

Effectiveness of Bidders Internal Governance Structure*

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This paper reexamines the link between internal governance structure (board structure) and acquirer/bidder performance, controlling for the disciplinary role of the market for corporate control based on the level of anti-takeover provisions (ATPs), using a data sample of mergers and acquisitions from the 2000s, a period that witnessed significant board structure reform – the introduction of minimum board independence requirements to the NYSE and NASDAQ listing rules following the enactment of the Sarbanes-Oxley Act of 2002. In general, based on the full data sample, the evidence presented in this paper fails to refute the view that firms choose their internal governance structure (board structure) in a value-maximizing way; the mandated changes to board structure, in the 2000s, may have done little to improve the effectiveness of bidders' internal governance structure. On average, bidders' anti-takeover provisions show no significant effect on the returns to bidders, and fail to significantly affect the lack of any significant relationship between board structure – board size and board independence – and the returns to bidders. However, for the sub-sample comprising bidders with high levels of anti-takeover provisions, board independence is found to be negatively related to the returns to bidders with high levels of ATPs. One interpretation of this finding is that the effectiveness – benefits relative to the costs – of independent boards diminishes at high levels of anti-takeover provisions. For the sub-sample comprising bidders without classified boards, board size is positively related to the returns to bidders, indicating that the benefits to increasing board size appears to outweigh the costs for bidders without a classified board structure.

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1. Introduction

This paper examines the effectiveness of bidders' governance structure based on the market's response to takeover announcements. The financial markets' assessment of a firm's takeover announcement provides a basis for examining the effectiveness of firms' internal governance structure (board structure); the change in an acquiring firm's stock price around an acquisition announcement provides an estimate of the market's assessment of whether the acquisition serves the interest of the acquiring firm's stockholders. Despite well intentioned efforts by policy makers, the evidence on the link between board structure and acquirer/bidder performance is mixed. For example, Byrd and Hickman (1992) document a positive relationship between the fraction of outsiders on the board and acquirer

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performance, while Masulis, Wang and Xie (2007) fail to report any such relationship, and Bauguess and Stegemoller (2008) find higher acquirer stock returns when insiders dominate the corporate board (see Dahya, Golubov, Petmezas and Travlos 2016).

Masulis, Wang and Xie (2007), from their sample of 3,333 completed acquisitions during the 1990-2003 period (primarily capturing the merger activity of the 1990s – the fifth merger wave), also find that due to the cross-sectional differences in the adoption of anti-takeover provisions, managers at different firms are subject to varying levels of discipline from the takeover market. They find that bidders with more anti-takeover provisions and/or classified boards experience significantly lower announcement-period abnormal stock returns, supporting the hypothesis that managers at firms with more anti-takeover provisions are more insulated from the discipline imposed by the market for corporate control and thus are more likely to display self-serving behavior. Alexandridis, Antypas and Travlos (2017) show that the higher acquisition gains for bidder firms in the post-financial crisis period, 2010-2015, can be at least partially explained by the variation in governance characteristics.

This paper contributes to our understanding of the relationship between bidder returns and internal governance structure by studying a research gap in the literature, the mergers of the 2000s. It reexamines the link between internal governance structure (board structure) and acquirer/bidder performance, controlling for the disciplinary role of the market for corporate control based on the level of anti-takeover provisions (ATPs), using a data sample of mergers and acquisitions from the 2000s. The 2000s, with the burst of the 1990s dot.com bubble and the 2001 recession that ensued, was a period that witnessed significant board structure reform – the introduction of minimum board independence requirements to the NYSE and NASDAQ listing rules following the enactment of the Sarbanes-Oxley Act of 2002 (SOX) – as both exchanges mandated that listed firms should maintain a majority of outside directors on their boards. The fraction of outside directors on the boards of U.S. acquirers increased from 58% in 1998 to 72% in 2005 (Dahya, Golubov, Petmezas and Travlos 2016). The data sample period (2000-2007) that I examine captures acquisition announcements from the sixth merger wave (Alexandridis, Mavrovitis and Travlos 2012), which began in 2003 and peaked in 2006, before significantly declining in late 2007 with the housing and the 2008 financial crises.

The forces of technological change, deregulation, privatization, trade liberalization, foreign direct investments etc. have been bearing on the marketplace since the 1980s and 1990s, and driving an ever increasing integration of world economies and financial markets – increasing globalization and market competition. Thus, it is reasonable to suspect that market based systems of governance, including the market for corporate control, have exerted an increasing influence on the financial markets, providing managers with greater incentives to choose optimal governance structures that maximize stock prices, and attenuating the insulating effects of anti-takeover provisions (ATPs). If well-organized financial markets provide a very important control mechanism, would bidders with high anti-takeover provisions – perceived to be insulated from the disciplinary role of the takeover market – not have sufficient incentives to choose optimal governance structures that maximize stock prices? Or would they, due to hubris and self-serving behavior, ignore stock prices when they are contrary to their own valuation estimates?

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Given the changes to board structure mandated by the Sarbanes-Oxley Act of 2002 (SOX), this paper tests whether these changes amounted to an improvement in the effectiveness of bidders' internal governance structure (board structure) or whether bidders may have altered other aspects of their governance structure, considering their costs and benefits, to arrive at some optimal structure that bears no relationship to bidder returns. On the effectiveness of bidders' internal governance structure (board structure), the null hypothesis is that firms choose their internal governance structure in a value-maximizing way and that the level of anti-takeover provisions (ATPs) has no significant effect on the relationship between the returns to bidders and their board structure. As an alternative hypothesis, the relationship between the returns to bidders and board structure is affected by varying levels of ATPs, due to the self-serving behavior of managers of firms that are less vulnerable to takeovers.

For the sample of 1453 mergers and acquisitions, over the 2000-2007 period, the mean 5-day cumulative abnormal return (CAR) is -1.5%, significantly different from zero and consistent with the observation that mergers and acquisitions fail to create value for acquiring firms during the 1990s and 2000s. This result is reversed, as bidders show improvement in acquisition gains, during the post-financial crisis period, 2010-2015 (Alexandridis, Antypas and Travlos 2017). For transactions financed exclusively with cash, the mean 5-day CAR is -0.1%, not significantly different from zero. In contrast, for transactions financed at least partially with stock, the mean 5-day CAR is -2.3%, significantly different from zero. The univariate statistical results also show that, on average, bidders with "high ATPs", as well as bidders with "low ATPs", experience announcement-period abnormal stock returns that are similar to those experienced by the average bidder. This evidence does not support the hypothesis that managers at firms protected by more ATPs are less subject to the disciplinary power of the market for corporate control and are thus more likely to indulge in empire-building acquisitions that destroy shareholder value, and is inconsistent with the finding of Masulis, Wang and Xie (2007).

