Managerial Efficiency And Share Ownership: The Market Reaction To Takeover Defenses

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Abstract

We examine the stock price reaction of antitakeover charter amendment takeover defenses (TDs) based on whether or not the firms in our sample had managers and directors with high share ownership, and whether the firms could be regarded as efficient. We find that the market reacts differently to the adoption of TDs based on these two criteria.

I. Introduction

The enactment of antitakeover charter amendment takeover defenses (TDs) by many corporations was one response to the wave of takeovers in the late 1970's and early 1980's. These TDs were intended to prevent unwanted suitors from bypassing the top management of the firm and making a hostile tender offer directly to the shareholders. From the financial market perspective, TDs not only make takeovers more costly and time-consuming, but also circumvent the external control mechanisms necessary to rein in self-serving and entrenched managers (e.g., Jarrell & Poulsen, 1987). From the strategic management perspective, however, TDs have the potential to align the interests of managers and directors of corporations by putting them in control of the firm's destiny, which in the long-run benefits the shareholders (Singh & Harianto, 1989).

Finance researchers have examined the market reaction to TD proposals (e.g., DeAngelo & Rice, 1983; Jarrell & Poulsen, 1987; Linn & McConnell, 1983; McWilliams, 1990). However, very little is known about how TDs impact the governance of our corporations subsequent to their adoption. Walsh and Seward (1990) state that once the top managers and directors become ineffective and the internal governance mechanism fails, the external mechanism, that is the market for corporate control, will intervene through a hostile tender offer or a proxy contest to remove the entrenched managers (see p. 447). However, these hostile bids have a lower probability of succeeding if the firm has enacted TDs. Consequently, TDs can potentially transform the market for corporate control, as well as the governance system of our corporations by increasing the power of the top management team in the event of a takeover attempt.

The objective of this study is to determine the market's reaction to the proposal of TDs based on managerial and director share ownership, and based on the market's perception of managerial efficiency. Below we develop the hypothesis that the market's perception of the potential benefit or harm of the TDs is a function of these two variables.

We use the generic term "managers" to mean top managers and directors of corporations (i.e., the internal governance system; Walsh & Seward, 1990) for two reasons. First, finding directors that have no relationship with the management of the firm is next to impossible. Even when one of these directors is found, s/he may owe some degree of loyalty to management, perhaps in part because of other business dealings. Second, Walsh and Kosnik (1993) recently found that managers and directors are equally, adversely affected by takeovers. Therefore, grouping directors and managers collectively as the internal governance system, as theorized by Walsh and Seward (1990), is conceptually appropriate for our purposes.

The remainder of the paper is organized as follows. Section II presents theoretical perspectives. Section III describes the hypothesis statement, while Section IV discusses our methodology. The results of the study and their discussion appear in Section V and Section VI, respectively.

II. Theoretical Perspectives

Takeover defenses have been the focus of considerable academic research in recent years. Tables 1 and 2

summarize the findings of these studies. Table 1 presents evidence regarding various types of takeover defenses, while Table 2 presents evidence regarding managerial share ownership and takeover defenses. The information included in these two tables suggests that, overall, the amendments reduce the frequency of takeover bids, yet contrary to expectations, the stock market does not always react negatively to these defenses: The reaction is partly dependent on the share ownership structure of adopting firms. (1) Also, Table 1 demonstrates that there seems to be no support for the theory that only firms that have inefficient managers adopt the amendments.(2)

In an attempt to further explain the market's reaction to TDs, we use two variables that studies, discussed below, indicate affect the market's reaction to TD proposals. The first variable is whether or not managers and directors have a substantial ownership stake in the corporation (Mallette & Fowler, 1992). We refer to this variable as "managerial share ownership." The second variable reflects whether or not managers and directors are regarded by the market as being effective. We refer to this variable as "managerial efficiency." The theoretical foundations for these variables follow.

