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#INSEADWomen 50 YEARS, WOMEN, IDEAS.

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Key Finding

Anti-takeover provisions, which prevent or delay hostile takeovers, reduce firm value and do not give managers additional bargaining power to obtain a higher price in the takeover negotiation.

Business Application

Managers and boards need to understand the full effects of anti-takeover provisions and the deals they can attract, impacting the long-term performance of the firm.

For many years, CEOs, consultants and scholars have argued that anti-takeover provisions fend off takeover advances and allow firms to bargain for a higher price in the event of a hostile takeover. Much of the literature maintains that such provisions reduce the likelihood of takeover advances, presenting managers with a trade-off: make your firm less likely to be taken over for a high price or more likely to be taken over for a low price.

Although much has been written on the issue there has been surprisingly little causal evidence of the effects of such provisions on takeover probability. Firms can decide to defend themselves from a takeover offer in a variety of ways, such as a “poison pill”, which dilutes shares or gives investors the right to buy discounted shares in the acquiring firm, or staggered boards, where multiple classes of directors sit on the board, serving for different time periods. This makes a hostile takeover particularly tricky, with acquirers forced to wait for annual shareholder elections before they can gain control.

Looking at shareholder voting behaviour in S&P 1500 firms over a 20-year period, my research shows that, contrary to the prevailing view, removing an anti-takeover provision garners a 2.8% higher takeover premium and increases takeover probability by 4.5%. This is because there is increased competition for unprotected firms, which collect more bidders, improving the overall bargaining power of targets. Previous literature on auctions has also shown that the number of bidders is more important in determining the price the seller can command than the bargaining power of individual bidders. Removing anti-takeover provisions also improves matching between bidders and targets, as better potential suitors are able to bid for their targets more easily, increasing the chance of a strong fit between related businesses with a higher potential for synergies.

Read more : https://knowledge.insead.edu/economics-finance/anti-takeover-provisions-backfire-5185#wmXIQTVS6Z3tBuD9.99

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