From the initial regression analyses, the anti-takeover provisions index (ATP) show no significant effect on the returns to bidders, and it fails to significantly affect the lack of any significant relationship between board structure (board size and board independence) and the returns to bidders. The results also do not appear to support the hypothesis that the relationship between returns to bidders and board structure is affected by varying levels of anti-takeover provisions, due to the self-serving behavior of managers of firms that are less vulnerable to takeovers. This evidence of an apparent lack of a significant influence of the level of ATPs on the returns to bidders, as well as on the relationship between board structure and the returns to bidders, for the average bidder, suggests that, in the 2000s post the SOX mandate, the average bidder chooses its internal governance structure optimally, accounting for the costs and benefits of alternative structures; financial markets apparently discounted the value implications of ATPs. The evidence is consistent with the view that the protective role of ATPs may have diminished in the 2000s, relative to the 1990s, as a result of the increasing influence of the disciplinary role of the market for corporate control. The mandated changes to board structure do not seem to have altered the effectiveness of bidders' internal governance structure.

Additional regression tests, however, reveal that for a portfolio (subsample) comprising bidders with levels of ATPs greater than the sample median level, the return to board

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independence is significantly negative for bidders with “high ATP” levels. One interpretation of this finding is that at high levels of anti-takeover defenses the benefits of a more independent board are outweighed by the costs. Put differently, the evidence seems to suggest that the effectiveness of independent boards diminish at high levels of anti-takeover defenses. For the subsample of bidders with classified boards, when considered independently of other anti-takeover provisions, no significant relation is found between board structure and the returns to bidders. But for the subsample of bidders without classified boards, the data shows a positive relationship between board size and returns to bidders, indicating that the benefits to increasing board size appears to outweigh the costs for bidders without a classified board structure.

In summary, there is some evidence that supports the “sub-optimal governance hypothesis” that the relationship between returns to bidders and internal governance structure is affected by the level of anti-takeover provisions, due to the self-serving behavior of managers of firms that are less vulnerable to takeovers. But the overall evidence presented in this paper fails to refute the view that firms choose their internal governance mechanisms in a value-maximizing way – the “optimal governance hypothesis”. A plausible explanation is that the protective role of anti-takeover provisions may have diminished in the 2000s, relative to the 1990s, as the disciplinary role of the takeover market has increased, as well as the roles of other aspects of the market for corporate control such as block-holdings, proxy contests, institutional ownership and the bankruptcy process. Alternatively, because these governance mechanisms serve as substitute governance mechanisms, it may be difficult for any one mechanism to significantly drive a causal relationship. In addition, for the 2000s, anti-takeover provisions may be a less reliable proxy for managerial entrenchment and self-dealing or a firm’s exposure to the market for corporate control. These findings suggest that the mandated changes to corporate governance (board structure), in the 2000s, may have done little to improve their effectiveness. This has obvious implications for future public policy considerations/mandates regarding corporate governance.

The findings and interpretations presented in this paper, however, are limited to the specific time period, 2000-2007, studied. Indeed, data from the more recent post-financial crisis period, 2010-2015, show that this period is associated with higher independent director representation on the board of the average acquiring firm (not as a result of a broad government mandate), reaching around 80% in 2010-2015 relative to 65-66% in 1990-2009, as well as less anti-takeover provisions among acquiring firms (Alexandridis, Antypas and Travlos 2017). Alexandridis, Antypas and Travlos (2017) also find that, in the post-financial crisis period, bidder returns are negatively associated with anti-takeover provisions, consistent with Masulis, Wang and Xie (2007), and positively associated with board independence, inconsistent with Masulis, Wang and Xie (2007), thus linking the post-2009 turnaround in acquisition performance to improvements in corporate governance. A plausible interpretation of their findings is that an even greater disciplinary role of the market for corporate control in the post-financial crisis period reduced bidders’ reliance on anti-takeover provisions and, at the same time, improved the effectiveness of independent boards for the average bidder. The context of a merger wave time period matters to our understanding of the nature of the relationship between bidder returns and internal governance structure.

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The rest of the paper is organized as follows. Section 2 discusses related research and develops the hypotheses. Section 3 describes the sample of bidders and the data sources. Section 4 describes the empirical method employed in the analysis. Section 5 presents the empirical results of the analysis. Section 6 concludes the paper.

2. Background and Hypotheses Development

One view of the governance model is that governance mechanisms are endogenously chosen in a value-maximizing way (Demsetz and Lehn 1985, Mulherin 2005) as firms' consider the advantages and disadvantages associated with each mechanism. If firms choose their governance mechanisms or structures optimally, then, empirically, no relation should exist between firm value and governance structure. A given corporate governance structure would be considered optimal if it amounts to the least-cost feasible combination of governance mechanisms that most effectively reduces agency costs. As Fama (1980) notes, "the separation of ownership and control, typical of large corporations, can be an efficient form of economic organization. In a competitive environment lower-cost sets of monitoring mechanisms are likely to survive. The role of the board in this framework is to provide a relatively low-cost mechanism for replacing or reordering top management; lower cost, for example, than the mechanism provided by an outside takeover, although, of course, the existence of an outside market for control is another force which helps to sensitize the internal managerial labor market." Corporate governance, broadly speaking, therefore entails both those mechanisms (internal) within the direct influence of the corporation and those mechanisms (external) outside the direct influence of the corporation. Internal mechanisms would include the board of directors, internal controls, insider ownership, CEO compensation, internal managerial labor market etc. And external mechanisms would include the market for corporate control, external managerial labor market, product and factor markets, regulatory environment etc.

2.1 Returns to Bidders and the Market for Corporate Control

A good number of studies have investigated the firm value implications of corporate takeover activity and corporate governance mechanisms. A recent study is Alexandridis, Antypas and Travlos (2017), which documents that mergers and acquisitions create more value for acquiring firm shareholders post-2009 than ever before, and link the value creation to improvements in the quality of corporate governance among acquiring firms in the aftermath of the 2008 financial crisis. The evaluation of the extent to which non-LBO takeovers are value enhancing is often approached by analyzing stock returns around the time of the announcements of tender offers and merger offers, attributing the gains and losses in stock prices to expected gains associated with combining the firms, improving management, or identifying undervalued assets. In an efficient capital market, the change in an acquiring firm's stock price around an acquisition announcement provides an unbiased estimate of whether the acquisition serves the interest of the acquiring firm's stockholders. The stock market's assessment of a firm's mergers and acquisitions activity provides an opportunity to examine the effectiveness of internal governance and external control mechanisms.