A. Managerial Share-ownership and Agency Theory

The concept of managers and directors as agents of shareholders has received much attention in the literature (for an excellent review see Eisenhardt, 1989). From this perspective, directors and managers are agents of shareholders and therefore, should always act in the best interest of the firm's owners (Jensen & Meckling, 1976). As a result, when a takeover bid is made for the firm, managers and directors should accept the bid if they deem it in the best interest of the shareholders. However, this does not always occur. Managers and directors may have considerable human capital invested in their firm (Singh & Harianto, 1989).(3) Therefore, the managers may resist losing their jobs, no matter how attractive the offer may be to the shareholders. Consequently, they may reject the bid and spend considerable time and effort fighting the unwanted takeover attempt. This "agency problem" can be lessened if managers and directors own a large enough stake in their firm to affect their personal wealth. Therefore, managerial share ownership theoretically aligns the interests of managers with those of the outside shareholders, since a portion of the managers' wealth is now affected by the value of the firm's stock (e.g., Jensen, & Meckling, 1976; Cannella & Singh, 1992; Walsh & Kosnik, 1993). As a result, if a takeover bid is made that is deemed beneficial to the shareholders, these managerial share owners have an incentive to accept the bid, rather than try to preserve their jobs.

There seems to be agreement among researchers (Jarrell and Poulsen, 1987; McWilliams, 1990; Bhagat and Jefferis, 1991) that the firm's managerial shareholdings affect how the market reacts to TDs. Furthermore, Stulz (1988), demonstrates that as the percentage of shares controlled by managers increases, an increasingly high percentage of outside shareholders must tender their shares for the takeover bid to succeed. Therefore, the bidder must offer a higher premium than is required if managers held none of the firm's shares. This expectation of a higher premium causes an increase in the value of the firm and shareholders benefit. On the other hand, as managers control larger proportions of the firm's shares, the probability of a successful takeover decreases, approaching zero when managers own 50 percent of the shares and can block the takeover. The reduction in the probability of a successful takeover causes a decline in the value of the firm and harms shareholders. According to Stulz (1988), TDs may cause an increase in the stock price since managers gain bargaining power in takeover negotiations, or may cause a decrease in the stock price since successful takeovers become unlikely without management consent.

B. Managerial Efficiency and Corporate Governance

Grounded in two separate but related literatures of Industrial Organization Economics and Strategic Management, McWilliams and Smart (1993) and Walsh and Seward (1990) provide the theoretical foundation for the second variable in our study. From the perspective of Industrial Organization (IO) economics, McWilliams and Smart (1993) recently criticized strategy researchers for not using the "efficiency paradigm" in their research. They suggest that based on this "revisionist" (Schmalensee, 1985) view of IO, the focus of strategy research should be at the firm-level, rather than the industry-level. In addition, researchers should explore how well managers are engaging in potential value-enhancing activities such as R&D (Fisher, McGowan, and Greenwood, 1983), rather than on how well managers are participating in value-transfer activities such as mergers and acquisitions which to some claimants (e.g., stockholders and/or bondholders) may enhance value in certain cases (Hill, Hitt, & Hoskinson, 1988).

From a strategic management perspective, Walsh and Seward (1990) provide a similar view of the efficiency paradigm (McWilliams & Smart, 1993). After conducting a review of the literature regarding corporate governance mechanisms, Walsh and Seward (1990) state that if the internal governance team (i.e., top executives and the directors) is managing the firm well, then there is no reason for market intervention. If, however, the internal governance team is not managing the firm well, then the

TABLE 1
The Empirical Evidence Regarding Takeover Defenses

Study (Year)	Conclusions
Antitakeover Amendments:	
DeAngelo and Rice (1983)	Statistically insignificant stock price reaction surrounding the amendment proposals
Linn and McConnell (1983)	Statistically significant positive stock price reaction
Pound (1987)	Amendments do appear to reduce the frequency of takeover bids, but do not increase the expected takeover premium for firms for whom bids do occur
Jarrell and Poulsen (1987)	Statistically significant negative stock price reaction overall, but insignificant for exchange listed firms
McWilliams (1990)	Statistically insignificant stock price reaction
McWilliams (1992)	Firms adopting antitakeover amendments do not appear to be less well managed than non-amendment firms
Investment Effects of Antitakeover Amendments:	
Meulbroeck, Mitchell, Mulherin, Netter, and Poulsen (1990)	Investment in R&D expenditures decrease after adoption of the amendments
Malette (1991)	Takeover defenses do not affect capital investment intensity and R&D
Pugh, Page, and Jahera (1992)	Firms that adopt antitakeover amendments increase both capital expenditures and R&D following amendment adoption
Poison Pill Securities:	
Malatesta and Walking (1988)	Statistically significant negative stock price reaction to poison pill adoption
Ryngaert (1988)	Statistically significant negative stock price reaction only to the most prohibitive types (discriminatory plans) of poison pill adoption, with the effect being enhanced if the firm is subject to takeover speculation at the time of adoption
Malette and Fowler (1992)	Poison pill adoptions are a function of board composition and equity holdings of inside directors and institutional investors
Golden Parachutes:	
Knoeber (1986)	Golden parachutes promote more efficient contracting between managers and outside shareholders and are, therefore, beneficial
Lambert and Larcker (1985)	Statistically significant positive stock price reaction to golden parachute adoption for firms not subject to takeover at the time of adoption
Singh and Harianto (1989)	Golden parachute adoption occurs more often in firms with many outside directors

