Theory and Evidence..

The Declassification of the Board of Directors and Its Impact on Shareholder Wealth

by

Todd Wesley Cohen

An honors thesis submitted in partial fulfillment

of the requirements for the degree of

Bachelor of Science

Undergraduate College

Leonard N. Stern School of Business

New York University

May 2004

Professor Marti G. Subrahmanyam — **Faculty Adviser**

Professor Yakov Amihud — **Thesis Advisor**

The Declassification of the Board of Directors and Its Impact on Shareholder Wealth

During the Merger Mania of the 1970's and especially the 1980's, companies found themselves looking for ways to protect themselves from hostile takeovers. The 80's ushered in a time of corporate creativity when trying to protect the company from corporate raiders. An example of this creativity is the classified board. The classified board, or 'staggered board,' was not intentionally used as a defensive measure at first, but soon became one of many different options available to use.

In recent years, many companies have been questioning the motives and necessity for such a device in their corporate charter. In the past ten years shareholders have realized their neglect in monitoring their companies. The rash of corporate malfeasance has put the spotlight on managers and the tools that they use to protect their companies. Shareholders are demanding more accountability and transparency in the tactics and day-to-day operations of their firms. The classified board has been put under the microscope, especially in 2003, with an unusually large number of proposals to remove these provisions from the agendas of annual meetings. This paper intends to evaluate the effects of removing or potentially removing the classified boards and the contributing characteristics of the firms that do have noticeable reactions to the looming removal.

Classified Boards as a Hostile Takeover Defense Measure

A classified board provision segments the board of directors into classes (or stagger) with one class standing for election each year (Mahoney & Mahoney, 1993). Originally, people saw two main uses for a classified board. First, it helped to ensure

the independence of outside directors. If directors were elected to a multiple year term, executives influence them less. Second, it would reduce the annual turnover of directors that could help promote board stability. If all directors were elected each year to a one-year term, it would be possible for all members of the board to be inexperienced (Bebchuk, Coates IV, & Subramanian, 2002). Companies began to realize the power of classified boards, especially once poison pills were used in conjunction with classified boards. A poison pill is a tactic used by a company targeted to be taken over to make its stock less appealing to the acquiring company in the hope of blocking the hostile takeover[1]. Of the companies that went public between 1991-1992, only 34% had staggered boards, as opposed to 82% of companies that went public between 1999-2000 that did include them. "In combination with an effective staggered board, however, a pill provides significant antitakeover protection: the pill blocks any stock acquisition beyond a trigger level, and the staggered board forces the bidder to go through two proxy contests in order to gain control of the board and redeem the pill (Bebchuk, Coates IV, & Subramanian, 2002)." Eventually the classified board became commonplace in most public companies.

Types of Defense Measures

Not all antitakeover provisions are viewed similarly. To help understand the differences between provisions, a classification system was created. Walsh and Seward (1990) created "a taxonomy" to classify different types of provisions. They are evaluated on two primary distinctions, whether a shareholder vote is required, and if it is considered an "operating or non-operating" measure. Operating measures result in

[1] www.tiaa-cref.org/libra/dictionary/glossp.html

changes in a firm's assets, financial structure or both. While non-operating measures do not involve a change in a firm's balance sheet, they still can deter hostile takeovers.

Specifically, the classified board is an example of a 'structural barrier,' one standing in the way of a successful takeover, since it involves a change in the actual term length of directors (Duggal & Cudd, 1993). The poison pill is considered an operating defensive measure, which does not require shareholder approval. This category, if placed into a 2 x 2 matrix would be considered most dangerous from the standpoint of a shareholder. Classified boards on the other hand, are considered to be the least dangerous to shareholders, since it is non-operating and must be voted on by shareholders to be approved.

Antitakeover Provisions

	Operating	Non-operating
	1	3
Stockholder approval required	Example: Dual-class recapitalizations	1. Supermajority amendments 2. Classified boards 3. Fair-price amendments 4. Reduction in cumulative voting rights 5. Anti-greenmail
	2	4
No stockholder approval required	1. Poison pills	Example: Golden parachutes

Mechanisms intended to restrict transfer of managerial control (adapted from Walsh and Seward, 1990: 438). The current paper focuses on antitakeover provisions in cells 2 and 3.

"If a Staggered Board is installed in the charter, directors may only be removed for cause, and shareholders may not 'pack the board' by increasing the number of directors and filling the vacancies created, then we characterize the SB as an 'effective staggered board' (ESB)- one that cannot be dismantled by a hostile bidder without first winning control of the board" (Bebchuk, Coates IV, & Subramanian, 2002). For the remainder of the paper, I assume that all staggered boards in the companies that we are

examining are "effective staggered boards," since the focus of this paper is to see the effects of the classified board as an antitakeover measure.

How a Classified Board Works

An effective staggered board (ESB) means that the bidding company must win multiple proxy contests in order to gain a majority control of the board of directors. Many states are now putting limits on the number of classes that a board can be divided into. On average, most classified boards are divided into three separate classes. This means that it can take up to two-years to win a majority control of the board of directors. The minimum wait would be one year, if the bidding firm announces their intentions and wages a proxy fight right before the annual meeting, and then waits one year to do it all over again. On average, the company will have to wait one and a half years to gain a majority control. (Bebchuk, Coates IV, & Subramanian, 2002). This two-election requirement helps make an ESB an extremely powerful antitakeover measure.

There have been arguments that suggest ESB's substantially protect current management from takeovers and have the possibility to reduce shareholder wealth (Bebchuk, Coates IV, & Subramanian, 2002). When evaluating the legal aspects of this defensive measure, the Unocal[2] test can be applied. It presented that managers can use antitakeover measures that are "reasonable in relation to the threat posed." Bebchuk, Coates IV and Subramanian have suggested that a poison pill and ESB combination will exceed "reasonable" measures taken, if the bidding firm wins one proxy contest. Preventing the use of this combination once the bidding firm wins the first proxy

[2] Unocal Corp. v. Mesa Petroleum Co., 493 A.2d 946, 955 (Del 1985)

contest is viewed as not violating the Unocal test. The effectiveness of a classified board would collapse if it had to be dismantled after the bidding firm won the first proxy contest. For companies that are incorporated in Delaware, the law states that directors of a classified board can be removed for only cause. Companies that do not have classified boards can be removed at anytime by a simple 51% shareholder majority (Linn & McConnell, 1983). This furthers the protection of the directors under a classified board.

In the 1990's shareholders began to realize the full force of the classified boards, and their lack of control with respect to poison pills (poison pills have no shareholder vote and are an operating measure). Much of the active dissent to classified boards came from institutional investors as they began to vote against them in annual meetings. Institutional investors understood that classified boards could be used for entrenchment of the current management, which would precipitously reduce shareholder wealth. The change in their attitudes became apparent in their voting preferences. In 2000, companies that put their staggered board up for vote had 52.7% of shareholders vote in favor of the declassification versus 16.4% in 1987 (Bebchuk, Coates IV, & Subramanian, 2002).

