Sveučilište u Zagrebu
Ekonomski fakultet

1. INTERNATIONAL CONFERENCE "CORPORATE GOVERNANCE – NEW EXPERIENCES: IMPLEMANTATION IN SOUTH EAST EUROPE"

MARKET FOR CORPORATE CONTROL: EMPIRICAL EVIDENCE FROM CROATIA

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CONTENTS

1. MARKET FOR CORPORATE CONTROL

- Jensen and Ruback define the market for corporate control, often referred to as the takeover market, as a market in which alternative managerial teams compete for the rights to manage corporate resources.

- The basic premise of the model of the market for corporate control is that managers have the right to manage the corporation so long until its market value can be significantly improved by the alternative group of managers with a better business strategy. The main driver for change in the model is poor effectiveness of management in terms of value creation for shareholders (Tipurić et. al., 2008).

- The market for corporate control can be viewed as an exogenous organizational variable that puts pressure on managers to behave and make investment decisions that are coherent with the interests of shareholders.
- If managers make decisions in order to increase their own wealth at the expense of the company's owners, the market will ensure that there is a change of current managers with better managers.
- Behavior of managers that is in conflict with the interests of shareholders will reflect trough the reduction in value of corporation shares. Lower share prices will enable the participants of the capital market to buy shares in order to achieve control over the corporation, and also to increase the value of the corporation after the takeover resulting in their own earnings (Tipurić, 2006).

- Manne, unlike others who saw mergers and acquisitions as managers act in order to meet their own needs and interests, scrutinized mergers and acquisitions as an effective mechanism by which the harmful behavior of managers can be control.
- Manne points out that the market for corporate control is a permanent threat to managers who do not work in order to maximize shareholder wealth, and capital market is one that sends a signal to assess the managers' work throughout the company's stock price (Manne, 1965).

- Based on fundamental premises of market for corporate control two hypotheses were tested in this research:

  H1: *Companies that have a below average profitability in its industry, over a longer period of time, are more likely to become takeover targets as compared to other companies in the industry.*

  H2: *Management turnover, after the target takeover, results in better target performance then in the situation when there is no management turnover.*

2. RESEARCH METODOLOGY

- Secondary research → detail analysis of international literature.
- Empirical research → refers to gathering relevant information about takeover targets using questionnaire.
- The sample on which the empirical research was conducted comprised of 598 companies that were taken over in the period since 1998. - 2006.
- In the period of sixty days after the beginning of the primary research 43 completed questionnaires were returned representing a return rate of 7.19%.

3. RESULTS OF THE EMPIRICAL RESEARCH

H1: *Companies that have a below average profitability in its industry, over a longer period of time, are more likely to become takeover targets as compared to other companies in the industry.*

Table 1. Analysis of acquired companies according to their profitability before and after the acquisition

Performance of the target before the acquisition		**Performance after the acquisition**		**Total**
		Worse	*Better*	
Losses, below average and average profitability compared to competition	Number of companies	4	27	31
	%	12,9%	87,1%	100,0%
Above average profitability compared to competition	Number of companies	9	3	12
	%	75,0%	25,0%	100,0%
Total	Number of companies	13	30	43
	%	100,0%	100,0%	100,0%

Table 2. Chi-square test

Chi-Square Test	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)
Pearson Chi-Square	18,787[a]	3	,000	,000
Likelihood Ratio	22,455	3	,000	,000
Fisher's Exact Test	17,739			,000

Table 3. Chi-square symmetric measures

Symmetric Measures	Value	Approx. Sig.	Exact Sig.
Phi	,411	,026	,013
Cramer's V	,411	,026	,013
Contingency Coefficient	,380	,026	,013

- ***H1 confirmed.***

H2: *Management turnover, after the target takeover, results in better target performance then in the situation when there is no management turnover.*

Table 4. Analysis of acquired companies according to their profitability before and after the acquisition

Performance of the target after the acquisition		**Top management**		**Total**
		Changed	**President of the management board changed**	
Worse	Number of companies	5	8	13
	%	17,9%	57,1%	31,0%
Better	Number of companies	23	6	29
	%	82,1%	42,9%	69,0%
Total	Number of companies	28	14	42
	%	100,0%	100,0%	100,0%

Table 5. Chi-square test

Chi-Square Test	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)
Pearson Chi-Square	6,740[a]	1	,009	,015
Continuity Correction	5,027	1	,025	
Likelihood Ratio	6,575	1	,010	,015
Fisher's Exact Test				,015

Table 6. Chi-square symmetric measures

Symmetric Measures	Value	Approx. Sig.	Exact Sig.
Phi	-,606	,000	,000
Cramer's V	,606	,000	,000
Contingency Coefficient	,519	,000	,000

- ***H2 confirmed.***

4. CONCLUSION

- The results of this study are coherent with Jensen and Manne postulates as well with the results of recent research in field of corporate governance.

- Managers who make investment decisions that are in conflict with the interests of shareholders can work that way until that way of conducting business is not reflected in the decrease of company's profitability.

- Reduced profitability of the company leads to the decrease of the company's value, which opens the possibility for alternative groups of managers to take over the company and to allocate company's resources appropriately achieving benefits for themselves and the owners of the company.

THANK YOU VERY MUCH!