TABLE 2
The Empirical Evidence Regarding Managerial Share Ownership and Takeover Defenses

Study (Year)	Conclusions
Jarrell and Poulson (1987)	There is an insignificant negative relation between stock price reaction and managerial shareholdings plus a positive relation between stock price reaction and institutional shareholdings.
Brickley, Lease, and Smith (1988)	Institutional investors oppose the amendments more strongly when the amendment proposals result in a negative stock price reaction.
Agrawal and Mandelker (1990)	The study reports the same findings as reported by Jarrell and Poulson (1987), and a positive linear relation between the stock price reaction to amendment proposals and institutional share ownership for fair price and supermajority vote amendment proposals.
McWilliams (1990)	Antitakeover amendments, other than fair price amendments, appear to be beneficial when proposed by firms whose managers have low share ownership and lead to increasingly negative reactions when proposed by firms with high managerial share ownership.
Bhagat and Jefferis (1991)	The chief executive's ownership stake and voting power of employee stock ownership plans play a prominent role in whether a firm will adopt the antitakeover amendment.
Kosnik (1990)	Board demography and directors' incentives affect greenmail
Buchholtz and Ribbens (1992)	The existence of CEO golden parachutes does not affect the probability of resistance to takeover; however, the larger the number of managers in a firm to whom parachutes are given, the higher the probability of takeover resistance. In addition, the higher the target firm's level of managerial share ownership, the less likely is takeover resistance.
Cannella and Singh (1992)	Golden parachutes encourage executives to develop firm-specific skills and undertake risky strategies, especially when the firm has substantial outside shareholders.

market for corporate control should intervene through a tender offer or a proxy contest. Walsh and Seward (1990) implicitly acknowledge a market view of well-managed organizations, which we believe is very similar to McWilliams and Smart's (1993) "efficiency paradigm." We use the term "managerial efficiency" to combine the two perspectives. If the governance team is efficient (i.e., management makes sound decisions), as perceived by the external market, then there is no need for a takeover; if, however, the governance team is inefficient (i.e., management makes wasteful decisions), then the market for corporate control needs to intervene through a takeover bid.

Similar to their influence on managerial share ownership, TDs strongly influence this market-based view of managerial efficiency. Lang, Stulz, and Walkling (1989) describe the relationship between managerial efficiency and TDs. They demonstrate that shareholders of firms with inefficient managers receive higher increases in share value during successful tender offers than do shareholders of firms with efficient managers. With inefficient managers, the intervention of the external market attempts to correct the internal governance failure to which we referred earlier. Lang, et al. (1989) suggest that one implication of their findings is that TDs should have a more negative effect on the stock price of firms with inefficient managers. These firms would benefit most from a takeover, yet by adopting TDs they attempt to subvert the external control mechanism; therefore, the market should react negatively to such adoption. If, on the other hand, a managerially efficient organization adopts TDs, the initial market reaction should be positive since managers of these firms are expected to use the TDs to enhance their bargaining power.

III. Hypothesis Statement

In this study we address whether the stock price reaction to TDs is a function of managerial share ownership and efficiency. We argue that share ownership and efficiency at the time of TD proposal will help the market set expectations regarding the potential benefit or harm of the TDs, which will lead to differential stock price reactions.

We expect the market to react negatively to TD proposals by firms with inefficient managers, but the reaction should approach zero and ultimately become positive as managerial efficiency increases. The negative reaction for inefficiently managed firms may be due to the market's perception that TDs are being adopted by these managers to subvert the external control mechanism and to further entrench themselves. As efficiency increases, we expect that adopting TDs would be regarded as an increasingly positive event by the market. In this situation, the firm is being managed well and there should be little concern in the market that managers' incentive is to use the TDs as entrenchment-enhancing devices. Instead, the market may view the TDs as increasing bargaining power in the event of a takeover attempt.

