

Acquisitions of private vs. public firms: Private information, target selection, and acquirer returns

Laurence Capron , Jung-Chin Shen

First published: 24 April 2007

<https://doi.org/10.1002/smj.612>



Abstract

The acquisition of privately held firms is a prevalent phenomenon that has received little attention in mergers and acquisitions research. In this study, we examine three questions: (1) What drives the acquirer's choice between public and private targets? (2) Do acquisitions of private targets elicit a more positive stock market reaction than acquisitions of public targets, which, on average, destroy value for acquirers' shareholders? (3) Do acquirers gain when their selection of a public or private target fits the theory? In this paper, we argue that the lack of information on private targets limits the breadth of the acquirer's search and increases its risk of not evaluating properly the assets of private targets. At the same time, less information on private targets creates more value-creating opportunities for exploiting private information, whereas the market of corporate control for public targets already serves as an information-processing and asset valuation mechanism for all potential bidders. Using an event study and survey data, we find that: (1) acquirers favor private targets in familiar industries and turn to public targets to enter new business domains or industries with a high level of intangible assets; (2) acquirers of private targets perform better than acquirers of public targets on merger announcement, after controlling for endogeneity bias; (3) acquirers of private firms perform better than if they had acquired a public firm, and acquirers of public firms perform better than if they had acquired a private firm. These results support the expectation that acquirer returns from their target choice (private/public) are not universal but depend on the acquirer's type of search and on the merging firms' attributes. Copyright © 2007 John Wiley & Sons, Ltd

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

Akerlof GA. 1970. The market for 'lemons': quality uncertainty and the market mechanism. *Quarterly Journal of Economics* 84(3): 488-500.

[Web of Science®](#) | [Google Scholar](#)

Anand J, Capron L, Mitchell W. 2005. Using acquisitions to access multinational diversity: thinking beyond the domestic versus cross-border M&A comparison. *Industrial and Corporate Change* 14(2): 191-224.

[Web of Science®](#) | [Google Scholar](#)

Andrade G, Mitchell M, Stafford E. 2001. New evidence and perspectives on mergers. *Journal of Economic Perspectives* 15(2): 103-120.

[Web of Science®](#) | [Google Scholar](#)

Arikan AM. 2002. What type of assets is worth buying through mergers and acquisitions? Working paper, Ohio State University, Columbus, OH.

[Google Scholar](#)

Arikan I. 2005. In the market for firms, how should a firm be sold? In *Advances in Mergers and Acquisitions*, Vol. 4, GL Cooper, S Finkelstein (eds). JAI Press: Greenwich, CT; 181-208.

[Google Scholar](#)

Bajaj M, Denis D, Ferris S, Sarin A. 2001. Firm value and marketability discounts, Working paper, SSRN.

[Google Scholar](#)

Balakrishna S, Koza MP. 1993. Information asymmetry, adverse selection, and joint ventures. *Journal of Economic Behavior and Organization* 20(1): 99-117.

[Web of Science®](#) | [Google Scholar](#)

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

Becchetti L, Trovato G. 2002. The determinants of growth for small and medium sized firms: the role of the availability of external finance. *Small Business Economics* 19(4): 291–306.

[Web of Science®](#) | [Google Scholar](#)

Boone A, Mulherin JH. 2002. Corporate restructuring and corporate auction. Working paper, Claremont College, Claremont, CA.

[Google Scholar](#)

Capron L. 1999. The long-term performance of horizontal acquisitions. *Strategic Management Journal* 20(11): 987–1018.

[Web of Science®](#) | [Google Scholar](#)

Capron L, Pistre N. 2002. When do acquirers earn abnormal returns? *Strategic Management Journal* 23(9): 781–794.

[Web of Science®](#) | [Google Scholar](#)

Capron L, Dussauge P, Mitchell W. 1998. Resource redeployment following horizontal acquisitions in Europe and North America, 1988–1992. *Strategic Management Journal* 19(7): 631–661.

[Web of Science®](#) | [Google Scholar](#)

Chang S. 1998. Takeovers of privately held targets, methods of payment, and bidder returns. *Journal of Finance* 53(2): 773–784.

[Web of Science®](#) | [Google Scholar](#)

Chatterjee S. 1986. Types of synergy and economic value: the impact of acquisitions on merging and rival firms. *Strategic Management Journal* 7(2): 119–139.

[Web of Science®](#) | [Google Scholar](#)

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

[Web of Science®](#) | [Google Scholar](#)

Deeds D, DeCarolis D, Coombs JE. 1999. Dynamic capabilities and new product development in high technology ventures: an empirical analysis of new biotechnology firms. *Journal of Business Venturing* 15(3): 211–229.

[Web of Science®](#) | [Google Scholar](#)

Dillman D. 1978. *Mail and Telephone Surveys: The Total Design Method*. Wiley: New York.

[Google Scholar](#)

Faccio M, McConnell J, Stolin D. 2006. Returns to acquirers of listed and unlisted targets. *Journal of Financial and Quantitative Analysis* 41(1): 197–220.

[Web of Science®](#) | [Google Scholar](#)

Fuller K, Netter J, Stegemoller M. 2002. What do returns to acquiring firms tell us? Evidence from firms that make many acquisitions. *Journal of Finance* 57(4): 1763–1793.

[Web of Science®](#) | [Google Scholar](#)

Graebner ME. 2004. Momentum and serendipity: how acquired leaders create value in the integration of technology firms, *Strategic Management Journal*, Special Issue 25(7–8): 751–778.

