Discussion of “Price and Probability” by V. Cuñat, M. Giné & M. Guadalupe

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Firm-level Takeover Defenses Are Voted Down...

- Number of takeover defenses removed following a shareholder proposal (S&P 1500)
Firm-level Takeover Defenses Are Voted Down...

... How Is the Market for Takeovers Affected? Quantities and Prices?

- Number of takeover defenses removed following a shareholder proposal (S&P 1500)
Why is This Paper Important?

- Old question: many generations of papers since the 80s
  - Every cluster of papers has generated huge debate...
  - ... among both academics and practitioners
- This paper is the new generation
- Focus on impact of shareholder requests to remove defenses
- Two contributions:
  1. “Surprising”: attempts to remove defenses increase premia
  2. Addresses two major empirical hurdles
Why is This Paper Important?

**Hurdle #1:** distinguish causation from correlation

- **Matching approach**
  - Compare successful proposals with unsuccessful ones...
  - ... all else equal

- **Assumption:** ignorability of other causes of proposal success
  - This CIA assumption can be tested...
  - ... since determinants of proposal success fully observed

- **Advantage:** if large common support...
  - ... then large distribution of effects can be estimated

- **Note:** headline estimates in paper are not RDD estimates
Why is This Paper Important?

**Hurdle #2:** distinguish price and quantity effects of defense removals

- **Selection issue:** new takeovers arise due to defense removals...
  - ... these “new” targets may have “special” characteristics
  - ... deserving “special” premia even if defenses were still in place
- **Bounds approach** Assume “new” targets received either...
  - ... the highest observed premia
  - ... or the lowest observed premia
  - ... among takeovers in the treated group
- **Assumption** Monotonicity of selection effect of treatment...
  - ... i.e. no firms taken over less due to push for defense removal
- **Note:** need to estimate a full distribution of treatment effects
Squaring the Results with Stylized Facts
Massive increase in shareholder support and management responsiveness after 2002

- Share of majority-approved proposals
- Proportion of which implemented
Squaring the Results with Stylized Facts
Massive increase in shareholder support and management responsiveness after 2002
How did the takeover market react?
Squaring the Results with Stylized Facts
Massive increase in shareholder support and management responsiveness after 2002
How did the takeover market react?
Squaring the Results with Stylized Facts
Solving the Puzzle

- Did defense removals lead to “less” takeovers in some periods?
  - Especially defenses removed after 2002-2003
  - Plausible: takeover threat has a disciplining effect
  - Problem: means monotonicity assumption does not hold

- Is this due to an unobserved shock?
  - Plausible: rise in shareholder activism...
  - ... acts as substitute to takeovers
  - ... increases allegiance to “best practices”

- Is this due to reverse causality?
  - Plausible: less takeovers so less need for defenses

- Discussion of these scenarios would reinforce external validity
Is this a paper on defense removal...
... or on requests to remove defenses?

- Shareholder proposals to remove defenses are non-binding
- No investigation in the paper on the actual implementation
- It is assumed that the rate of implementation is fairly uniform:
  1. across time
  2. across voting results conditional on the proposal reaching 50%
Is this a paper on defense removal...
... or on requests to remove defenses?
Before 2002, boards more responsive to higher vote shares, not majority threshold
Is this a paper on defense removal...

... or on requests to remove defenses?

After 2002, boards more responsive to both higher vote shares and majority threshold
Is this a paper on defense removal...

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**Problem #1:** Shareholder approval of takeover defense might have effect on its own.

- Could reveal shareholder willingness to facilitate a bid
- Vote on non-takeover proposals does not reveal as much
  - Not a good placebo test
- A simple test:
  - Is there any substantial treatment effect before 2002?
  - If treatment effect = defense effect, then should see nothing
Is this a paper on defense removal...

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Problem #2: Failure of the assumptions for IV interpretation of results

- To account for partial implementation...
  - ... paper assumes all effects should be scaled by factor 2 to 3
- This would be true if estimates were RDD estimates
- This is wrong with this matching approach...
  - ... as implementation (1st-stage) is affected by vote share
  - ... not just majority threshold
  - failure of the generalized CIA

- Consequence: all (scaled) estimates are biased upwards
  - Simulations reveal effect can be substantial...
  - ... even when the falsification test on reduced form is negative
  - Overestimation is bigger the further away from the threshold
Other Comments

- From decision-making perspective, not clear we care about anything but the unconditional premium
  - Good that this is first paper to look at unconditional premia
  - Conditional premium is useful for structural exercises, what else?
  - Fits into the debate Angrist vs. Structuralists
- I would like to see confidence intervals around the bounds
  - For the headline premium effect, looks like CI would include 0
- Angrist & Rokkanen suggest additional falsification test:
  - Compute matching estimates using covariate structure just around the threshold
  - Compare with the RDD estimate
  - They should be very similar
- I would like to see list of IRRC codes for G-index proposals
- Be careful with Riskmetrics data after 2006
  - There, I would focus on states where official rule is F/(F+A)