However, the stock price reaction may become more positive or more negative as managerial share ownership increases. For inefficient firms, the stock price reaction to TDs should become increasingly negative as managerial share ownership increases from zero, due to managers' increased ability to thwart takeovers and further entrench themselves. For efficient firms whose managers hold relatively low ownership stakes, the market may view the internal governance mechanism as working and the TDs as providing additional bargaining power for the efficient managers. The increased bargaining power should be beneficial to the firm leading to a positive stock price reaction. If the market views the predominant effect of increased ownership to be an alignment of outside shareholder and manager incentives, then the stock price reaction should become more positive as managerial share ownership increases. Alternatively, if, as suggested by Stulz (1988), increasing levels of managerial share ownership result in decreases in the probability of takeover occurring, then the stock price reaction will become more negative as managerial share ownership increases for efficiently managed firms. Below we summarize the predicted relationships between the stock price reaction to TDs, managerial efficiency, and managerial share ownership.

	Initial stock price reaction	Effect on stock price reaction as managerial efficiency increases	Effect on stock price reaction as managerial share ownership increases
Efficient firms	+	+	+/-
Inefficient firms	-	+	-

IV. Methods

A. Sample

Our sample is comprised of a group of firms enacting TDs (antitakeover amendments) during the period of 1980-1984. Firms enacting fair price, staggered board, or super majority TDs are taken from McWilliams (1990). The firms are identified from three sources: 1. the New York Stock Exchange Security rulings unofficial list of firms that propose amendments; 2. the Kidder, Peabody, and Co. compilation of firms listed on the New York and American Stock Exchanges proposing fair price amendments to their corporate charters; and 3. *Antitakeover Charter Amendments A Directory of Major American Corporations* (1985) published by Investor Responsibility Research Center, Inc. (IRRC).(4) This study includes 63 firms for whom all data are available.

B. Analysis

We use regression analysis to assess the relation between the stock price reaction to TD announcement and managerial share ownership and efficiency. To measure the stock price reaction we calculate daily excess returns during the two-day announcement period defined as the day proxy statements are mailed announcing the TD (antitakeover amendments) proposals and the following trading day.(5) We chose a two-day window since we should observe any stock price reaction at announcement if markets are semi-strong form efficient. To determine excess returns, we estimate market model parameters over the 200 trading days beginning 315 trading days before the event day on which TDs are proposed.(6) The excess return is considered to be the prediction error for the common stock of firm j on day t , defined as:

$$PE_{jt} = R_{jt} - (\hat{\alpha}_j + \hat{\beta}_j R_{mt}),$$

where:

R_{jt} = the continuously compounded rate of return for the common stock of firm j on day t ;

R_{mt} = the continuously compounded rate of return for an equally weighted market index on day t .

The daily common stock returns and market returns are obtained from the CRSP files.(7) Alpha and beta are ordinary least squares estimates of firm j 's market model parameters. After we obtain daily prediction errors, we calculate the cumulative prediction error for the two-day announcement period interval related to the TD proposals. This value is obtained by summing the prediction errors during the stated interval for each firm.

We measure managerial share ownership during the year of the TD enactment. This variable is defined as the percent of shares owned by the firm's officers and directors. These values are obtained from the firms' proxy statements announcing the TD proposal.

To measure managerial efficiency, we use a variable referred to as Tobin's q (Tobin, 1978). Tobin's q is defined as the ratio of a firm's market value to the replacement value of its assets. This variable is well-established and has been used recently by strategy researchers (e.g., Wernerfelt & Montgomery, 1988). In addition, Tobin's q is commonly used as a proxy for managerial efficiency and to determine whether managers are making sound investment decisions (e.g., Lang, Stulz, & Walkling, 1989; Lindenberg & Ross, 1981). Lang & Litztenberger (1989) argue that a q ratio less than unity suggests that the firm is overinvesting by accepting negative net present value projects. Conversely, a q ratio greater than unity suggests that the firm is making value-enhancing investment decisions. Morck, Shleifer, and Vishny (1988) suggest that a low q indicates that the firm's managers are entrenched.

