

## Internet Appendix A116: Corporate Control

### A116.1 Illustrative Reverse Engineered Pitch Template Example

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(A) Title	Cremers, K. J. M., & Nair, V. B. (2005). Governance Mechanism and Equity Prices. <i>Journal of Finance</i> , 60(6), 2859-2894.				
(B) Basic Research Question	How does the market for corporate control interact with shareholder activism?				
(C) Key Paper(s)	Gompers, P., Ishii, J. & Metrick, A. (2003). Corporate governance and equity prices. <i>The Quarterly Journal of Economics</i> , 118(1), 107-155. Shleifer, A., & Vishny, R. (1986). Large shareholders and corporate control. <i>Journal of Political Economy</i> , 94, 461-479. Pound, J. (1992). Raiders, targets, and politics: the history and future of American corporate control. <i>Journal of Applied Corporate Finance</i> , 5(3), 6-18.				
(D) Motivation/Puzzle	The interaction between the market for corporate control and shareholder activism still remains unclear with two opposite theoretical viewpoints. In addition, the widely-used method to investigate this interaction can lead to a serious selection bias. Following Gompers et al (2003), this paper attempts to provide a better understanding of how these governance mechanisms interact.				
<b>THREE</b>	<b>Three</b> core aspects of any empirical research project i.e. the “ <b>IDioTs</b> ” guide				
(E) Idea?	The <b>core idea</b> is to investigate how the market for corporate control and shareholder activism interact in being associated with equity returns, firm values and accounting measures of performance. The <b>central hypothesis</b> is the market for corporate control and shareholder activism are complements in being associated with market impact. The proxies for shareholder activism are the percentage of share ownership by public pension funds and the percentage of share ownership by the largest blockholder. The proxies for the market for corporate control are the antitakeover index developed in Gompers et al (2003) and an alternative takeover protection index, which focuses on three key antitakeover provisions: the presence of staggered boards, of a preferred blank check, and of restrictions on shareholder voting to call special meetings or act through written consent.				
(F) Data?	The data can be classified into three categories, namely, data used for firm-specific shareholder activism proxies, for the firm-specific market for corporate control proxies, and for abnormal returns. The percentages of share ownership by the largest institutional blockholders are collected from CDA Spectrum. The percentages of share ownership by public pension funds are hand-collected from 18 largest public pension funds. The antitakeover index and alternative takeover protection index are collected from the Investor Responsibility Research Center publications, which are available only for the years 1990, 1993, 1995 and 1998. Stock price data are obtained from CRSP and restricted to those firms for which takeover index is available. The sample includes an average of 1500 firms per year from September 1990 to December 2001, with 136 monthly time-series data points.				
(G) Tools?	The research uses multivariate analysis to investigate the interaction between the market for corporate control and shareholder activism. Unlike Gompers et al (2003), a new two-step WLS method is used to analyse the relation between abnormal returns and governance proxies.				
<b>TWO</b>	<b>Two</b> key questions				
(H) What's New?	The novelty is in the new approach to study the interaction between the market for corporate control and shareholder activism. It is the first study to document the interaction of governance mechanisms along three dimensions: equity returns, firm values and accounting measures of performance. This enable researchers to circumvent the selection bias of using top management turnover, which is a common problem in recent empirical work.				
(I) So What?	The research reveals the complementary relationship between the market for corporate control and shareholder activism in being associated with long-term abnormal returns. It also leaves a useful empirical suggestion for investment managers. A portfolio that buys firms with high takeover vulnerability and high public pension fund (blockholder) ownership and shorts firms with low takeover vulnerability and high public pension fund ownership generates an annualized abnormal return of 10% to 15%.				
<b>ONE</b>	<b>One</b> bottom line				
(J) Contribution?	The paper shows that the results of the importance of corporate governance as presented in Gompers et al (2003) are strengthened when the role of shareholder activism is considered. In particular, the simultaneous consideration of the market for corporate control and shareholder activism is crucial for the documented abnormal returns. It also adds a new approach to study how the market for corporate control and shareholder activism interact.				
(K) Three Key Findings	<ol style="list-style-type: none"> <li>1. The market for corporate control and shareholder activism are strong complements in being associated with long-term abnormal returns.</li> <li>2. The complementarity effect between the market for corporate control and shareholder activism is stronger for firms with lower industry-adjusted leverage.</li> <li>3. The market for corporate control is more effective for small firms.</li> </ol>				