

Governance and Takeovers: Are Public to Private Transactions Different?

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Abstract

Using a unique hand-collected dataset comprising 96 public to private transactions and 258 other publicly quoted companies that were acquired during the period 1998 to 2000, this paper investigates the extent to which firms going private have different internal and external governance and other characteristics from other acquired firms. With respect to one aspect of internal governance, firms going private are more likely to have higher board ownership. They are also more likely to have lower growth prospects. However, with respect to the role of internal governance mechanisms, they do not have sub-optimal internal corporate governance structures in terms of lower proportions of outside directors but there is limited evidence of being more likely to have more duality of CEO and Chair. With respect to external governance, they are more likely to experience pressure from the market for corporate control in the form of greater takeover speculation. However, they are not more likely to suffer hostile threats. We find that management buy-outs had non-optimal governance structures but this is driven by greater duality rather than by too few non-executive directors. They also have poorer growth prospects. MBOs also have higher board shareholdings and are more likely to experience takeover rumours. We find no evidence that Management Buy-ins (MBIs) have different characteristics. Our results provide partial support for the incentive realignment explanation of going private. However, it may also be true that going private by MBO is the result of management has private information that leads them to believe that the market has an incorrect perspective of the company's prospects.