Essays on Takeovers and Executive Compensation

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Abstracts

Paper 1. The non-US premium discount in global takeovers

This paper examines takeover premia around the world and documents a significant discount in bid offers to target firms outside the US. Controlling for deal-level premium determinants, the non-US discount approximates seven percent of the target pre-deal stock price. I investigate whether the discount can be explained by country variation in legal investor protection, economic strength, financial market development and potential competition in the takeover market. I find that the size of the economy in the target country is the most robust premium determinant among these country characteristics. 40 percent of the non-US premium discount can be attributed to the economy size. Even after controlling for a set of country characteristics, target firms in the US still earn more than those in other countries by at least four percent of the target traded price before the deal announcement. For the average firm in the sample, a four percent discount equals 31 million dollars.

Key words: Takeover premium, investor protection, corporate control, mergers and acquisitions, corporate governance
JEL classification: G34, G38

Paper 2. Distribution of takeover gains: A comparison between the US and other major markets

The takeover literature lacks comparative studies of the US versus non-US markets, though certain facts present the US as an outlier. Non-US evidence is usually on individual markets, and at most on a group of European countries. This paper provides a unified analysis of takeover gain and gain division in seven major markets including Australia, Canada, France, Germany, Japan, the UK and the US. I compare the US to non-US markets, controlling for common gain determinants at both the deal and the country levels. I examine both the combined gain generated by the takeover and how this gain is split between the acquired and the acquiring firms. Consistent with the literature, I find that US takeovers, on average, create value. However, value creation is not significantly larger in the US than in other markets. The difference between US and non-US takeovers lies in the distribution of takeover gains. US targets earn systematically more than non-US targets in both absolute and relative terms. The finding is robust to individual country effects, common law legal origin, and differences in firm size between US and non-US targets.

Key words: Takeover gains, division of takeover gains, corporate control, mergers and acquisitions, corporate governance
JEL classification: G34, G38

Paper 3. Executive compensation in foundation-controlled firms

In general, a large shareholder can discipline the manager by monitoring and/or incentivizing through compensation contracts. In foundation-controlled (FC) firms, the controlling shareholder, i.e., the foundation, does not personally consume the cash flow rights, and hence has weaker incentives to monitor the manager, ceteris paribus. I find evidence of the substitution of compensation for monitoring based on a sample of 193 Swedish family firms listed on the Stockholm Stock Exchange during the period of 2001 -- 2009. A family can control a firm either with or without the establishment of a foundation. In the latter case, the family would donate their shareholdings to the foundation and thus give up their personal consumption of the resulting cash flow rights. Compared to non-foundation family firms, foundation family firms reward their CEOs more. While base salary and bonus are equally competitive, foundation family firms strengthen the performance pay schemes by increasing the proportion of variable compensation and pay sensitivity to performance. The results are robust to various effects including managerial ownership, family CEO, supplementary monitoring by other large shareholders, and self-selection of better CEOs into FC firms.

Key words: Executive compensation, ownership, foundation, corporate governance
JEL classification: G32, G34, J33, L31
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