The market for corporate control serves as an external governance mechanism. The market for corporate control includes takeover activity, proxy contests, institutional ownership, block-

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holdings and the bankruptcy process. The forces of technological change, deregulation, privatization, trade liberalization, foreign direct investments etc. have been bearing on the marketplace since the 1980s and 1990s, and driving an ever increasing integration of world economies and financial markets – increasing globalization and market competition. Financial markets increasingly have timelier and better information, many new instruments, and much expertise available to help managers reallocate capital. These trends that began to feature prominently in the mid-1980s and the early 1990s have made managers more responsive to the interests of shareholders with a focus on shareholder value – the most efficient form of corporate governance. The trends have also resulted in the increasing role and influence of institutional investors and mutual funds in the capital markets. These developments occurring in the global economy and financial markets in the 21st century should have important implications for the market for corporate control – takeover activity, proxy battles etc. Thus, it is reasonable to suspect that market based systems of governance, including the market for corporate control, have exerted an increasing influence on the financial markets, providing managers with greater incentives to choose optimal governance structures that maximize stock prices, and attenuating the insulating effects of anti-takeover provisions (ATPs).

Mitchell and Lehn (1990) examined the extent to which corporate takeovers discipline managers in firms with manager-stockholder conflicts relating to the firms' acquisition programs. They examined the stock price reactions to acquisitions made by two sets of firms during the period 1982 to 1986: firms that become targets of takeover attempts after their acquisitions (i.e., “targets”) and a control group of firms that do not receive takeover bids during the sample period (i.e., “non-targets”). While the average stock price effect associated with acquisition announcements is not significantly different from zero for the entire sample, significant differences were found to exist between the average stock price effect associated with acquisitions made by targets (-1.27% over the [-5, 1] window and -3.38% over the [-5, 40] window) and the corresponding effect associated with acquisitions by non-targets (0.82% and 3.32%, respectively). They assert that the market for corporate control, by performing an ex-post settling up function, is an important corporate governance mechanism that provides managers with the proper incentives to maximize shareholder value.

Lehn and Zhao (2006) find a significant inverse relation between bidder returns and the likelihood of CEO turnover. They note that Mitchell and Lehn (1990) show that in the 1980s the market for corporate control disciplined managers who made value-destroying acquisitions. However, during the 1990s, the number of hostile takeovers and leverage buyouts declined substantially. Andrade, Mitchell and Stafford (2001) report that over 14% of the bids in the 1980s were hostile and about half of those were successful. In the 1990s, only about 4% of the bids were hostile and about 1/3 of those hostile bids failed. Holmstrom and Kaplan (2001) report that leveraged buyout activity, which was often part of, or in response to, hostile offers, constituted close to 2% of stock market value in the late 1980s, but was virtually nonexistent in the 1990s. Holmstrom and Kaplan (2001) argue that hostile takeovers and LBOs largely disappeared in the 1990s because, at least in the United States, the managerial incentive problems that existed in the 1980s have diminished. Grinblatt and Titman (2002) note that this may be probably due to a combination of an increase in the importance of institutional investors, a greater use of stock options and other forms of incentive pay, and perhaps a change in corporate culture: maximizing shareholder value is now viewed as the appropriate objective of management. An alternative explanation for the

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decline in hostile takeovers is the prevalence of various anti-takeover defensive actions that managers implemented in the late 1980s.

In light of this decline in hostile takeover activity in the 1990s, Lehn and Zhao (2006) also examined whether internal governance mechanisms have been effective in providing the discipline of managers who made value-destroying acquisitions. For a sample of 714 firms that completed acquisitions during the period from 1990 through 1998 they found that of the 407 firms that replaced their CEOs, 338 of them were replaced by internal governance, 142 by takeover, and 40 by bankruptcy. They showed that for the CEOs that are replaced by internal governance, the interaction of acquisition announcement returns and (i) board size, (ii) board independence, (iii) whether the CEO also serves as chairman, and (iv) ownership structure are not related to the probability of CEO turnover. This absence of an observable empirical relation between corporate governance variables and the probability that bad bidders will be replaced, they note, is consistent with the view that, on average, governance mechanisms are chosen optimally. They conclude that their results indicate that internal governance, takeovers, and the bankruptcy process work well in disciplining managers who make acquisitions that destroy value.

Masulis, Wang and Xie (2007) examined whether corporate governance mechanisms, especially the market for corporate control, affect the profitability of firm acquisitions. Using a sample of 3,333 completed acquisitions during the period between 1990 and 2003, they find that bidders with more anti-takeover provisions and/or classified boards experience significantly lower announcement-period abnormal stock returns, supporting the hypothesis that managers at firms protected by more anti-takeover provisions are less subject to the disciplinary power of the market for corporate control and thus are more likely to indulge in empire-building acquisitions that destroy shareholder value. They also find that bidders operating in more competitive industries or separating the positions of CEO and chairman of the board experience higher abnormal announcement returns. They conclude that the conflict of interests between managers and shareholders is more severe at firms with more anti-takeover provisions, or equivalently, firms less vulnerable to takeovers. Evidence in Bebchuk and Cohen (2005) and Bebchuk, Cohen, and Ferrell (2004) also indicate that board classification is systematically associated with lower firm value. Bebchuk and Cohen (2005), in interpreting their findings, infer that board classification insulates management from the market for corporate control.

Bates, Becher and Lemmon (2008) specifically examine the relation between board classification and the likelihood of takeover bidding, bid outcomes, and concomitant shareholder wealth effects for a panel of firms between 1990 and 2002. They present evidence suggesting that classified boards neither entrench managers in the context of takeover bidding nor facilitate managerial self-dealing in completed bids. While noting that board classification, which is one of many factors commonly indexed when evaluating the extent of shareholder rights, is a potent anti-takeover mechanism, their results challenge the perception that these factors, independently or as indexed, provide a reliable proxy for a firm's exposure to the market of corporate control as suggested by Masulis, Wang and Xie (2007). Kau, Linck and Rubin (2008), employing a sample of 4,228 M&A transactions and an entrenchment index (BCF), find no significant effect of the entrenchment index on bidders' attentiveness to shareholders' desires. The entrenchment index is employed as a proxy for

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the level of shareholder rights. This finding is not consistent with Bebchuk, Cohen and Ferrell (2004) who find that firms with high entrenchment index perform worse than firms with low entrenchment index.

