The Significance of Shareholder Right Limiting Provisions during Merger Waves: An Empirical Investigation

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Glossary

ATPs .... Anti-Takeover Provisions

BHAR .... Buy and Hold Abnormal Returns

CAR .... Cumulative Abnormal Returns

GIM .... Gompers, Ishii and Metrick (2003) Governance Index

E-Index/ E .... Bebchuk, Cohen and Ferrell (2009) Entrenchment Index

DECLARATION

This work contains no material which has been accepted for the award of any other degree or diploma in any university or other tertiary institutions and, to the best of my knowledge and belief, contains no material previously published or written by another person, except where due reference has been made in the text.

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Abstract

The key findings of this dissertation indicate that the benefits and costs associated with shareholder right limiting provisions are time-varying. During merger waves, I find evidence in line with the managerial self-interest hypothesis. This theory argues that managers use shareholder right limiting provisions to facilitate entrenchment and to pursue non-value maximising agendas. The results show that shareholder right limiting provisions significantly reduce the likelihood of receiving a bid and are unlikely to enhance either initial or final offer premiums. The long run performance of poor corporate governance firms, conditional on having successfully defended against an unwanted on-wave takeover bid, is also significantly lower when compared to firms regarded as having strong shareholder rights. Similarly, both announcement period bidder returns and long-run post-acquisition performance is inversely proportional to the number of anti-takeover defences a firm has in place during merger waves. When takeover activity is considered normal, however, these same provisions do not appear to impede the effectiveness of the market for corporate control. They are also no longer related to bidder announcement period returns. These novel findings are largely consistent with the notion that merger waves may foster agency driven behaviour, and therefore, prompt managers to use shareholder right limiting provisions to pursue sub-optimal operating and investment decisions. The additional insights offered by this thesis should be of significant value to both investors and policy makers alike.