following three years if the same firm is missing in these years.
GIndex	G-Index score is downloaded from Dr. Lucian Bebchuk's website. Each available firm-year is used to fill in the following three years if the same firm is missing in these years.
BUSSEG	Number of business units reported in COMPUSTAT Historical Segment database for each firm quarter.
BUSSEGD	Dummy variable. If a firm has more business segments than the three-digit SIC industry median, it scores one, otherwise, zero.
Control Variables	
RET	Firm annual stock return.
CFO	Firm's operating cash flow, measured as net cash flow from operating activities deflated by total assets at the beginning of the year.
Big4	Indicator of has a Big 4 auditor. It equals one if the auditor is one of the Big 4 firms; otherwise, it equals zero.
SIZE	Firm size, measured as the log value of total assets.
T.A.	Firm's total accrual, measured as the difference between income before extraordinary items and cash flows from operating activities adjusted for cash flows from extraordinary items, all scaled by the beginning of year total assets. (Francis et al. 2014)
LEV	Firm's leverage ratio, calculated as the sum of long-term debt and short-term debt deflated by total assets.
MB	Market-to-Book ratio, calculated as the market value of the firm's equity divided by the book value of the firm's equity.
LOSSP	Loss probability is the proportion of quarters for which the firm reports a negative quarterly income before extraordinary items in the past 16 quarters. (Francis et al. 2014)
NUMANST	Indicator of the number of analysts following for each sample firm.
SALES	Sales revenue, measured as the log value of sales revenue. (Francis et al. 2014)

Appendix A2: Variable Definitions - **Variables Used in the Merge and Acquisition Model**

Variable	Definition
Dependent Variables	
ChROA	Change in ROA. Measured as the difference between three-year benchmark-adjusted ROA before the acquisition and three-year benchmark-adjusted ROA after the acquisition from the acquirer firm.
ACQ_CAR	Acquirer's absolute value of cumulative abnormal return measured over three days around the acquisition announcement.
SYNERGY	Combined acquirer and target three-day cumulative abnormal returns, where relative market values are used as weights.
Explanatory Variables	
TAR_RANKCOMP4	Target firm's financial statement comparability in the year before the acquisition announcement. The financial statement comparability is a rank value of COMPACCT4 used in De Franco et al. (2011).
EIndex	E-Index score is downloaded from Dr. Andrew Metrick's website. Each available firm-year is used to fill in the following three years if the same firm is missing in these years.
Gindex	G-Index score is downloaded from Dr. Lucian Bebchuk's website. Each available firm-year is used to fill in the following three years if the same firm is missing in these years.
EIndexD	Indicator variable of E-Index, which equals one if E-Index score is equal or above 3; otherwise, it equals zero.
GindexD	Indicator variable of G-Index, which equals one if G-Index score is equal or above 10; otherwise, it equals zero.
Control Variables	
TAR_SIZE	Target firm's size. Size is measured as the log value of total assets at the end of the fiscal year before the acquisition announcement.
TAR_LEV	Target firm's leverage ratio. The leverage ratio is measured as the sum of long-term debt and short-term debt deflated by total assets at the end of the fiscal year prior to the acquisition announcement.
TAR_TobinQ	Target firm's Tobin's Q. Tobin's Q is measured as the ratio of acquirer's market value of assets to the book value of assets at the end of the fiscal year prior to the acquisition announcement.
TAR_ROA	Target firm's return on assets. Return on assets is calculated as the income before extraordinary items scaled by total assets at the end of fiscal year prior to the acquisition announcement.
TAR_BLOCK	Indicator of blockholder existence in target firm. Using Thomson Reuters Insiders Data to define if a target firm has at least one stockholder with more than 10% of the ownership of the firm in the year prior to the acquisition announcement. If yes, this variable equals one; if not, it equals zero.
ACQ_SIZE	Acquirer firm's size. Size is measured as the log value of total assets at the end of the fiscal year prior to the acquisition announcement.

ACQ_LEV	Acquirer firm's leverage ratio. The leverage ratio is measured as the sum of long-term debt and short-term debt deflated by total assets at the end of the fiscal year prior to the acquisition announcement.
ACQ_TobinQ	Acquirer firm's Tobin's Q. Tobin's Q is measured as the ratio of acquirer's market value of assets to the book value of assets at the end of the fiscal year prior to the acquisition announcement.
ACQ_ROA	Acquirer firm's return on assets. Return on assets is calculated as the income before extraordinary items scaled by total assets at the end of fiscal year prior to the acquisition announcement.
ACQ_FCF	Acquirer firm's free cash flow. It is measured as operating income before depreciation minus interest expense, tax expense, and dividends, scaled by total assets in the year prior to the acquisition announcement.
REL_SIZE	The relative size of the M&A deal. It is measured as the ratio of the transaction value to the market value of the acquirer firm at the end of the fiscal year prior to the acquisition announcement.
TENDER	Indicator of the tender deal. If the acquisition is classified as a tender offer by SDC, it has a value of one, otherwise, zero.
AllCash	Indicator of a cash deal. If the acquisition was financed at least 90 percent by cash, it has a value of one, otherwise, zero.
AllStock	Indicator of a stock deal. If the acquisition was financed at least 90 percent by acquirer's stocks, it has t value of one, otherwise, zero.
DiffIND	Indicator of different industry classification between acquirer and target. If the acquirer firm and the target firm are in different industries based on two-digit SIC industry classification, it takes the value of one, otherwise, zero.

Vita

Qifeng Wu earned his Bachelor of Business Administration in Computer Information System from Idaho State University in 2011 and a Master of Accountancy from the University of Idaho in 2015. In 2016, he joined the doctoral program in Business Administration at the University of Texas at El Paso with an accounting concentration.

Prior to pursuing the Ph.D., Dr. Wu has worked in numerous companies and organizations in different positions. He worked as an executive assistant at a solar panel manufacturer, Hoko Corporation, a NASDAQ listed company, after receiving his bachelor's degree, as an accountant at the University of Idaho and Beyond Meat (BYND). Dr. Wu served as the President of the Chinese Students and Scholars Association during 2012-2013, and the President of Beta Alpha Psi (BAP) – Iota Gamma Chapter during 2013-2014.

While pursuing his Ph.D., Dr. Wu worked as a research assistant and assistant instructor for the Department of Accounting and Information Systems. He independently taught several accounting courses, which include Principles of Accounting I, Principles of Accounting II. He is a member of the American Accounting Association.

Dr. Wu's dissertation entitled, "Managerial Entrenchment and Financial Reporting Comparability," was co-supervised by Dr. David Folsom and Dr. Giorgio Gotti.

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