These findings suggest that bidders and managers, in general, have an incentive to be attentive or listen to the market; firm's that make poor acquisitions subsequently get acquired themselves (Mitchell and Lehn 1990); CEOs that make poor acquisition decisions are more likely to be fired (Lehn and Zhao 2006). However, the results are mixed regarding whether agency considerations are an important factor in determining whether managers listen to the market or whether anti-takeover provisions facilitate managerial self-dealing and sub-optimal governance structures.

2.2 Firm Performance and Internal Governance Mechanisms

There is an extensive debate regarding the form of the relationship which identifies the effect of changing governance on performance; whether such a formal relationship exists is also a subject of debate considering the range of factors that bear on cross-sectional variations in corporate governance. Despite the intense debate, evidence on the effects of different governance systems on firm value is still sparse. The equivalent of a reduced form relation which identifies the effect of changing governance on performance is what is generally regarded as the bottom line of the governance debate. However, such a relation is extremely difficult to uncover. The range of factors which bear on cross-firm or cross-country variations in performance is considerable (Mayer 1997). Mulherin (2005), in examining a sample of 1235 firms from 40 industries, finds that corporate governance variables (board size and ownership) vary with firm and industry characteristics – size and proxies for growth potential (age and P/E ratio).

There is evidence, however, indicating that the way in which corporations are managed and controlled is affected by board and ownership structure. Core, Holtausen and Larcker (1998) use board and ownership variables to proxy for the effectiveness of a firm's governance structure in controlling agency problems. Their findings suggest that the weightings of the board and ownership variables in their compensation equation are related to the effectiveness of a firm's governance structure, rather than these variables serving as proxies for the determinants of the CEO's equilibrium wage. They note, however, that measuring the effectiveness of the governance system is difficult, and examination of just a few characteristics in isolation ignores the fact that other characteristics not measured may serve as complements or substitutes.

Mayer (1997) notes that the effect of differences in ownership and board structures could take a number of forms: First, the flow of information to investors may differ. Secondly, investors may have different incentives to intervene. Thirdly, the potential market for corporate control may vary. These differences in forms may have important implications for the level of monitoring and control of managerial activities. Overall, the impact of board and ownership structure on firm performance is unclear given the mixed nature of the empirical results. For example, Byrd and Hickman (1992) document a positive relationship between the fraction of outsiders on the board and acquirer performance, while more recently Masulis, Wang and Xie (2007) fail to report any such relationship, and Bauguess and Stegemoller

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(2008) find higher acquirer stock returns when insiders dominate the corporate board (see Dahya, Golubov, Petmezas and Travlos 2016).

2.2.1 Board of Directors

The board of directors has the power to hire, fire, and compensate senior management teams, and serves to resolve conflicts of interest between decision makers and residual risk bearers. This economizes the transaction (agency) costs associated with the separation (specialization) of ownership and control and facilitates the survival of the open corporation as an organizational form (Baysinger and Butler 1985). Corporate governance reform proposals implicitly are based on the conceptually refutable hypothesis that board composition matters, and in a particular manner. This hypothesis is conceptually refutable because of the possibility of a more complex relationship existing between composition, in terms of the percentage of directors who are independent from management, and corporate financial performance. The importance of the board as a governance mechanism is not uniform across firms. Baysinger and Butler (1985), referring to Williamson (1983), note that other governance mechanisms exist (e.g., corporation law, the market for managerial talent, capital markets, the internal structure of the firm, and so on) and these can substitute for a strongly independent board. Wintoki (2007) indicates that firms face different costs and benefits from outside director monitoring, related to the nature of their businesses or their ownership structures. And thus there will be cross-sectional variation in board structure across firms in the economy that will reflect the trade-off between the costs and benefits of outside monitoring.

Mayer (1997) notes that the exercise of corporate governance is often associated with the replacement of poorly performing management. Fama (1980) argues that the viability of the board as a market induced mechanism for low-cost internal transfer of control might be enhanced by the inclusion of outside directors. Consistent with this, Weisbach (1988) finds that 'performance measures are more highly correlated with CEO turnover for firms in which outsiders dominate the boards of directors than for firms in which insiders dominate. Rosenstein and Wyatt (1990) show that shareholder wealth is affected by the proportion of outside directors by documenting a positive stock price reaction at the announcement of the appointment of an additional outside director. Byrd and Hickman (1992) find that bidding firms on which independent outside directors hold at least 50% of the seats have higher announcement-date abnormal returns than other bidders, except when the independent directors hold a very high proportion of board seats. In contrast, Yermack (1996) finds no association between the percentage of outside directors and firm performance. Thus, the evidence on the importance of outside directors is mixed. Yermack (1996) also provides evidence that firm value and performance is a decreasing function of board size. Cheng (2008) showed that board size is negatively associated with the variability of monthly stock returns, annual accounting return on assets, Tobin's Q, accounting accruals, extraordinary items, analyst forecast inaccuracy, and R&D spending, the level of R&D expenditures, and the frequency of acquisition and restructuring activities. The results are consistent with the view that it takes more compromises for a larger board to reach consensus, and consequently, decisions of larger boards are less extreme, leading to less variable firm performance. Lehn, Patro, and Zhao (2004) study 81 firms that survived from 1935 to 2000 and find that board size is positively related to firm size and negatively related to growth

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opportunities, while insider representation is negatively related to firm size and positively related to growth opportunities.

Linck, Netter and Yang (2008), using a comprehensive sample of nearly 7,000 firms from 1990 to 2004, find that firms structure their boards in ways consistent with the costs and benefits of monitoring and advising by boards. Boone, Field, Karpoff, and Raheja (2007) track firms that went public from 1988 to 1992 through their first ten years of existence, and conclude that board structure reflects a firm's competitive environment and managerial team. Wintoki, Linck and Netter (2012), in a panel of 6,000 firms from 1991-2003, find no relation between board size or independence and firm performance after controlling for dynamic endogeneity – firm's current actions affect future performance, which in turn affect firm's future actions.

Table 1: Studies on board structure

Study	Sample period	Sample size	Effect on performance?	Determinants of board structure
Rosenstein and Wyatt (1990)	1981-1985	1251	Yes*	N/A
Hermalin and Weisbach (1991)		142	No	N/A
Byrd and Hickman (1992)	1980-1987	128	Yes	N/A
Yermack (1996)	1984-1991	452	No	N/A
Mulherin (2005)	2005	1235	N/A	Firm and Industry Characteristics
Cheng (2008)	1996-2004	1252	Yes	N/A
Linck, Netter and Yang (2008)	1990-2004	7000	N/A	Efficiency Explanations
Wintoki, Linck and Netter (2012)	1991-2003	6000	No	Past Performance**

*Rosenstein & Wyatt (1990) – the announcement of the addition of an outside director is good news.