[Web of Science®](#) | [Google Scholar](#)

Graebner ME, Eisenhardt KM. 2004. The seller's side of the story: acquisition as courtship and governance as syndicate in entrepreneurial firms, *Administrative Science Quarterly* 49(Sept.): 366–403.

[Web of Science®](#) | [Google Scholar](#)

Hall B. 2002. The financing of research and development. *Oxford Review of Economic Policy* 18(1): 35–51.

[Web of Science®](#) | [Google Scholar](#)

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

[Web of Science®](#) | [Google Scholar](#)

Itami H. 1987. *Mobilizing Intangible Assets*. Harvard University Press: Cambridge, MA.

[Google Scholar](#)

Jarell SL. 1998. The effects of total quality management on corporate performance: an empirical investigation. *Journal of Business* 71(2): 253-305.

[Web of Science®](#) | [Google Scholar](#)

Koeplin J, Sarin A, Shapiro AC. 2000. The private company discount. *Journal of Applied Corporate Finance* 12(4): 94-101.

[Google Scholar](#)

Kooli M, Kortas M, L'Her JF. 2003. A new examination of the private company discount. *Journal of Private Equity* 6(3): 48-55.

[Google Scholar](#)

Lubatkin MH. 1987. Merger strategies and stockholder value. *Strategic Management Journal* 8(1): 39-53.

[Web of Science®](#) | [Google Scholar](#)

Makadok R, Barney JB. 2001. Strategic factor market intelligence: an application of information economics to strategy formulation and competitor intelligence. *Management Science* 47(12): 1621-1638.

[Web of Science®](#) | [Google Scholar](#)

Masten S. 1993. Transaction costs, mistakes, and performance: assessing the importance of governance. *Managerial and Decision Economics* 14(2): 119-129.

[Google Scholar](#)

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

[Google Scholar](#) 

Moeller SB, Schlingemann FP, Stulz RM. 2004. Do shareholders of acquiring firms gain from acquisitions? *Journal of Financial Economics* 73(2): 201–228.

[Web of Science®](#)  | [Google Scholar](#) 

Pagano M, Panetta F, Zingales L. 1998. Why do companies go public? An empirical analysis. *Journal of Finance* 53(1): 27–64.

[Web of Science®](#)  | [Google Scholar](#) 

Reuer J, Ragozzino R. 2007. Adverse selection and M&A design: the roles of alliances and IPOs. *Journal of Economic Behavior and Organization*. Forthcoming.

[Google Scholar](#) 

Reuer J, Shen JC. 2004. Sequential divestiture through initial public offerings. *Journal of Economic Behavior and Organization* 54(2): 249–266.

[Web of Science®](#)  | [Google Scholar](#) 


Rosenkopf L, Almeida P. 2003. Overcoming local search through alliances and mobility. *Management Science* 49(6): 751–766.

[Web of Science®](#)  | [Google Scholar](#) 

Sanders WMG, Boivie S. 2004. Sorting things out: valuation of new firms in uncertain markets. *Strategic Management Journal* 25(2): 167–186.

[Web of Science®](#)  | [Google Scholar](#) 

Schneper W, Guillen M. 2004. Stakeholder rights and corporate governance: a cross-national study of hostile takeovers. *Administrative Science Quarterly* 49(June): 163–195.

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#) 

[Manage Preferences](#)

[Accept All](#)

[Reject Non-Essential](#)

Seth A. 1990. Value creation in acquisitions: a re-examination of performance issues. *Strategic Management Journal* 11(2): 99-115.

[Web of Science®](#) | [Google Scholar](#)

Shaver JM. 1998. Accounting for endogeneity when assessing strategy performance: does entry mode choice affect survival? *Management Science* 44(4): 571-585.

[Web of Science®](#) | [Google Scholar](#)

Shen JC Reuer J. 2005. Adverse selection in acquisitions of small manufacturing firms: a comparison of public with private targets. *Small Business Economics* 24(4): 393-407.

[Web of Science®](#) | [Google Scholar](#)

Singh H, Montgomery CA. 1987. Corporate acquisition strategies and economic performance. *Strategic Management Journal* 8(4): 377-386.

[Web of Science®](#) | [Google Scholar](#)

Spence AM. 1974. *Market Signalling: Informational Transfer in Hiring and Related Screening Processes*. Harvard University Press: Cambridge, MA.

[Google Scholar](#)

Stuart TE, Hoang H, Hybels RC. 1999. Interorganizational endorsements and the performance of entrepreneurial ventures. *Administrative Science Quarterly* 44(June): 315-349.

[Web of Science®](#) | [Google Scholar](#)

Thompson RB, Thomas RS. 2004. The new look of shareholder litigation: acquisition-oriented class actions. *Vanderbilt Law Review* 57(Jan.): 133-209.

[Web of Science®](#) | [Google Scholar](#)

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential



134 N LaSalle St
Suite 1005, Chicago IL
60602, USA
+1 312 492 6224
sms@strategicmanagement.net

© 2026 Strategic Management Society

ABOUT WILEY ONLINE LIBRARY

- [Privacy Policy](#)
- [Terms of Use](#)
- [About Cookies](#)
- [Manage Cookies](#)
- [Accessibility](#)

[Wiley Research DE&I Statement and Publishing Policies](#)

HELP & SUPPORT

- [Contact Us](#)
- [Training and Support](#)
- [DMCA & Reporting Piracy](#)
- [Sitemap](#)

OPPORTUNITIES

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)



[Manage Preferences](#)

[Accept All](#)

[Reject Non-Essential](#)

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)



Manage Preferences

Accept All

Reject Non-Essential