Institutional and Insider Ownership

By 1996, over 50% of large companies' stock was owned by institutional investors (Graves and Waddock, 1990). Institutional owners and inside owners represent an interesting class of shareholders that have the possibility to largely impact a company and the decisions they make. Institutional investors represent an important group of owners who usually hold a significant stake in equity, as opposed to

individuals (Westphal & Zajac, 1998). Institutional ownership is becoming the fastest growing proportion of shareholders. In the 1970's, the average institutional ownership in a company was 17.5%, and by 1986 the total percentage rose to over 30% (Mahoney, Sundaramurthy, Mahoney, 1996). One study indicated that in the 1970's there was a positive stock price reaction to companies that adopted classified boards and supermajorities. In the 1980's there were significant negative stock price reactions to the adoption of the same measures. It was concluded that this negative trend was due to an increase in control by institutional investors (Mahoney, Sundaramurthy, Mahoney, 1996).

This begins to give us some insight as to what the institutional investors were telling the market about classified boards and what effect they thought it was having on total wealth. Many have projected that individual investors are not totally aware of all the proposals management presented to them. Linn and McConnell said, "it is assumed that there exists enough stockholders who are unaware of the implications of the antitakeover amendments that amendments are adopted despite the negative impact which they have on shareholder wealth (1983)." If we accept this fact then there must be two assumptions made about these shareholders: 1) It is costly for shareholders aware of negative consequences to communicate it with the uninformed shareholders and 2) Uninformed shareholders believe that voting for management proposals leads to greater wealth. The implications and distinctions between informed and uninformed shareholders are defined later in the paper.

Institutional Investing Advantages

Institutional investors are seen as having two advantages; " They can efficiently gather information required to vote more consistently in accordance with stockholders economic interests (Agrawal and Mandelker, 1990). Secondly, they "can efficiently organize and use their clout to influence managements decisions (Demsetz, 1983)." It is thought that the institutional investors act as a monitor to management. They begin to take on a role that will help guide the way for the uninformed or individual investor who may not have the resources or time to fully understand the implications of management's actions.

There are a few different hypotheses that put forth the same general point; either the "Active investors hypothesis" (Agrawal & Mandelker, 1990), or "efficient monitoring hypothesis" (Jones, Lee, Tompkins, 1997), which both state that institutional oversight makes the management operate in a way that is consistent with maximizing the shareholder wealth (Agrawal & Mandelker, 1990). If institutional investors can effectively monitor management, then they can ensure that the classified board is being used properly.

Increased levels of institutional owners are likely to reform corporate governance and to keep the management's intentions in line (Westphal & Zajac, 1998). The numbers of "no" votes on antitakeover amendments increase with institutional ownership and other outside holders, while they decrease with management holders (Jarrell, Brickley and Netter, 1988). It is interesting to note that firms that passed supermajority amendments had relatively low institutional stockholders (average 19%) and high insider ownership (average 18%) (Jarrell, Brickley and Netter, 1988).

Classified Boards and supermajority provisions are both the same class of antitakeover measures. They both need shareholder approval and are considered non-

operating. They are passed more frequently when there was little "monitoring" by institutional investors, and a relatively high proportion of inside owners. Just the presence of institutional investors can sometimes be enough to keep the management in line. In the absence of active dissent, institutional ownership deters management from pursuing interests that conflict with value maximization. Companies that have a plethora of institutional ownership are less likely to be targets and less likely to lose if they do get targeted (Jones, Lee, Tompkins, 1997).

Not all people agree that well-informed institutional owners are working for the value-maximizing theory. Black's theory (1992) states that he is doubtful that institutions can assist in the monitoring between dissidents and management unless restrictions are changed on institutional owners. Black believes that there is incentive to remain passive or to support management so that an amiable business relationship is kept. (Jones, Lee, Tompkins, 1997).

There have been documented cases of positive and a statistically significant relationship between the ownership of institutional shareholders and the abnormal returns on stock prices around the announcement of antitakeover amendments. This is consistent with the 'active investors hypothesis" This is evidence that companies with a larger voting block of institutional investors are more likely to maximize shareholder value (Agrawal and Mandelker, 1992).

Agency Problems

The late 1990's and early 2000's saw an increase in mergers, but the hottest public issue was the amount of viable corporate governance. With the demise of Enron, and the collapse of WorldCom, people became anxious about corporations and

began to question the true separation between management and ownership in publicly traded companies. Specifically, these types of problems are defined as an "Agency problem." This is derived from contract theory, which states that managers are seen as agents of the owners of the firm (Jensen and Meckling, 1976). Jensen and Meckling described agency problems and costs as:

> Agency problems arise because contracts are not costlessly written and enforced. Agency costs include the costs of structuring, monitoring, and bonding a set of contracts among agents with conflicting interests. Agency costs also include the value of output lost because the costs of full enforcement of contracts exceed the benefits.[6]

The conflict between the agent and the owner regards the decision making process and the allocation of corporate resources (Jensen and Meckling, 1976). People question whether the decisions made by agents benefit the individual agent or the corporation. When management (the agent) and owners are separated, a tension between the two exists. Management will not fully feel the wealth effects of their decisions, and stockholders cannot monitor the actions of the management to ensure that they are acting in good faith for the owners (Jensen and Meckling, 1976).

Antitakeover Provisions and Agency Costs

Some anti-takeover amendments were seen as a possible resolution to the agency problem. There have been many methods to help alleviate the agency problem that arise out of the separation of management and ownership, including: 1) outside boards of directors who effectively monitor top management and limit its opportunism (Baysinger and Butler, 1985b; Fama and Jensen 1983a) 2) the threat of managerial displacement through stockholder vote (DeAngelo & Rice 1983) 3) equity ownership by management (Jensen and Meckling, 1976) 4) compensation plans based on performance (Agrawal and Mandelker, 1987) and 5) increase monitoring by

institutional investors. These are just a few of the ideas and plans that people use to help mitigate the agency problem. While it may have helped some, people now question the motives of why an antitakeover provision was adopted. For this reason, these provisions are usually the most debated item on the agenda at the annual meetings (Mahoney and Mahoney, 1993).

Two diametrically opposed hypotheses have become the two most popular theories that try to explain the rationale for antitakeover amendments. They are known as Management Entrenchment and Shareholders Interest Hypotheses.

Management Entrenchment Hypothesis

This theory says that, "antitakeover amendments primarily act to increase incumbent management's job protection and decision-making prerogatives at the expense of current stockholders." Managers will support antitakeover measures because they are seen as devices that will increase job security (DeAngelo & Rice, 1983). Many believe that 'institutions of capitalism' mitigate but do not completely purge the system of managerial discretion (Williamson, 1985). Management fears that if the company is merged or acquired that they will subsequently lose their jobs because of increased synergy with the other firm. By preventing the merger, management's jobs are considered more secure.

People who adhere to the managerial entrenchment hypothesis believe that all disciplinary mechanisms involve costs of their own. And, therefore, do not eliminate management-stockholder conflicts of interest. (DeAngelo & Rice, 1983). While there are measures used to control the agency problem, many of the supporters of the managerial entrenchment hypothesis feel that despite all of these measures, managerial

discretion is still involved and unavoidable (Williamson, 1964). Reducing effectiveness of the market for corporate control only worsens the agency problem of the separation of ownership and control (Easterbrook and Fischel, 1981). Often uninformed stockholders are in the majority and they vote for amendments that are not in their best interest (Jarrell and Poulson, 1987). This serves to perpetuate the entrenchment of management. Since the measures to lessen the agency problem are not perfect and managerial control is still present, many believe that managers are only acting in self-interest and not in the best interest of shareholders.

