Extreme Actions of Incumbent CEOs To Frustrate Hostile Takeover Bids

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8\textsuperscript{th} Emerging Market Finance Conference
Mumbai, INDIA, December 17-20, 2017
Empirical Setup of the Paper

Takeover (792)

Non-Hostile (632)

Hostile (130)
Refusal of Initial Offer

Extreme Actions (53)
RNS Classification

Other Actions (77)

a. Stockholder wealth decreases
b. CEO turnover increases
c. Results vary based on whether the takeover was successful or not
Some Observations – Methodological

- Definition of extreme/frustrating actions: actions that make targets less valuable and more difficult to acquire
  - short run and long run effect of extreme actions → does the RNS classification take account of this?
  - does this definition presupposes the outcome?
  - motivation is still an interesting question

- Other actions: the complement of extreme actions
  - what are the objectives of the other actions
  - are these actions then “non-hostile” and then the choice is between extreme actions and all other actions? (53 versus 632 + 77)

- Can we compare extreme actions in hostile takeovers in UK and US
  - effect in US should be stronger as statutes already incorporate takeover defence in firm charter

- Relatedly it means that selection bias is less of an issue in the UK which is consistent with the results

- Should we set the dummy variable to one for successful extreme actions (i.e. those that were able to actually frustrate the potential acquirer) and not all extreme actions?
Some Observations – Empirical

- Should both the equations be estimated simultaneously rather than in two steps?

- If in two steps then the should one have the estimated probability of frustrating actions rather than the variable itself in the outcome regressions?

- Should the selection equation for hostile takeover also have the CG variables and especially those related to CEO power as that was the motivation of the selection model?

- Table 2: It will be informative to have this table for non-hostile and hostile takeovers and within that for successful and failed attempts

- The interaction term “frustrating action x failed attempt” should be used consistently in all regressions

- Some coefficients, e.g. Cadbury Dummy (> 0); Incumbent CEO Stock Ownership (> 0) have alternative interpretations that do NOT support the hypothesis of CEO power
Enjoyed reading the paper and hope to see it being published