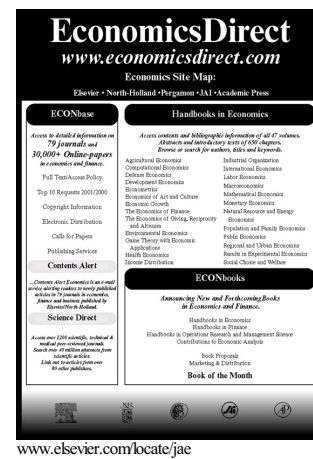


Contractual revisions in compensation: Evidence from merger bonuses to target CEOs

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Contractual revisions in compensation: Evidence from merger bonuses to target CEOs^{*}

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Do merger bonuses to target CEOs facilitate a *wealth transfer* from target to acquirer shareholders? We test this hypothesis against an alternative that bonuses enable a useful *contractual revision* in compensation contracts when takeovers generate small synergies. When target CEOs get a merger bonus, acquirers pay lower premiums, but they also typically get less in the form of low synergies. Moreover, both stock and accounting returns to the acquirers are lower on average in deals with target CEO bonuses. These results support the contractual revision alternative. Nevertheless, wealth transfer occurs when merger bonuses are present in deals where targets exhibit high pre-takeover abnormal accruals or are subject to SEC enforcement actions.

JEL classification: G30; G34; J33

Keywords: Merger bonus; Acquisitions; Synergies; Wealth transfer; Abnormal accruals; SEC enforcement action

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