To calculate Tobin's q ratios, we follow a method similar to Morck, Shleifer, and Vishny (1988) who also use data from The Manufacturing Sector Master File maintained by the National Bureau of Economic Research to calculate q values. Tobin's q is defined as the ratio of a firm's market value to the replacement value of its assets. Two variables included in the data base, VAL and NETCAP, are used to measure a firm's market value and replacement value of assets, respectively.(8)

Specifically, VAL is the market value of the firm, defined as the sum of the value of the preferred stock, the value of common stock, long-term debt adjusted for its age structure, and short-term debt, less the net short-term assets.(9) The value of preferred stock is determined by dividing the preferred dividend paid during the year by the preferred dividend rate for medium risk companies as defined by Moody's. The value of common stock is calculated as the year-end price of common stock times the year-end number of shares outstanding. Calculations for long-term debt assume bonds with a twenty year maturity. A matrix of bond prices in year t for a bond maturing in year n is used, in conjunction with the distribution of the firm's long-term debt by year issued, to adjust the face value of the debt by relevant bond rates in a given year. The matrix of prices is based on Moody's corporate BAA bond prices. Short-term debt is COMPUSTAT item #34, and net short-term assets are current assets (COMPUSTAT item #4) adjusted for book value of inventory (#3) and current liabilities (#5).

NETCAP is the inflation adjusted net capital stock, defined as the sum of the net value of the firm's plant adjusted for inflation, the value of the firm's inventory adjusted for the effects of inflation, and investments in unconsolidated subsidiaries and intangibles plus other investments adjusted for inflation. The net value of the firm's plant is calculated by multiplying the book plant value by the ratio of the fixed nonresidential investment GNP deflator for the current year to the deflator that reflects the average age of the firm's plant and equipment. Inventories are valued at cost each year unless the firm uses LIFO. For firms using LIFO, the changes in inventories from year to year are used to achieve a measure of the age of inventories, and inventories are inflated accordingly using the ratio of the inventory price index in the current year to the price index the previous year. Investments in unconsolidated subsidiaries and intangibles plus other investments is the sum of COMPUSTAT items #31 (Investments and Advances - Equity Method), #32 (Investments and Advances - Other), and #33 (Intangibles). These values are adjusted for inflation in a manner similar to the adjustment made to inventories. The adjustment factor is the ratio of the deflators for fixed residential investment of the current year to the previous year.

Note that none of the variables in NETCAP include the capitalized values of R&D and advertising expenses. This omission is consistent with Lindenberg and Ross (1981). Lindenberg and Ross acknowledge that omitting these expenses from the replacement cost calculation will bias q ratios upward. However, they conclude that, due to advertising and R&D capital depreciating rapidly and the relative size of these expenditures, the bias would be small for most firms.

V. Results

Table 3 presents regression results, including t-statistics for coefficient estimates, for the full sample, and for firms classified according to whether their q ratio the year of the proposal is at least one or less than one.⁽¹⁰⁾ The predicted relationships for inefficient ($q < 1$) and efficient ($q \geq 1$) firms appear in parentheses above the coefficient estimates. For the full sample, the coefficient estimate of the q ratio is positive and statistically insignificant, while the coefficient estimate of the managerial share ownership variable is significantly negative. Overall, we find mixed results for our hypotheses. The coefficient estimate of the q ratio for firms with q less than one is positive and statistically insignificant. These results are inconsistent with the prediction of Lang, et al., (1989), who suggest that TDs should have a more negative effect on low q firms, since shareholders of these firms would benefit most

from a takeover. In addition, q ratio coefficient estimates for firms with q ratios of at least one are also statistically insignificant. The only regressions that are statistically significant are those for the full sample and for firms with q ratios of at least one. These are the groups for which the managerial share ownership coefficient estimate is statistically significant.

It is interesting to note that, when separate regressions are run for firms with q ratios of at least one and for firms with q ratios less than one, we find that the relation between the stock price reaction to TD proposals and managerial share ownership observed in McWilliams (1990) holds for high q firms, but not for low q firms. The evidence provides weak support that TDs are beneficial (intercepts are positive but insignificant) when proposed by firms with low managerial share ownership and high q ratios. A benefit attributed to TDs is increased bargaining power in the event of a takeover bid (e.g., DeAngelo & Rice, 1983). In addition, the statistically significant negative coefficient estimate of the managerial share ownership variable is consistent with Stulz (1988) who suggests that increasing levels of managerial share ownership result in decreases in the probability of takeover occurring. This perceived decrease in potential takeovers results in a decrease in the stock price reaction to TDs as managerial share ownership increases for high q firms.

For low q firms, the results of the regression analyses suggest that the market recognizes no benefit associated with TDs. This conclusion is, in a sense, consistent with Lang, Stulz, and Walkling (1989). Because low q firms are the ones that should benefit most from a takeover, it appears that the market does not feel that the TDs increase the bargaining power of these firms.