Stockholder Interests Hypothesis

Conversely, the "Stockholder Interests Hypothesis" predicts that the acceptance of antitakeover amendments increase current stockholder wealth. (Berkovitch, Bradley, and Khanna, 1989). Two possible reasons for adoption are as follows: First, it creates a long-term contract with the current management team and may encourage long-term investment and investment in firm-specific capital, both of which are in the best interest of stockholders (Baysinger and Butler, 1985). Second, antitakeover amendments, by giving management additional negotiating leverage or veto power, enable management to negotiate better deals on average for their stockholders. (DeAngelo and Rice, 1983). The foundation of shareholders interest hypothesis rests in the assumptions of asymmetric information and private synergies.

Asymmetric Information, Cartels and Private Synergy

"If there is asymmetric information and unique synergy, where the value of the target firm to the bidding firm is greater than the value of the target to any other bidder,

antitakeover provisions can enable the target firms board to coordinate more effectively to extract a larger percentage of the bilateral monopoly gain (Mahoney, Sundaramurthy, Mahoney, 1996)." Within each merger only a certain amount of synergy exists. Companies that have become targets try to maximize their synergistic gains (Harris, 1990). If there are a large number of bidders, full information is available and the antitakeover amendments are not necessary because gains will be distributed evenly. The firm is able to appropriate gains evenly between the target and bidder (Bradley, 1980). In the opinion of the Shareholder Interest hypothesis, asymmetric information is assumed, and therefore antitakeover amendments help the shareholder value by appropriating gains evenly.

In some cases, the value of the target is higher to one bidding firm then to others, because of particular advantages allowing the bidder to extract more from the target then would be possible for the other bidders. This is known as a 'private synergy,' since some synergies could only happen if two particular companies merged. It is to the advantage of the target to extract as much of the private synergistic gain in this 'bilateral monopoly' as possible (Mahoney and Mahoney, 1993). Many merger situations model the classic prisoner's dilemma for the shareholders. If they are able to act together, then they could extract a higher price for everyone, but it is often hard because of the incentive for some shareholders to defect. This "inefficient rush" by individuals to accept the offered premium would wreck the cartelized response (Mahoney and Mahoney, 1996). In the Stockholder Interest hypothesis it is assumed that the antitakeover provisions enforce a level of collusion in negotiations that allow gains, via higher premium (Austin-Smith and O'Brien, 1992).

Antitakeover provisions decrease the incentive for individual stockholders to tender their shares at a relatively low offer price. By encouraging a cartelized response via antitakeover provision, the shareholders are collectively able to gain a larger percentage of the synergy gains (DeAngelo and Rice, 1983). Antitakeover amendments, like a classified board, force the bidder to work with a small group to fetch a larger gain.

Antitakeover Provision Tradeoff

If you adhere to the Shareholder Interests Hypothesis, then you would agree that asymmetric information is present in hostile takeovers. Even gains from a merger must be analyzed to understand if the provision helped or hurt the overall wealth. When trying to analyze the costs and benefits of an antitakeover amendment, it is easiest to understand it as a tradeoff. Antitakeover provisions force a cartelized response; the target firm is able to extract a higher premium and proportion of the synergistic gains. However, it does also reduce the probability of a successful takeover. This tradeoff can be seen in this equation:

[↑ Share of target in takeover synergies if an offer is made] * [↓ Probability of Takeover] = E[Gain from adopting an antitakeover measures]

An increase in the gain from the synergy coupled with a decrease in the probability of a successful takeover results in an indeterminable expected gain. Therefore, it is impossible to give a definitive answer as to whether an antitakeover provision certainly increases or decreases the gain to the target company. It must be evaluated on a case-by-case scenario to understand the situation completely and decide whether it will either help or hurt a company.

Informed vs. Uninformed Investors

While we mostly discuss institutional, insider and individual owners, it is also possible to think of shareholders by other more general characteristics. Shareholders can be divided into "informed and "uninformed" shareholders. For the purposes of this paper, we will assume that all institutional investors are informed investors and have like characteristics. DeAngelo and Rice described informed investors as having a lower cost of evaluating antitakeover amendments and will vote their proxy in a manner consistent with stockholder wealth maximization. On the other hand, uninformed shareholders will not carefully consider a particular proposal because the cost is high. Instead they consider it another issue for which management collects proxies and will support management, regardless of what the proposal is. Uninformed investors believe all proposals by management are intended to increase stock price, because they would not propose something to the contrary. Even if negative effects are apparent, the uninformed investors will still vote with management.

If there is an abundance of uninformed investors, the cost of transactions and information will propagate the further entrenchment of management. In recent years, the amount of "informed" investors has increased dramatically. Historically, the voting power of the uninformed investors has outweighed that of the informed (DeAngelo and Rice, 1983). Since there has been a trend of increased institutional/informed ownership in firms, I will evaluate to see if there has been a significant shift in voting power to the informed shareholders. If enough voting power has been shifted, then management will not be able to entrench itself further, and all decisions will be to increase shareholder wealth. For sake of continuity, we assume that all shareholders are rational. This

means that shareholders assume that the costs and benefits of an antitakeover amendment are reflected in the stock price when the proposal is publicly revealed. This is regarded as rationality in the capital market pricing (DeAngelo and Rice, 1983). If stock price reflects the opinion of shareholders properly, we are then able to study the stock price reactions to understand the true intentions of shareholders. We assume that all shareholders are interested in the maximization of the shareholder wealth and desire to implement provisions that will further that goal.

Previous Studies

There have been previous studies that have studied antitakeover provisions. DeAngelo and Rice was one of the first papers to look at antitakeover amendments and its effects on stockholder wealth. This paper was completed in 1980, and looked at companies from 1974-1979, all of which were all listed on the NYSE. They looked at the adoption of supermajority provisions, which require, typically, an 80% shareholder vote to approve a merger, and declassifying board provisions. In a sample of 100 different companies, only 53 of them proposed a classified board at some point, and possibly proposed with other provisions (i.e. supermajority or fair price amendments). By the end of their study, they revealed a weak correlation to support the Management Entrenchment Hypothesis. In their conclusions they found that " the t-statistic are negative but insignificant at conventional levels and so the inclusion of pure staggered board proposals does not appear to be clouding the price impact of other antitakeover amendments." James and Joseph Mahoney performed a similar test for companies between 1980-1988, and found results that supported those of DeAngelo and Rice.

They stated, "antitakeover amendments are, in general, contrary to the best interests of the stockholders of the firms that adopt them."

There was one study that found different results than many of the others. Linn and McConnell completed a two-part study where they studied stock price reaction when antitakeover amendments were adopted or repealed. Their sample looked at companies from January 1960 to December 1980. They looked at 475 companies that adopted some type of defensive measure and the 61 firms that repealed a defensive measure. The first half of their study was similar to previous studies in what they tested and in their results. Looking at the time of mailing the proxy to the day before the shareholders meeting revealed a 1.429% abnormal return, which was significant at the 5% level. This was unique because it was significantly different from zero, unlike some of the other tests.

