Comments on Cremers & Ferrell

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Lots to Like

- Extend Gompers, Ishii Metrick (2003)
- Fix most of the problems
- Address problems with prior studies of takeover defenses
  - Compare critique in Coates (2000)
- Core question:
  - What matters in US governance?
  - Maybe only poison pills
    - mediated by delay from other antitakeover rules

Start with GIM (2003)

- 1990s: G predicts higher q, share price gains
  - Bebchuk, Cohen Ferrell (2009): subindex (“E”) contains all value-relevant information
- Influential, but lots to dislike
- Some problems with GIM
  - G is takeover defenses, not overall governance
  - Econometric concerns
    - No firm fixed effects (limited time variation in governance)
    - Use Fama-MacBeth to combine results across years
      - Appropriate for stock returns
      - Not appropriate for Tobin’s q
  - Alternate explanations for results

Is GIM an equilibrium story?

- In equilibrium, governance (takeover defenses) should **not** predict returns
  - If anything, better governance ➔ lower returns
- What **should** predict returns (if anything)?
  - shock to governance of **some** firms (others as controls)
    - Black & Khanna (JELS 2007, India)
    - Black & Kim (JFE 2011, Korea)
    - Litvak (JCF, 2007, impact of SOX on cross-listed firms)
  - shock to world (holding governance fixed)
    - returns (given shock) could depend on governance
- GIM: no shock to governance

Is there a shock to world?

- Takeover activity low in 1990, hi in 1999
  - takeover defenses **should** matter more in 1999 than 1990
  - consistent with reversal in 2000s (Core, Guay, Rusticus, 2006)
- This story: natural for a takeovers scholar
  - Yet not part of GIM
- Cremers & Ferrell: support this story
  - Nice when new results support my prior surmise ☺

Stronger methodology here

- Cremers and Ferrell use:
  - firm fixed effects
  - firm clusters

  ➔ much more reliable results
- Plus plausibly exogenous shock:
  - judicial approval of poison pill, 1985
  - affects value of “delay” defenses
    - especially staggered board
    - but delay **for how long** was unclear for years . . .

Does US governance matter?

- All firms have a “shadow pill”
  - Can adopt when needed
  - So pill is merely a signal of management attitude
  - Is that governance!?
- I was driven out of US governance research by weak results
  - Bhagat and Black (2002); Bhagat, Black & Blair (2004)
  - This paper doesn’t persuade me I was wrong ☺

Governance matters more in emerging markets

What Predicts Takeover Defenses?

- G (or E) associated with q in cross-section
- But only weakly in time series
- ➔ fixed characteristics predict G

What else predicts takeover defenses?

- Test predictors of governance from emerging markets:
  - size (Durnev and Kim, JF, 2005)
  - share price volatility (Black, Jang and Kim, JCF, 2006)
  - capital intensity (Klapper and Love, 2004)
  - **long-term** profitability, need for equity finance (BJK, 2006)

Coates' delay measure

- Coates (1999?) proposes:
  - all firms have a shadow pill
  - bidder who offers premium can win proxy fight
  - therefore key defenses are about delay before bidder can replace majority of target board
  - offers measure of delay
- You should try that measure
  - I bet it will predict q
  - Possible that nothing else will matter

Some puzzles in cross-section?

Year (end?)	coeff on G	comments
1987	-1.60**	
1988	-1.25**	
1989	-1.22	takeover market crashed in fall 1989
1990	-2.21***	why larger results in weak takeover market
1991	-3.27***	
1992	-3.18***	
1993	-2.80***	
. . .		
1999	-2.71**	
2000	-2.62**	tech bubble burst in March 2000
2001	-2.26*	takeovers were near-dead in 2001
2002	-0.68	takeover market revives, but results weak from 2002 on
. . .		
2006	-0.46	

Is there a control group?

- What results for firms with locked-in control
  - controlling shareholder or group
  - dual class shares
- Hate to ask for more data but . . .
  - inside ownership could really matter here
- Can you run DiD using *Moran* as a shock?
  - firms with locked-in control as control group
  - not perfect, but worth trying

Methodology suggestion: Arellano-Bond

- Wintoki, Linck & Netter (2009):
- board independence predicts:
  - ➔**lower** q in cross section
  - ➔**higher** q with firm fixed effects
  - ➔**nothing** with Arellano-Bond internal instruments
- Non-results w. A-bond due to weak instruments?
  - – Or (as authors believe) because of dynamic endogeneity, not captured by fixed effects
  - – Same question for you: you might try A-bond, have a view on what it can tell you