**Wintoki, Link & Netter (2012) – firm history and past performance is a major determinant of governance.

2.3 Summary of Hypotheses

A central theme that emanates from this review of theory and evidence on corporate governance is that firm and industry characteristics, financial markets and developments in the economic environment have important implications for firms' governance structures. And there is an important distinction to be made about the roles played by internal governance mechanisms (board structure) and external governance mechanisms (the market for corporate control); the market for corporate control provides important incentives for firms to choose optimal corporate governance structures. This paper tests the following hypotheses.

H1: "Optimal governance hypothesis" – firms choose their internal governance mechanisms in a value-maximizing way and firms' level of anti-takeover provisions have no significant effect on the relationship between returns to bidders and internal governance structure.

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H2: “Sub-optimal governance hypothesis” – the relationship between returns to bidders and internal governance structure is affected by varying levels of anti-takeover provisions, due to the self-serving behavior of managers of firms that are less vulnerable to takeovers.

3. Data Sample

The sample of bidders is drawn from the Securities Data Company's (SDC) Mergers and Acquisitions database based on the following criteria: (1) The merger or acquisition is announced between January 1, 2000 and December 31, 2007; (2) both the bidder and target firms are publicly traded U.S. firms; (3) the transaction value is \$1 million or higher; (4) the status of the deal is “completed;” (5) the percentage of the target owned after the transaction is 100%. These criteria result in an initial sample of 1833 mergers and acquisitions. The bidder is required to have annual financial statement information available from Standard and Poor's COMPUSTAT Research Tape and stock return data (210 trading days prior to acquisition announcement from the University of Chicago's Center for Research in Security Prices (CRSP) Daily Stock Price and Returns file. This requirement reduces the sample size to 1453 mergers and acquisitions. The bidder is also required to be included in the Risks Metrics Group (formerly IRRC – Investor Responsibility Research Center) Historical Governance database of anti-takeover provisions. The Risks Metrics Group Historical Governance database contains detailed information on anti-takeover provisions for years 1990, 1993, 1995, 1998, 2000, 2002, 2004 and 2006. Following Masulis, Wang and Xie (2007), it is assumed that during the years between two consecutive publications, firms have the same governance provisions as in the previous publication year. This then reduced the sample size to 880 mergers and acquisitions. In addition, information on governance structure – board size and board independence – is required to be available for each bidder. The source of board structure (directors) data is the Risks Metrics Group Historical Directors database and, due to data availability the sample is further reduced to 812. The final regression sample, also due to data availability, reduces further to 772.

4. Empirical Method

4.1 Stock Market Analysis of Acquisitions

This paper employs event study methodology to measure the stock price effects of mergers and acquisitions announcements using market model adjusted stock returns around initial acquisition announcements. The CRSP value-weighted return is used as the market return and the market model parameters are estimated over a period of 200 (i.e., [-210, -11]) trading days preceding the acquisition announcement date obtained from SDC's U.S. Mergers and Acquisitions database. The 5-day cumulative abnormal returns (CARs) during the event window [-2, +2] are computed, where event day 0 is the acquisition announcement date.

4.2 Empirical Design

To examine the effectiveness of bidders' internal governance mechanisms, the 5-day cumulative abnormal returns (CARs) are employed as the dependent variable in several regression analyses. The main independent variables are the corporate governance (board structure) variables – board size and board independence. The main control variable is an

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anti-takeover provisions index (ATP). Two categories of factors that are considered determinants of returns to bidders are also employed: bidder characteristics and deal characteristics.

4.2.1 Corporate Governance Variables

These are the main independent variables employed to examine the relationship between returns to bidders and internal governance mechanisms. Board size (BDSIZE) measures the number of directors on the firm's board. Board independence (BDIND) measures the proportion of the firm's board consisting of independent directors.

4.2.2 Anti-Takeover Provisions (ATP) Index

Masulis, Wang and Xie (2007) find that bidders with more anti-takeover provisions experience significantly lower announcement-period abnormal stock returns. Anti-takeover provisions generate owner-manager agency costs and a firm with a higher anti-takeover provisions (ATP) index is assumed to be less subject to the disciplinary power of the market for corporate control (i.e., less vulnerable to takeovers). The ATP index for each bidder is computed along the lines of the BCF index employed in Masulis, Wang and Xie (2007). The BCF index is based on six provisions: classified boards (CBOARD), limits to shareholder bylaw amendments (LABYLW), limits to shareholder charter amendments (LACHTR), super-majority requirements for mergers (SUPERMAJOR), poison pills (PPILL), and golden parachutes (GOLDENPARACHUTE).

4.2.3 Bidder Characteristics

Mulherin (2005), in examining a sample of 1235 firms from 40 industries, finds that corporate governance variables (financial policy, board size and ownership) vary with firm and industry characteristics such as size and proxies for growth potential (age and P/E ratio). The inclusion of these firm characteristics that are also considered to be related to returns to bidders helps to control for issues of endogeneity in the empirical model. The characteristics included are firm size (SIZE), Tobin's q (TOBINSQ), leverage (LEV), free cash flow (FCF) and pre-acquisition stock price performance (PRERET). Firm size, Tobin's q, leverage and free cash flow are measured at fiscal year-end prior to the acquisition announcement. Pre-acquisition stock price performance is measured by the bidders' buy-and-hold abnormal return over the 200-day window from event day -210 to event day -11 using the CRSP value-weighted market index as the benchmark.

4.2.4 Deal Characteristics

Asquith and Mullins (1983) indicate that a bidder's return increases with the size of the acquisition. Duggal and Millar (1999) refer to evidence by Servaes (1991) showing that returns to bidders are higher in cash financed deals than in stock financed ones. Accordingly, the deal characteristics controlled for are relative deal size (RELSIZE) and method of payment (CASH). The method of payment is represented by a dummy variable that equals one for an all-cash financed deal (CASH = 1) and zero for acquisitions financed either partially or fully with stock (CASH = 0).

5. Empirical Results

5.1 Returns to Bidders

As Panel A of Table 2 shows, for the whole sample (1453 observations), the mean 5-day CAR is -1.5%, significantly different from zero. For transactions financed exclusively with cash (CASH = 1), the mean 5-day CAR is -0.1%, not significantly different from zero. In contrast, for transactions financed at least partially with stock (CASH = 0), the mean 5-day CAR is -2.3%, significantly different from zero.