The second half of their study was the most interesting. This section studied the reactions to shareholder wealth when they voted to repeal a defensive measure. Because of various limitations, they were only able to test between 20 and 49 samples in their analysis. They looked at four different intervals, and the range of stock returns varied from a –5.827% - .795% abnormal return. The time between the director's approval date and the proxy mailing date was the only statistically significant result at the 1% level, and had an abnormal return of –3.631%. They found general support for the theory that the removal of antitakeover amendments had a negative impact on shareholder wealth. They believe that managers did act in the shareholders' best interests, and that fear over the use of antitakeover provisions was misplaced. This was the only study that this researcher was able to locate that evaluated the removal of

antitakeover amendments, and its findings were contradictory to all the others that studied only the reactions adopted defensive measures.

Reasons for Paper

In 2003 there seemed to be an unusually high number of proposals to declassify the boards of directors. While there have been a number of studies involving the adoption of antitakeover provisions, few have tried to evaluate the effects of repealing the classified board on shareholder wealth. Many of the studies that were created used information from the 1960's, 70's and up until the mid 1980's. There have been many changes to the business and shareholder environment that could lead to changes to the motivation and effects of an antitakeover provision on a firm. This paper examined only companies who announced that they were going to put the classified board up for vote in 2003. The examination of only the declassification of boards, and during only one year, makes this study fairly unique. It does leave room for sample bias, but it will be an interesting look at the attitudes and feelings of the market and shareholders during this brief window. Not only will it attempt to look the changes in shareholder wealth, but it will also look at a variety of possible contributing factors to stock price reaction in each firm. There have been a number of papers that have cited inputs that could exacerbate the reaction.

This paper will attempt to test some of these factors, to try and understand if there is any real impact on shareholder wealth. It will attempt to understand why one firm reacts one way, while another might respond completely to the contrary. It is possible that antitakeover amendments are not strictly all good or all bad for the

stockholders of a company, but instead it could be a variety of firm specific factors that will make the antitakeover amendment positive or negative accordingly.

Expected Findings and Hypothesis

In this study, I believe that we will see a significant increase in shareholder wealth because of the declassification of the board of directors. This hints that the classified boards are inherently bad for shareholder wealth.

> ***Hypothesis 1a:*** *Companies will see an increase in stock price around the date of the announcement to declassify the board of directors.*

Conversely, it is possible that we will see the completely opposite effect. It is suggested that staggered board improves the bargaining position of managers and enables them to extract higher premium for target shareholders. Also, it is claimed that the existence of staggered boards does not have a significant adverse effect on the probability of a company is being approached by the potential acquirers. If so, a staggered board is value increasing and repealing it will have a negative effect.

> ***Hypothesis 1b:*** *Companies will see a decrease in stock price around the date of announcement to declassify the board of directors*

There have been a number of studies that have found significant and insignificant results that support the notion of this hypothesis, but this study will look to specific factors influence could the stock price reaction.

There is an abundance of literature devoted to the level of institutional ownership and its impact on stock price and the agency problem. The Shareholder Interest Hypothesis, states that an increased cartelized response by shareholders can

increase the received premium. Since there has been a significant increase in institutional ownership in the past decade, that it will act as an efficient cartel to monitor the managements' actions and intentions. If an efficient cartel is in place, then the classified board is not seen as a threat to shareholders. This gives confidence to the shareholders that management decisions are in the best interest of shareholders and with a cartel. With effective monitoring, shareholders feel comfortable that the firm can handle the bidding firms to overcome the prisoners' dilemma and maximize stock premiums.

> ***Hypothesis 2:*** *The increase in Institutional ownership in a firm will have a negative stock price reaction on announcement of repealing the classified board.*

I intend to look and see if there is any impact from a company having a supermajority in the firm. The supermajority measure means that for shareholders to vote and approve a hostile takeover they need more than a simple majority. Most supermajorities require anywhere between 70-80% approval for the takeover to pass. This is seen as a highly effective measure, and could give shareholders a sense of security if they repeal the classified board. Supermajority provisions are classified similarly to the classified board and could have similar impact on the firm.

> ***Hypothesis 3:*** *If there is a standing supermajority provision, shareholder wealth will have a smaller change and impact.*

Methodology

In this study a total of 58 companies were included and analyzed. Most of the companies that are included came from the Investors Responsibility Research Center

(IRRC). They keep information on companies that put proposals up for vote at annual meetings. They consider the declassification of the board of directors to be an important investor issue and one that can have significant impact on their portfolios.

Most companies did not make a specific public announcement that they would be putting up the classified board up for vote at the next annual meeting. To figure out the most accurate "announcement date" for this proposal, I first looked at archived news articles. There were a handful of companies that did have information leak into the newspapers about the proposal. For the remaining companies that were not in a news source, I looked to the SEC filings. I used the SEC filing date as the announcement date. Since individuals are able to look and see what proxies have been filed on-line, I felt that it was an appropriate date to use, since it was the first possible date that the public could have found out about the proposal.

In practice, sometimes information can leak out to certain individuals and they can act on that information before the general public realizes it. To try and capture any stock price changes before the announcement date, I used a variety of different dates pre- and post-announcement. In total 9 different buckets of measurement were used to measure the cumulative average returns. The announcement date was known as day 0. These buckets were [–3, 1], [-5,5], [-10,5], [-20,5], [-20,10], [-20,20], [-20,-6], [6,10] and [11,20]. To find the change in stock price for each of the time period for each company, the general rate of return formula was applied.

$$\textbf{Change in Stock Price for } [\textbf{Day}_a,\textbf{Day}_b] = \left[\frac{\text{Price}_b}{\text{Price}_a}\right] - 1$$

We needed to get the stock price, in excess of the market. To do this, I used the Standard & Poor's 500 as a proxy for the return on the market for that day. I used the announcement date for each company as day 0 for the S&P 500, and found the return on the S&P for the same days and in the same increments. I used the same formula as above to measure the rate of return for the S&P. All company specific beta values were found on www.marketguide.com, to understand the correlation of each company with the market. Once I got both the individual stock and S&P returns for all the different return dates and the beta values, I was able to derive the abnormal return for all time periods. This was done with the standard abnormal return formula. These abnormal returns for each company act as the cumulative average abnormal return (CAAR) and will be used for the statistical analysis.

Ex-Post Company Abnormal Return = $R_{jt} - (\beta_j * R_{pt})$

R_{jt} = Stochastic return on security j over time period t
β_j = Beta value on security j
R_{pt} = Stochastic return on S&P market portfolio over time period t

In total, there are 4 different parameters that I will be examining to help explain the price reaction to the announcement. I will be looking at the previous return, the presence of a supermajority, and insider and institutional ownership percentages. The previous return variable is similar to the abnormal return calculations. I look at the stock price return from 220 days previous through 20 days previous to the announcement date, and derived the abnormal return against the S&P 500. Thompson Research database was used to retrieve the institutional and insider ownership figures for each company. Supermajority numbers were retrieved from CDA/Spectrum database. Since the research is on company stock price during the previous year, I used

Yahoo! Finance to get all stock prices and S&P prices for 2003. Other databases were not current enough (i.e. CRSP) to retrieve prices from 2003.