In summary, the results of the regression analyses suggest that there is no systematically negative effect when TDs are proposed by firms who have q ratios less than one (i.e., inefficient management). The market does not appear to view the TDs as entrenchment-enhancing for these firms; however, the benefit of increased bargaining power attributed to the TDs does not exist for the low q firms. It is worth noting that future TD research should address the fact that the hostile takeover activity of the 1980s has lessened considerably, and, in response to the hostile takeover activity of the 1980s, many states adopted takeover legislation that should have similar corporate control effects as TDs. As the market observes the actual results of having TDs and takeover legislation in place over time, future research should determine whether the results presented in this study can be replicated if the analyses were repeated for a more recent sample of firms proposing TDs to their corporate charters.

TABLE 3
Cross-sectional Regressions of the Stock Price Reaction to Antitakeover Amendment Proposals on Measures of the Firm's q Ratio (Managerial Efficiency) and Managerial Share Ownership (Note that the predicted relationships for inefficient ($q < 1$) and efficient ($q \geq 1$) firms appear in parentheses above the coefficient estimates.)

	All firms n = 63	$q < 1$ n=30	$q \geq 1$ n = 33
Constant	0.808	(-) 0.427	(+) 1.293
t-statistic	1.35	0.15	1.39
q ratio (managerial efficiency)	0.097	(+) 0.156	(+) -0.043
t-statistic	0.24	0.04	-0.08
Managerial share ownership	-0.085	(-) -0.056	(+/-) -0.100
t-statistic	-3.14*	-1.05	-3.31*
R ²	14.34%	3.99%	27.95%
F-statistic	5.02*	0.56	5.82*

*p < 0.01

VI. Discussion

Our aim in this empirical study is to examine the market's reaction to TD proposals in light of managerial share ownership and efficiency. We find mixed support for our hypothesis. Results provide weak support for the conclusion that the addition of TDs is beneficial for firms where the internal governance system is functioning well. The results also indicate that if the internal governance structure is not functioning well, the market does not necessarily view TDs as entrenchment-enhancing and detrimental to shareholders. However, the results do suggest that the TDs' increased bargaining power does not exist for inefficient managers, regardless of the level of managerial share ownership. For high share ownership firms, the adoption of TDs suggests that managers and directors are able to make a hostile takeover very costly. Thus, any bidder is forced to negotiate directly with the firm's governance team. Such a bargaining advantage may be highly desirable when managers are effective, but highly undesirable when they are not. In the situation where managers are ineffective, the external control mechanism predicted by Walsh and Seward (1990) to remedy the situation is rendered ineffective.

TD opponents (e.g., Jarrell & Poulsen, 1987) argue that any measure that delays the market's intervention in replacing inefficient managers is harmful to shareholders. However, Walsh and Kosnik (1993) questioned the value and efficiency of the market for corporate control as an agent of change. Takeover defenses alter the agency relationship between the shareholders and their agents, the corporate officers and directors, by altering the traditional rules of corporate governance. Consequently, researchers should continue studying the long-term effects of TDs on corporate governance. □

Authors names are in alphabetical order. We are grateful to the anonymous reviewers and to Professor Stephen Ferris, Finance Area Editor, for their helpful comments.

*** Footnotes ***

1. See Pound (1987), Jarrell and Poulsen (1988), Agrawal and Mandelker (1990), McWilliams (1990), and Bhagat and Jefferis (1991).
2. Our conclusion is based on results reported by McWilliams (1992), and the inconclusive evidence regarding managerial actions subsequent to adopting

- TDs reported in Maulbroek, et al. (1990); Mallett (1991); and Pugh, et al. (1992).
3. This firm-specific wealth of knowledge can be a course of competitive advantage to the firm (Barney, 1986).
 4. We are grateful to parties at the New York Stock Exchange; Kidder, Peabody, and Co.; and IRRC for making these data available.
 5. No sample firm has an announcement appearing in *The Wall Street Journal* that pre-dates the proxy mailing date.
 6. The event study methodology that we use is described in Fama, Fisher, Jensen, and Roll (1969) and in Brown and Warner (1985). The market model is discussed extensively by Fama (1976).
 7. Center for Research in Security Prices, University of Chicago.
 8. Full descriptions of variable calculations are provided on pages 13-22 of *The Manufacturing Sector Master File Documentation* (Hall 1990).
 9. All variables reflect current market values during the relevant years.
 10. Although our hypotheses specifically relate to efficiently vs. inefficiently managed firms, we include results for the full sample for completeness.
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