The mean 5-day CAR is also computed for two portfolios formed from the sample based on the bidders ATP index. For the portfolio of bidders with ATP index values less than or equal to the median value of 2, the mean 5-day CAR is -1.6% (t-stat is -5.34). The mean 5-day CAR is -1.7% (t-stat is -5.00) for the portfolio of bidders with ATP index values greater than or equal to 3. This result indicates that, on average, bidders with high anti-takeover provisions do not experience announcement-period abnormal stock returns that are significantly different from those experienced by bidders with low anti-takeover provisions, or from those experienced by the average bidder. This does not support the hypothesis that managers at firms protected by more anti-takeover provisions are less subject to the disciplinary power of the market for corporate control and thus are more likely to indulge in empire-building acquisitions that destroy shareholder value. This is inconsistent with the finding of Masulis, Wang and Xie (2007), but consistent with the finding in Dahya, Golubov, Petmezas and Travlos (2016). While Masulis, Wang and Xie (2007) study the period from 1990-2003, Dahya, Golubov, Petmezas and Travlos (2016) study an 8-year period (1998-2005) surrounding the year (2002) of the passage of SOX.

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Table 2: Summary statistics

This table presents descriptive statistics for the sample of bidders employed in this study. CAR is the 5-day cumulative abnormal return computed over the event window [-2, +2], where event day 0 is the acquisition announcement date. MVEQUITY is the market value of equity. MVASSETS is the market value of assets. SIZE (LOG BVASSETS) is the log of the book value of assets. TOBINSQ is Tobin's q. LEV is leverage. FCF is free cash flow. PRERET is pre-acquisition stock price performance. RELSIZE is relative deal size. CASH is method of payment represented by a dummy variable that equals one for an all-cash financed deal (CASH = 1) and zero for acquisitions financed either partially or fully with stock (CASH = 0). ATP is an index based on six anti-takeover provisions: classified boards, CBOARD, limits to shareholder bylaw amendments, LABYLW, limits to shareholder charter amendments, LACHTR, super-majority requirements for mergers, SUPERMAJOR, poison pills, PPILL, and golden parachutes, GOLDENPARACHUTES. BDSIZE is the number of directors on the firm's board. BDIND is the proportion of the firm's board consisting of independent directors. Statistical significance at the 1%, 5% and 10% levels are denoted by ***, **, and *, respectively.

Variable	Mean	t-stat	Median	Obs
<i>Panel A: CAR</i>				
CAR (Full Sample)	-1.50%***	(-6.89)	-1.00%	1453
CAR (CASH = 1)	0.10%	(0.35)	0.10%	458
CAR (CASH = 0)	-2.30%***	(-8.06)	-1.60%	995
CAR (ATP =< 2)	-1.60%***	(-5.34)	-0.80%	500
CAR (ATP >=3)	-1.70%***	(-5.00)	-1.70%	366
<i>Panel B: Bidder Characteristics</i>				
MVEQUITY (\$mil)	15,123.58		1,664.77	1453
MVASSETS (\$mil)	36,724.93		3,732.93	1453
SIZE (LOG BVASSETS)	7.87		7.81	1453
TOBINSQ	2,176		1,353	1453
LEVERAGE	0.15		0.11	1453
FCF	0.01		0.04	889
PRERET	-0.08		-0.04	1453
<i>Panel C: Deal Characteristics</i>				
RELSIZE	0.391		0.146	1453
CASH (dummy)	0.315		0.000	1453
<i>Panel D: Anti-takeover Provisions</i>				
ATP	2.20		2.00	931
CBOARD	0.58		1.00	931
LABYLW	0.21		0.00	931
LACHTR	0.03		0.00	931
SUPERMAJOR	0.13		0.00	931
PPILL	0.54		1.00	931
GOLDENPARACHUTE	0.71		1.00	931
<i>Panel E: Governance Variables</i>				
BDSIZE	10.94		10.00	812
BDIND (ratio)	0.67		0.70	812

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5.2 Anti-Takeover Provisions

The ATP index values, based on six anti-takeover provisions considered in the construction, for the sample firms ranges from 0.0 to 6.0. As Panel D of Table 2 shows, the mean value of the ATP index is 2.21 and the median value is 2.0. About 56% of the sample firms have an ATP index greater than or equal to 3 and about 44% of the sample firms have an ATP index less than or equal to 2. Bebchuk and Cohen (2005) suggests that a staggered board (classified board), which a majority of U.S. Public companies have, prevent shareholders from replacing a majority of the board of directors without the passage of at least two annual elections. As a result, staggered boards make it harder to gain control of a company in either a stand-alone proxy contest or a hostile takeover. Bebchuk and Cohen (2005) find that, controlling for other anti-takeover provisions, staggered boards have a strong effect on market value during 1995 to 2002 and that this effect is several times larger than the average effect of other provisions in an index based on 24 anti-takeover provisions followed by IRRC. The mean value of the dummy variable for classified board (CBOARD) indicates that 59% of the sample firms in the 2000 to 2007 sample period have classified boards. This is similar to the mean value 61% determined by Masulis, Wang and Xie (2007) for the sample period 1990 to 2003.

5.3 Regression Results

The regressions in Table 3 examines whether a relationship exists between the returns to bidders and their internal governance structure (board structure). The first two regression models (1) and (2) in Table 3 control for the effect of bidder characteristics (firm size, tobin's q, leverage and pre-acquisition stock price performance) and deal characteristics (relative deal size, and method of payment) on bidder returns, and show no significant relationship between board structure (board size and board independence) and the returns to bidders, ignoring the effect of anti-takeover provisions. Bidders' pre-acquisition stock price performance, the relative size of the transaction and the method of payment show up as significant determinants of returns to bidders. The return to board size from model (1) is positive but not significant. The return to board independence from model (2) is negative but also not significant.

Regression model (3) accounts for the effect of anti-takeover provisions on the disciplinary role of the market for corporate control. The anti-takeover provisions index (ATP) shows no significant effect on the returns to bidders. The inclusion of the anti-takeover provisions index fails to significantly affect the lack of any significant relationship between board structure (board size and board independence) on the returns to bidders. Model (4) replaces the ATP index with the classified board dummy variable (CBOARD). Although there appears to be an improvement in the effect of classified board on returns to bidders relative to the ATP index, its inclusion also fails to significantly affect the lack of any significant relationship between board structure (board size and board independence) and the returns to bidders. Again, this result does not appear to support the hypothesis that managers at firms protected by more anti-takeover provisions are less subject to the disciplinary power of the market for corporate control and are thus more likely to indulge in empire-building acquisitions that destroy shareholder value, and this is inconsistent with the finding of Masulis, Wang and Xie (2007).