Results and Interpretations

During all of the statistical testing 58 different companies were included. Each company had their classified board up for vote at their 2003 annual meeting, but not all votes were considered to be binding. This means that even if there was a majority of votes to declassify the board, it was still up to the discretion of the board to actually declassify or not. In table 1, there is a complete list of the companies that were included in this test.

Company List

Table 1:

Alaska Air Group	Delphi	Iomega	Paccar	Sprint
Avon Products	Dow Jones	Istar Financial	Pacific Health Systems	Stanley Works
Boeing Corp	Duke Realty	Manor Care	Pan Pacific Retail Properties	Steris
Bristol-Meyers Squibb.	Equity Residential	Manufactured Homes Communities	PEPCO Holdings	Tellabs
Calpine	Federated Department Stores	May Department Stores	Pfizer	Tenet Healthcare
CarrAmerica Realty	First Energy	Maytag	Reebok International	VF Corporation
Cedar Shopping Centers	Freeport McMoRan Copper & Gold	Merck Co.	Safeway	Wellco Enterprises
Cheesecake Factory	Gillette	Meristar Hospitality	Saks Co.	Weyerhaeuser
Coca-Cola Bottling	Great Lakes Chemical	Metris	Sands Regent	Whole Foods Market
Covance	Greater Bay Bancorp	Midway Games	SBC Communications	Xcel Energy
Cresent Real Estate Equities	Hasbro	Norfolk Southern	Sears, Roebuck	
Dell Corp.	Honeywell International	Omnicom Group	Sempra Energy	

The first set of test looks to see if there is any significance in the changes of the stock price. It is important to remember that all returns are Cumulative Average Abnormal Returns (CAAR), since all returns have been in excess of the market. Day 0, is seen as the announcement day for the stock. There are 9 different CAAR's that were tested in a one-sample T-Test and none of the 9 different CAAR's are considered significant at the 5% level. Table 2 is a summary of the different tests.

CAAR Summary Statistics

Table 2:

CAAR	Mean	Median	Standard Deviation	T Statistic	Significance Level	Companies w/positive Returns
[-3, 1]	0.680%	0.816%	12.810%	.4	.688	32
[-5, 5]	1.150%	0.687%	14.810%	.59	.556	34
[-10, 5]	3.750%	1.910%	15.970%	1.70	.079†	38
[-20, 5]	2.730%	1.410%	18.330%	1.14	.261	34
[-20, 10]	2.570%	1.450%	17.400%	1.12	.266	34
[-20, 20]	4.610%	4.730%	21.280%	1.65	.105	36
[-20, -6]	0.806%	0.686%	11.980%	.51	.61	31
[6, 10]	-0.218%	0.514%	5.462%	-.3	.762	35
[11, 20]	1.216%	1.665%	7.068%	1.31	.195	36

*Significant at the 5% level
† Significant at the 10% level

Notably, all the CAAR's have means that are positive and greater then zero, with the exception of [6,10]. All of these results must be taken with a grain of salt because of possible sample problems and bias. While 58 data points make the tests officially statistically significant, a much larger sample would make for more significant answers. Any unusual observations in the dataset can influence these tests and skew the answers. All companies made their announcements and held their votes in 2003. Since all the data is limited to one year, it can be influenced by other market factors and trends in the market at that time. Other studies took samples of companies from many different years and up to a few decades.

In addition to all CAAR's having a mean greater then zero, all CAAR's also have a large number of companies being positive. There were no CAAR's that had less then 53% of the companies having positive excess returns and most were in the low to mid 60's. This describes that it is not just a few extremely positive companies that are influencing the CAAR. With at least a majority of the companies coming back positive in each CAAR, there seems to be a trend to understand. The most statistically significant window is the [-10, 5], which straddles the announcement date. With these

results, I am cautious in saying that the declassification of the board of directors is always viewed as a positive change for the firm. The only other CAAR that is mildly statistically significant is [-20,20], with a t-statistic of 1.65. None of the CAAR's are considered significant at the 5% level, but with all the means being above zero, except for one, it seems that there is a trend for the stock price to drift up after announcement. In this case, it could me more appropriate to look at the medians. It helps to compensate for large outliers that could have a large influence on the mean. In all medians are positive, reaffirming what almost all means described.

I also examined the Cumulative Abnormal Average Returns on a daily basis. Table 3 shows a list of the CAAR on a daily basis. Each point measures the average excess return for each day starting with twenty days previous to the announcement date.

Daily CAAR

Table 3:

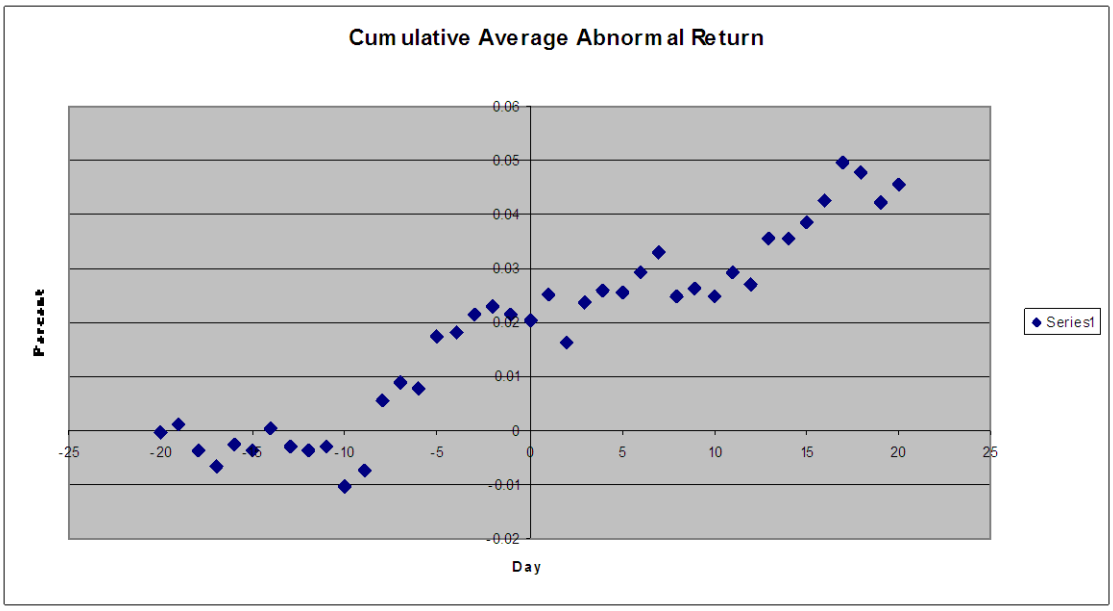
Day	Daily CAAR	Day	Daily CAAR	Day	Daily CAAR	Day	Daily CAAR
-20	-0.04%	*-7*	0.90%	*6*	2.93%	*19*	4.21%
-19	.10%	*-6*	0.78%	*7*	3.30%	*20*	4.55%
-18	-.36%	*-5*	1.73%	*8*	2.48%		
-17	-0.67%	*-4*	1.83%	*9*	2.63%		
-16	-0.28%	*-3*	2.14%	*10*	2.47%		
-15	-0.36%	*-2*	2.29%	*11*	2.92%		
-14	0.03%	*-1*	2.13%	*12*	2.71%		
-13	-0.28%	0	2.03%	*13*	3.55%		
-12	-0.35%	*1*	2.53%	*14*	3.54%		
-11	-0.31%	*2*	1.63%	*15*	3.86%		
-10	-1.05%	*3*	2.37%	*16*	4.24%		
-9	-0.75%	*4*	2.58%	*17*	4.98%		
-8	0.57%	*5*	2.55%	*18*	4.78%		

When this information is plotted onto a graph, it is a good representation of the average trend that is seen in the dataset. The most important aspect of this graph is that it appears market is not completely efficient. Market efficiency would mean that the

market would digest all the new information into the stock price fairly immediately. Graph 1 illustrates that market efficiency is not present in this sample. There is approximately a 2% increase in stock price over the twenty days previous to the announcement date, which indicates significant informational leakage prior to announcement date. Most of the increase comes 10 days previous, with the largest jump 5 days before announcement. Coincidentally, this time period is also the most statistically significant CAAR. Twenty days after the announcement, there is another approximate 2.5% increase in stock price from the date of announcement. If this market were efficient we would not see this continued upward drift of prices after the announcement. The graph would begin to level off after time 0.

Daily CAAR Graph

Graph 1:



Regression Analysis

In addition to understanding the effects of stock price in these companies, I also hoped to understand any contributing factors to the CAAR's. I looked at 5 different factors; Previous Excess Return (220 – 20 days previous to announcement), Market

Capitalization, Inside Ownership, Institutional Ownership, Presence of Supermajority and State of Incorporation. First, I regressed each CAAR to each factor to see the influence of each factor, and then I regressed all factors to each CAAR. Table 4, shows a summary of all the regressions. The regressions with Supermajority and State of Incorporation were so insignificant; they were not included.

Individual Factor Regressions

Table 4:

Previous Excess

	Previous Coef	Constant Coef	T	P	R-Sq
-3 --- +1	0.01567	-0.00286	0.37	0.711	0.3%
-5 -- + 5	-0.02545	-0.00189	-0.52	0.605	0.5%
-10 -- +5	-0.0188	0.02177	-0.31	0.761	0.2%
-20 -- +5	-0.07291	-0.00032	-1.09	0.281	2.2%
-20 --+10	-0.06571	0.00344	-0.93	0.356	1.6%
-20 -- +20	-0.09249	0.01755	-1.03	0.307	2.0%
-20 -- -6	-0.03052	-0.00546	-0.74	0.46	1.0%
6 -- +10	0.00429	0.00297	0.18	0.86	0.1%
11 -- +20	-0.0199	0.0094	-0.58	0.564	0.6%

Market Cap

	Mkt Cap Coef	Constant Coef	T	P	R-Sq
-3 --- +1	0.00908	-0.0904	0.6	0.549	0.7%
-5 -- + 5	0.0121	-0.1141	0.69	0.492	0.9%
-10 -- +5	-0.02142	0.2264	-0.98	0.331	1.8%
-20 -- +5	-0.00513	0.0551	-0.21	0.833	0.1%
-20 --+10	-0.00461	0.0532	-0.18	0.857	0.1%
-20 -- +20	-0.02824	0.2937	-0.88	0.384	1.4%
-20 -- -6	-0.00823	0.0754	-0.56	0.578	0.6%
6 -- +10	0.006179	-0.05596	0.72	0.476	1.0%
11 -- +20	-0.0024	0.034	-0.2	0.846	0.1%

Institutional

	Institutional Coef	Constant Coef	T	P	R-Sq
-3 --- +1	-0.06881	0.04273	-1.11	0.272	2.3%
-5 -- + 5	-0.11015	0.07585	-1.54	0.129	4.3%
-10 -- +5	0.0268	0.00521	0.29	0.771	0.2%
-20 -- +5	0.0088	0.00052	0.09	0.931	0%
-20 --+10	0.036	-0.01501	0.34	0.735	0.2%
-20 -- +20	0.1145	-0.05204	0.86	0.396	1.4%
-20 -- -6	0.08618	-0.06154	1.43	0.158	3.7%
6 -- +10	0.02328	-0.01336	0.65	0.519	0.8%
11 -- +20	0.05189	-0.02421	1.02	0.31	1.9%

Insider

	Insider Coef	Constant Coef	T	P	R-Sq
-3 --- +1	0.0032	-0.00448	0.03	0.977	0%
-5 -- + 5	0.0679	-0.0026	0.52	0.604	0.5%
-10 -- +5	-0.0188	0.0244	-0.12	0.909	0%
-20 -- +5	0.0458	0.00444	0.25	0.8	0.1%
-20 --+10	-0.0816	0.01335	-0.43	0.667	0.4%
-20 -- +20	-0.1233	0.03189	-0.51	0.61	0.5%
-20 -- -6	0.0023	-0.0027	0.02	0.983	0%
6 -- +10	-0.1214	0.008127	-1.9	0.056	6.7%
11 -- +20	-0.06051	0.01405	-0.67	0.509	0.8%

There are only two CAAR's that are close to being significant at the 5% level, and they are both in the insider ownership. The [-20, 5] and [6, 10] in the insider ownership are close to significant at the 5% level, with r-squares of .1% and 6.7% respectively. These are extremely low r-squared values. The T-tests indicate that only the insider ownership CAAR of [6,10] is close to being significant at the 5% level with a T-value of -1.9. If many of these factors are not significant alone, it is possible that

they are significant when working together. Table 5 is a regression of all factors for all CAAR's.

All-Factor Regression

Table 5:

All Factor Regression

	Const Coef.	Prev. Excess Coef.	Defense Coef.	Mkt Cap Coef.	Insider Coef.	Institutional Coef.	T	P	R-Sq
-3 --- +1	-.061	.0047	-.0041	.0135	-.044	-.0992	.6633	0.817	4.3%
-5 -- + 5	-.106	-.0417	.0008	.0216	.009	-.150	.9486	.492	8.4%
-10 -- +5	.362	-.0343	-.0239	-.0349	-.164	0	.6324	.846	3.9%
-20 -- +5	.048	-.0682	.0366	-.0073	.051	.018	.5916	.882	3.4%
-20 --+10	.189	-.0637	.0475	-.0202	-.140	.005	.6557	.828	4.2%
-20 -- +20	.569	-.105	.005	-.060	-.307	.054	.8717	.585	7.2%
-20 -- -6	.004	-.008	.0362	-.0122	.106	.141	.9899	.439	9.1%
6 -- +10	.058	.0039	.0098	-.0041	-.153	-.0164	.9273	.512	8.1%
11 -- +20	.101	-.209	-.0166	.0111	-.078	.0293	.6324	.844	4.0%

In this regression, none are considered significant. The largest r-squared value is 9.1% in the CAAR of [-20, -6]. The second largest r-squared is of 7.2% and has one of the lower p-values and higher t-values. In the other tests the CAAR of [-20,20] is consistently seen as one of the most significant windows. This leads me to believe that in order for significant results to occur, the window must be large enough to capture many days of data, 40 days might not be enough to capture the full effects to find significance and to create a regression model to explain stock price changes. It is hard to come to any firm conclusions about these factors and how they influence stock price in this type of situation.