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The results also do not appear to support the hypothesis that the relationship between returns to bidders and internal governance mechanisms is affected by varying levels of anti-takeover provisions, due to the self-serving behavior of managers of firms that are less vulnerable to takeovers. This is consistent with the finding in Dahya, Golubov, Petmezas and Travlos (2016) that the relationship between returns to bidders and internal governance is unaffected by varying levels of antitakeover provisions, based on the statistical insignificance of the BCF index and its interaction with outside directors (board independence), in their 1998-2005 study. However, Dahya, Golubov, Petmezas and Travlos (2016) show that outside directors exhibit a positive effect on acquirer performance when the target is public. The tests in this paper do not distinguish between acquisitions involving public targets versus private targets due to data availability.

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Table 3: Initial regression analysis of bidder returns on board structure

This table presents the results from regressions of returns to bidders on explanatory variables for the 2000 to 2007 sample period. BDSIZE is the number of directors on the firm's board. BDIND is the proportion of the firm's board consisting of independent directors. ATP is an index based on six anti-takeover provisions: classified boards, CBOARD, limits to shareholder bylaw amendments, LABYLW, limits to shareholder charter amendments, LACHTR, super-majority requirements for mergers, SUPERMAJOR, poison pills, PPILL, and golden parachutes, GOLDENPARACHUTES. SIZE is the log of the book value of assets. TOBINSQ is Tobin's q. LEV is leverage. PRERET is pre-acquisition stock price performance. RELSIZE is relative deal size. CASH is method of payment represented by a dummy variable that equals one for an all-cash financed deal (CASH = 1) and zero for acquisitions financed either partially or fully with stock (CASH = 0). Statistical significance at the 1%, 5% and 10% levels are denoted by ***, **, and *, respectively.

	Model (1)	Model (2)	Model (3)	Model (4)
<i>Board Variable:</i>				
BDSIZE	0.001 (1.24)		0.001 (1.24)	0.001 (1.11)
BDIND		-0.003 (-0.21)	-0.004 (-0.26)	-0.004 (-0.27)
<i>Anti-takeover Provisions:</i>				
ATP			0.000 (-0.00)	
CBOARD				0.004 (0.75)
<i>Bidder Characteristics:</i>				
SIZE	-0.003** (-2.03)	-0.002 (-1.60)	-0.003* (-1.93)	-0.003* (-1.82)
TOBINSQ	0.001 (1.09)	0.001 (1.00)	0.001 (1.09)	0.001 (1.15)
LEVERAGE	0.037* (1.88)	0.037* (1.86)	0.036* (1.86)	0.035* (1.79)
PRERET	0.159*** (4.19)	0.163*** (4.22)	0.161*** (4.14)	0.160*** (4.13)
<i>Deal Characteristics:</i>				
RELSIZE	-0.010*** (-4.83)	-0.010*** (-4.79)	-0.010*** (-4.82)	-0.010*** (-4.84)
CASH	0.025*** (5.23)	0.024*** (5.10)	0.025*** (5.23)	0.025*** (5.26)
Intercept	-0.003 (-0.21)	-0.001 (-0.06)	-0.001 (-0.05)	-0.004 (-0.25)
Number of observations	772	772	772	772
Adjusted-R	0.089	0.087	0.086	0.087

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Additional tests are carried out to provide further confirmation of these results, see Table 4. Two separate sets of portfolios are created from the sample based on the sample firms' ATP index value and on whether they have a classified board or not. The first set of portfolios comprises a "low ATP" portfolio and a "high ATP" portfolio. The "low ATP" portfolio contains firms with ATP index values equal to or less than 2, for a total of 427 observations. The "high ATP" portfolio contains firms with ATP index values equal to or greater than 3, for a total of 345 observations. The second set of portfolios comprises a portfolio of firms without classified boards resulting in 325 observations, and a portfolio of firms with classified boards resulting in 447 observations.

The regression result from model (1), in Table 4, shows no significant relationship between board size and returns to bidders, for bidders with "low ATP". This is also the result for bidders with "high ATP" as shown in model (2). Model (1) also indicates no significant relationship between board independence and returns to bidders, for bidders with "low ATP". But, as model (2) shows, there is a significant negative relationship between board independence and returns to bidders, for bidders with "high ATP". This suggests that the returns to bidders is a decreasing function of board independence for bidders or firms with high anti-takeover provisions, in contrast with Yermack's (1996) finding of no association between the percentage of outside directors and firm performance. Perhaps, one interpretation of this result is that for bidders with high levels of anti-takeover provisions, the costs of having a more independent board outweigh the benefits.

A comparison of the results from regression models (3) and (4), which apply to the second set of portfolios differentiated by whether the bidders in the sample have classified boards or not, shows a positive relationship (significant at the 10% level) between board size and returns to bidders (for bidders without classified boards, model (3)), but no significant relationship between board size and returns to bidders (for bidders with classified boards, model (4)). Models (3) and (4) show no significant relationship between board independence and returns to bidders for bidders, whether they have a classified board structure or do not. These results seem to indicate that, while the existence or non-existence of a classified board structure has no effect on the lack of a relationship between board independence and returns to bidders, there appears to be a positive relationship between board size and returns to bidders, for bidders without a classified board structure. The benefits to increasing board size appear to outweigh the costs for bidders without a classified board structure.

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Table 4: Regression analysis of bidder returns on board structure using two separate portfolios to control for the level of anti-takeover provisions

This table presents the results from regressions of returns to bidders on explanatory variables for two separate sets of portfolios based on the sample firms' ATP index value and on whether they have a classified board or not. BDSIZE is the number of directors on the firm's board. BDIND is the proportion of the firm's board consisting of independent directors. ATP is an index based on six anti-takeover provisions: classified boards, CBOARD, limits to shareholder bylaw amendments, LABYLW, limits to shareholder charter amendments, LACHTR, super-majority requirements for mergers, SUPERMAJOR, poison pills, PPILL, and golden parachutes, GOLDENPARACHUTES. SIZE is the log of the book value of assets. TOBINSQ is Tobin's q. LEV is leverage. PRERET is pre-acquisition stock price performance. RELSIZE is relative deal size. CASH is method of payment represented by a dummy variable that equals one for an all-cash financed deal (CASH = 1) and zero for acquisitions financed either partially or fully with stock (CASH = 0). Statistical significance at the 1%, 5% and 10% levels are denoted by ***, **, and *, respectively.