While there might not be any clear significance in these regressions, most of the coefficients follow the logic that we would expect to find. If past performance was negative, then shareholders would welcome the removal of the staggered board. We would then expect to see a negative coefficient on the past performance. With the exception of one CAAR, all others are negative. Companies that have a supermajority

provision would not leave the company unprotected, and therefore should have less of an effect. We would expect to see a negative coefficient, but in the actual regressions the results for this are mixed. The larger the market capitalization, the less likely of a target it becomes. When small-cap firms remove their staggered boards, it becomes more of a likely target, so we would expect to see a negative coefficient. With respect to insider ownership, the larger the insider ownership level, the weaker the effect the removal of the staggered board would have since the managers of the company already own a large amount of the firm. Therefore we would expect to find a negative coefficient, which we do. Finally, if the institutional owners were actively monitoring the company, then it would not matter if the staggered board were removed or not. We would then expect to see a negative coefficient. The results seem to be to the contrary. We see that there are a few negatives, and a few positives, but most hover around zero. This is telling us that the shareholders were not happy with the active monitoring, and they felt that the market could do a better job. This would favor the results to be closer to zero than negative.

While some of the individual factors are significant, no clear trend emerges from these regression models. In some cases where the p-value is close to being significant, the t-value clearly indicates that it could be nothing more then a coincidence. Overall, it seems that insider and has largest potential to be a significant contributing factor to stock price reaction in this situation.

I was able to retrieve the top 3 institutional investors for each company. I recorded each time an institutional investor company appeared in this sample. Table 6 shows the top 5.

Most Frequent Institutional Investors

Table 6:

FIDELITY MANAGEMENT & RESEARCH	21
BARCLAYS BANK PLC	20
STATE STR CORPORATION	10
CAPITAL RESEARCH & MGMT CO	10
AXA FINANCIAL, INC	9

Table 7 shows a comparison of excess returns and other contributing factors, between companies that have one of these top 5 institutional investors as a top 3 holders versus companies that do not and against the average for all companies.

Institutional Investor Breakdown

Table 7:

	-3 --- +1	-5 -- + 5	-10 -- +5	-20 -- +5	-20 --+10	-20 -- +20	-20 -- -6	6 -- +10	11 -- +20	Excess Return	Market Cap	Insider Ownership	Institutional Ownership
Companies with Popular Institutional	1.21%	1.8%	2.53%	1.93%	.57%	1.8%	-.29%	-.87%	1.18%	-11.73%	17929908154	2.94%	71.31%
Non Popular Institutional	-.26%	0	5.91%	4.15%	6.09%	9.56%	2.74%	.93	1.28%	-.53%	2804498189	12.08%	66.30%

The companies that have one of these top 5 institutional owners have some interesting results. Companies that had one of these popular institutional investors had excess returns more in line with the average returns for the entire sample. Companies that were not held by these popular institutional investors had abnormally large excess returns. These companies have a staggering negative previous return, and are very different from the other companies.

They also tend to have very low insider ownership and each company tends to have a larger market capitalization. These large and popular institutional investors tend to invest in the larger companies. Hence the larger market capitalization on average. Larger market capitalizations tend to have less stock price volatility, as opposed to the small-caps. In the same line of reasoning, insiders will hold a proportionately smaller percentage of shares in these large firms.

The CAAR's was also regressed against the state of incorporation, but had almost zero effect or explanatory power. Table 8 shows the frequency of the different state of incorporations:

Table 8:

State of Inc.	Frequency		
California	2	Nevada	2
Connecticut	1	New York	3
Delaware	28	Ohio	2
Indiana	1	Pennsylvania	1
Kansas	1	Rhode Island	1
Massachusetts	1	Tennessee	1
Maryland	6	Texas	2
Minnesota	1	Virginia	2
North Carolina	1	Washington	1
New Jersey	1		

This study includes two possible dates for announcement, either the SEC filing date or an article in a news source. After separating each company based on its announcement source, I compared their excess returns from the CAAR of [-10, 5]. Both have positive excess returns on average and in their medians. The newspaper announcement has a higher median excess return, but the SEC announcement has a much higher mean excess return. The SEC filing is significant at the 5% level and has a relatively significant t-value of 2.16. Table 9 has a summary of all statistics.

Regressions were also calculated for each announcement group, but no statistically significant information was found.

Table 9

	Mean	StDev	Median	T	P
Newspaper	1.62%	0.1893	1.91%	0.4	0.692
SEC filing	5.05%	0.14	1.81%	2.16	0.037

On average, the newspaper announcement was made 17.8 days previous to the SEC filing, with two extreme cases removed. If all samples were included then on average, it was 4.5 days after the SEC filing.

Summary and Conclusions

In sum, this study has given us a better look as to what happens when companies decide to declassify their board of directors, but few concrete answers can be stated. Looking at the CAAR for different time periods, we see that there is a trend towards a positive stock price reaction. The study did reveal that the time periods [-10,5] and [-20, 20] were significant at the 10% level, but without a higher level of significance, I am hesitant to say that shareholders view this declassification as a completely positive event. However, we can say that shareholders do not view this as a negative event, which means we are able to state that Hypothesis 1b is false, but we cannot say that hypothesis 1a is true.

The data suggests that hypothesis 2 is false. With the exception of one CAAR, all others were positive. In recent years, there has been a significant run-up in institutional investor holdings in companies. It is commonly accepted that institutional investors have the responsibility and capabilities to monitor managers, and to ensure that they follow the policy of shareholder maximization. If used improperly, classified boards can be powerful tools to help entrench management. The institutional investors are supposed to ensure the proper use of the classified board by management. With the right amount of institutional monitoring, the remaining shareholders should be confident that their interests are being upheld. This group of informed investors should

form a cartel to protect the company from low or unwanted bids, and can force a premium for which all shareholders will benefit.

In this study, although not significant, it seems to indicate that shareholders were not satisfied with either the amount of institutional monitoring or the quality of it. In 2003 there was a high level of institutional ownership, which averaged well over 50%, and an increase in stock price after announcement. This invites the conclusion that shareholders were not satisfied, and were still nervous about the entrenchment of a classified board. Some previous research felt that institutional investors would not be active monitors since they could pass management proposals in an effort to support a healthy business relationship. The market seemed to react similarly, giving us the impression that they did not trust the monitoring abilities or motives completely.

It also cannot be ignored that all calculations were made in 2003. 2003 is an important year, given the amount of press coverage of corporate malfeasance received in the previous twelve months. Many of the price changes could be an overreaction by the market because of the business climate at the time of the study.

Hypothesis 3 is also false. There was no support that shareholders felt that management could entrench itself, with the presence of a supermajority. When the presence or absence of a supermajority was regressed to see if it had any explanatory power, no significant results were apparent.