	Model (1)	Model (2)	Model (3)	Model (4)
	ATP <= 2	ATP >= 3	CBOARD = 0	CBOARD = 1
<i>Board Variable:</i>				
BDSIZE	0.001 (0.97)	0.000 (0.42)	0.002* (1.76)	0.000 (0.51)
BDIND	0.021 (1.28)	-0.083*** (-3.69)	0.017 (0.84)	-0.019 (-1.07)
<i>Bidder Characteristics:</i>				
SIZE	-0.002 (-0.99)	-0.007*** (-2.91)	-0.003 (-1.11)	-0.005** (-2.15)
TOBINSQ	0.002 (1.30)	0.000 (0.18)	0.003 (1.95)*	-0.001 (-0.49)
LEVERAGE	0.025 (0.95)	0.052* (1.87)	0.024 (0.74)	0.042* (1.65)
PRERET	0.194*** (3.86)	0.229*** (3.88)	0.195*** (3.05)	0.142*** (2.88)
<i>Deal Characteristics:</i>				
RELSIZE	-0.01* (-1.86)	-0.009*** (-6.22)	-0.011 (-1.60)	-0.01*** (-4.74)
CASH	0.020*** (3.09)	0.021*** (3.05)	0.025*** (3.16)	0.025*** (3.86)
Intercept	-0.025 (-1.20)	0.101*** (3.96)	-0.037 (-1.51)	0.035 (1.62)
Number of observations	452	370	325	447
Adjusted-R	0.069	0.197	0.086	0.099

The evidence of an apparent lack of a significant influence of the level of anti-takeover provisions on the returns to bidders, as well as on the relationship between the internal governance structure and the returns to bidders, for the average bidder, suggests that the average firm chooses its internal governance system optimally, accounting for the costs and benefits of alternative systems; financial markets do appropriately discount the value

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implications of anti-takeover provisions. So what might account for the apparent lack of a significant influence of the level of anti-takeover provisions on the returns to bidders (in contrast to the finding of Masulis, Wang and Xie (2007) for the 1990 to 2003 sample period), as well as on the relationship between the internal governance structure and the returns to bidders, for the average bidder, for this 2000 to 2007 sample of mergers and acquisitions? One plausible explanation is that the protective role of anti-takeover provisions may have diminished in the 2000s, relative to the 1990s, as the disciplinary role of the takeover market has increased, as well as the roles of other aspects of the market for corporate control such as block-holdings, proxy contests, institutional ownership and the bankruptcy process.

The evidence, however, suggests that, rather than insulate firms from the disciplinary role of the takeover market, anti-takeover provisions (ATPs) may drive significant costs that outweigh the benefits of internal governance systems, for bidders that employ high levels of ATPs. For bidders with high ATPs, the costs of having more independent board members outweigh the benefits. For bidders without board classification structures, the benefits of having larger board size outweigh the costs.

6. Conclusion

The 2000s, with the burst of the 1990s dot.com bubble and the 2001 recession that ensued, was a period that witnessed significant board structure reform – the introduction of minimum board independence requirements to the NYSE and NASDAQ listing rules following the enactment of the Sarbanes-Oxley Act of 2002 – as both exchanges decreed that listed firms should maintain a majority of outside directors on their boards. The fraction of outside directors on the boards of U.S. acquirers increased from 58% in 1998 to 72% in 2005 (Dahya, Golubov, Petmezas and Travlos 2016). The data sample period (2000-2007) studied in this paper, captures acquisition announcements from the sixth merger wave (Alexandridis, Mavrovitis and Travlos 2011), which began in 2003 and peaked in 2006, before significantly declining in late 2007 with the housing and the 2008 financial crises.

This paper generally finds evidence in support of the “optimal governance hypothesis” – firms choose their internal governance system in a value-maximizing way and firms’ level of anti-takeover provisions (ATPs) or defenses do not significantly affect the relationship between board structure (board size and board independence) and the returns to bidders. However, for the sample of bidders with high levels of ATPs, the returns to board independence is found to be negative, suggesting that at high levels of ATPs the benefits of a more independent board are outweighed by the costs. Put differently, the evidence seems to suggest that the effectiveness of independent boards diminish at high levels of ATPs. For the sample of bidders without board classification, when considered independently of other ATPs, there is a positive relationship between board size and the returns to bidders; the benefits of having larger board size outweigh the costs. Overall, while the evidence presented in this paper fails to refute the view that firms optimally choose their internal governance mechanisms in a value-maximizing way, there is some evidence that supports the “sub-optimal governance hypothesis” – the relationship between returns to bidders and internal governance structure is affected by the level of ATPs, due to the self-serving behavior of managers of firms that are less vulnerable to takeovers.

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Further examination of the observed lack of any significant effect of anti-takeover provisions (ATPs) on the returns to bidders is warranted in light of the evidence to the contrary in Masulis, Wang and Xie (2007), which studied data primarily from the 1990s (1990-2003). A plausible explanation for this apparently conflicting evidence is that the protective role of ATPs may have diminished in the 2000s, relative to the 1990s, as the disciplinary role of the takeover market has increased, as well as the role of other aspects of the market for corporate control such as block-holdings, proxy contests, institutional ownership and the bankruptcy process. The forces of technological change, deregulation, privatization, trade liberalization, foreign direct investments etc. have been bearing on the marketplace since the 1980s and 1990s, and driving an ever increasing integration of world economies and financial markets – increasing globalization and market competition. Thus, it is reasonable to suspect that market based systems of governance, including the market for corporate control, have exerted an increasing influence on financial markets, providing managers with greater incentives to choose optimal governance structures that maximize stock price and attenuating the insulating effects of ATPs. Alternatively, because these governance mechanisms serve as substitute governance mechanisms, it may be difficult for any one mechanism to significantly drive a causal relationship. In addition, for the 2000s, ATPs may be a less reliable proxy for managerial entrenchment and self-dealing, or a firm's exposure to the market for corporate control. My findings suggest that the mandated changes to corporate governance (board structure), in the 2000s, may have done little to improve their effectiveness. This has obvious implications for future public policy considerations/mandates regarding corporate governance.

The findings and interpretations presented in this paper, however, are limited to the time period, 2000-2007, studied. Indeed, data from the more recent post-financial crisis period, 2010-2015, show that this period is linked to higher independent director representation on the board of the average acquiring firm (not the result of a broad government mandate), reaching around 80% in 2010-2015 relative to 65-66% in 1990-2009, and less anti-takeover provisions (ATPs) among acquiring firms (Alexandridis, Antypas and Travlos 2017). Alexandridis, Antypas and Travlos (2017) also find that, in the post-financial crisis period, bidder returns are negatively associated with ATPs and positively associated with board independence, and thus linked the post-2009 turnaround in acquisition performance to improvements in corporate governance. A plausible interpretation of their findings is that an even greater disciplinary role of the market for corporate control in the post-financial crisis period reduced bidders' reliance on ATPs and, at the same time, improved the effectiveness of independent boards for the average bidder. The context of a merger wave time period matters to our understanding of the nature of the relationship between bidder returns and internal governance structure.

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