In all the factors that were regressed to help explain the changes in stock price, no significant evidence could be found. There was some weak evidence, that the level of insider ownership is possibly significant. Insider ownership can be a misleading statistic given the size of the firm studied. This study had no floor or ceiling on size of firm. It is far easier to have a larger insider ownership in a small-cap firm then in a

large-cap. On a positive note, the coefficients of the factors when regressed were consistent with what I expected to find in most CAAR's. While this is not evidence that I can make firm conclusions about, it is possible to comment on the trends that it has shown.

This study did indicate that market efficiency was not present. There was almost a 3% increase in stock price after announcement date. The comparison between the two different announcement dates was looked at. The earliest possible announcement date was used. On average, the newspaper announcements came almost 18 days before filing with the SEC. These types of announcements did have a smaller mean, but a larger median change in stock price when compared to the SEC filing date announcement. This could be a contributing to the factor to the lack of market efficiency present in this study. If the newspaper announced a firms' intension to declassify its board of directors 18 days before it made the actual filing, there could be another price increase once the actual filing was made. The market might be looking for confirmation of this announcement, and once it was submitted to the SEC, then the market responded to this action. The time period of [-10,10] looks like it is under market efficiency, but after day 10, there is another period of increased stock price. This is around the time in which the firms that announced in the newspapers filed with the SEC.

The larger debate of whether markets follow the Management Entrenchment or Shareholder Interest Hypothesis will not end with this study. This study does in fact; show tendencies of the market following the Management Entrenchment Hypothesis. The descriptive statistics and the regression analysis had all trends pointing towards the

Management Entrenchment Hypothesis. It is clear that this study has found no evidence weak or otherwise to support the Shareholder Interest Hypothesis.

Finally, for more sound conclusions on this topic, many more studies need to be done. This study however, has given us new insight into the overall trends of classified boards, and has also revealed some of the feelings of the shareholders and of the market in 2003.

References

A. Agrawal and G. Mandelker (1990). Large shareholders and the monitoring of managers: The case of antitakeover charter amendments. *The Journal of Financial and Quantitative Analysis,* **25**, 143 – 161.

A. Agrawal and G. Mandelker (1992). Shark repellents and the role of institutional investors in corporate governance. *Managerial and Decision Economic,* **13**, 15-22.

D. Austen-Smith and P. O'Brien (1992). The takeover defences and shareholder voting. *Economic,* **59**, 199-219.

B. D. Baysinger and H. D Butler (1985). Corporate governance and the board of directors: Performance effects of changes in board composition. *Journal of Law, Economics, and Organization,* **1**, 101-124.

L. Bebchuck, J. Coates and G. Subramanian (2002). The powerful antitakeover force of staggered boards: Theory, evidence, and policy. *Stanford Law Review,* **54**, 887-950.

E. Berkovitz, M Bradley and N. Khanna (1989). Tender offer auctions, resistance strategies and social welfare. *Journal of Law, Economics and Organization* , **5**, 395-412.

B. Black (1992). Institutional investors and corporate governance: The case for institutional voice. *Journal of Applied Corporate Finance, 5,* 19-32.

M. Bradley (1980). Interfirm tender offers and the market for corporate control. *Journal of Business,* **53**, 345-376.

H. DeAngelo and E. Rice (1983). Antitakeover charter amendments and stockholder wealth. *Journal of Financial Economics,* **11**, 329- 360.

H. Demsetz (1983). The structure of ownership: The theory and consequences. *Journal of Political Economy* , **93**, 1155-1177.

P. Dodd and J. Warner (1983). On corporate governance. *Journal if Financial Economics*¸ **11**, 401-438.

R. Duggal and M. Cudd (1993). Successful antitakeover defenses, top management turnover and stock price. *Managerial and Decision Economics,* **14**, 509-517.

F. H Easterbrook and D. R. Fischel (1981). The proper role of a target's management in responding to a tender offer, **94**, 1161-1204.

E. F Fama and M. C. Jensen (1983a). Agency problems and the theory of the firm. *Journal of Law and Economics,* **26**, 327 – 349.

S. B Graves and S. A Waddock (1990). Institutional ownership and control: Implications for long-term corporate strategy. *Academy of Management Executive,* **4**, 75-83.

L. Gordon and J. Pound (1993). Information, ownership structure, and shareholder voting: Evidence from shareholder-sponsored corporate governance proposals. *The Journal of Finance,* **48**, 697-718.

E. Harris (1990). Antitakeover measures, golden parachutes, and target firm shareholder firm welfare. *Rand Journal of Economics,* **21**, 614-625.

D. Ikenberry and J. Lakonishok (1993). Corporate governance through the proxy contest: Evidence and implications, *The Journal of Business,* **66**, 405-435.

G. Jarrell, J. Brickley and J. Netter (1988). The market corporate control: The empirical evidence since 1980. *The Journal of Economic Perspectives,* **2**, 49-68.

G. A Jarrell and A. B. Poulsen (1987). Shark repellents and stock prices: The effects of antitakeover amendments Since 1980. *Journal of Financial Economics,* **19,** 127 – 168.

M. Jensen and W. Meckling (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics,* **3**, 305-360.

S. Jones, D. Lee, and J Tompkins (1997). Corporate value and ownership structure in the post-takeover period: What role do institutional investors play?. *Managerial and Decision Economics,* **18,** 627 – 643.

J. Laffont and D. Martimort. (1997). Collusion under asymmetric information. *Econometrica,* **65**, 875-911.

S. Linn and J. McConnell (1983). An empirical investigation of the impact of 'antitakeover' amendments on common stock prices. *Journal of Financial Economics,* **11,** 361-399.

J. Mahoney, C. Sundaramurthy, and J. Mahoney (1996). The differential impact on stockholder wealth of various antitakeover provisions. *Managerial and Decision Economics* **17**, 531-549.

J. Mahoney, C. Sundaramurthy, and J. Mahoney (1997). The effects of corporate antitakeover provisions on long-term investment: Empirical Evidence. *Managerial and Decision Economics,* **18**, 349-365.

J. Mahoney and J. Mahoney (1993). An empirical investigation of the effect of corporate charter antitakeover amendments on stockholder wealth. *Strategic Management Journal,* **14,** 17-31.

Marketguide.com <www.marketguide.com>

C. Sundaramurthy (1996). Corporate governance within the context of antitakeover provisions. *Strategic Management Journal,* **17**, 377-394.

J. P Walsh and J. K. Seward (1990). On the efficiency of internal and external corporate control mechanisms. *Academy of Management Review,* **15,** 421–458.

J. Westphal and E. Zajac (1998). The symbolic management of stockholders: corporate governance reforms and shareholder reactions. *Administrative Science Quarterly,* **43,** 127- 153.

O.E. Williamson (1964). The Economics of Discretionary Behavior: Managerial Objectives in a Theory of the Firm. Englewood Cliffs, NJ: Prentice-Hall.

O. E. Williamson (1985). The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting, New York: Free Press.

Yahoo! Finance <finance.yahoo.com>

Wharton Research Data Services, University of Pennsylvania.
< http://wrds.wharton.upenn.edu/home/index.shtml>