



Graduate  
School of Management  
St. Petersburg University



**GSOM  
EMC**

# Book of Abstracts

**GSOM**

**Emerging**

**Markets**

**Conference**

**2017**

October  
**5-7**  
St. Petersburg  
Russia

[gsom.spbu.ru/emc/](http://gsom.spbu.ru/emc/)



*International Research Conference*  
*“GSOM Emerging Markets Conference-2017”*

**St. Petersburg State University Graduate School of Management**  
**October, 5-7th, 2017**  
**St. Petersburg, Russia**

©Authors of Papers, 2017

## **How the Composition of Board of Directors Affects the Propensity to Hostile Takeovers for Russian Acquiring Companies?**

**Natalia Maricheva, Elena Rogova, National Research University Higher School of Economics St.-Petersburg, Russia**

### **Abstract:**

**The study examines the relationship between the characteristics of the board of directors of Russian public companies and their activity as initiators of hostile takeovers. Though plenty of academic studies has been published on the interrelation of the board features with different indicators of companies' performance and activities, a research gap exists, both in the empirical testing of the propensity to hostile takeovers, and hostile takeovers themselves. The study is a regression analysis fulfilled on the sample of 209 deals by Russian public companies in the period of 1999-2015. We collected data from Thompson Reuters and SKRIN databases. The most important board characteristics tested are the shares of female directors, independent directors and multiple directorships.**

**Keywords:** *board of directors, corporate governance, hostile takeovers, mergers and acquisitions, Russian public companies*

## **1. Introduction**

The crucial role of the board of directors is widely discussed in the academic literature. This paper poses the research question whether the board characteristics matter in defining a company's policy in the sphere of mergers and acquisitions, and, more precisely, hostile takeovers. Mergers and acquisitions represent one of the most popular corporate growth strategies. Hostile takeovers in these strategies are under discussions: they can serve as a marker of inefficient management of target companies and at the same time, they can pursue other gains. In Russia, hostile takeovers seem popular due to the lower transaction costs and the quality of corporate governance. In our previous study (Maricheva, Rogova, 2016), the significant negative market reaction to hostile takeovers for Russian buyers was detected; nevertheless, many boards decide to perform such deals. What composition of a board increases the probability of hostile takeover?

## **2. Literature Review**

The board of directors takes key decisions in companies' activities, so its characteristics impact at the quality of these decisions (Adams, Hermalin, Weisbach, 2010). In Russia, the status of the board is also the subject of discussions, because there is a lot of evidence that the owners control their businesses and takes key decisions, while the boards mainly help to create the appropriate image of companies (Duliak, 2012).

The majority of academics agrees that the larger share of independent directors increases the company's performance, though at the Russian market this increase is insignificant (Peng, Buck, Filatotchev, 2003). As for gender composition, Levi, Li, Zhang (2014) come to the conclusion that the larger presence of female directors in the board correlates negatively with the number of deals made by the company. As for the multiple directorship, the scholars agree that it is more suitable for emerging markets, though there is a lack of empirical research (Berezinets, Illina, 2016).

Analysis of hostile takeovers usually is based on case studies, with plenty of research discussing the overall effects of mergers and acquisitions on companies' value and financial performance. If target companies almost always increase their performance, the acquirers come to different results. For emerging markets, there is an evidence that M&A create value and increase financial performance for the acquirers (Rani, Yadav, Jain, 2014).

There is quite few studies aimed at the relationship between the board composition and M&A effectiveness. In (Cotter, Shivdasani and Zenner, 1997) the positive relationship between the number of independent directors and the market returns after hostile takeovers.

## **3. Hypotheses**

From the literature, we come to the conclusion that friendly acquisitions enhance the effectiveness of acquiring companies, whereas hostile takeovers decrease it. This conclusion lets us to assume that the board characteristics generally accepted as promoting effective decisions and M&A deals are unlikely suitable for companies who actively undertake hostile takeovers. In accordance with these conclusions we develop *our hypotheses*.

H1. Companies with lower share of independent directors in their boards are more likely implied to hostile takeovers. .

H2. Depending on the share of female directors in the board, companies demonstrate different propensity to hostile takeovers.

H3. The companies with the larger fraction of multiple-engaged directors would be more active in hostile takeovers.

## **4. Methodology and Data Sampling**

Our sample covers the period of 1999-2015. It consists from deals completed by Russian companies listed at Russian and foreign stock exchanges. We checked the statuses of companies and left only those whose status has not been changed during these years. The data was collected from Thomson Reuters Eikon Platform. The final sample consists of 209 deals, 152 are marked as friendly

acquisitions, and 57 as hostile takeovers. To be more precise, we referred as hostile takeovers all deals that were not marked as friendly and were paid by cash or where the top-management has been replaced soon after the deal completion. The information on the board members was taken from SKRIN database, and for control variables we also referred to SPARK database. Then we performed an analysis with marginal effects logit regression.

## **5. Results and Discussion**

As a result of empirical research, it revealed that there is a significant negative relationship between the share of independent directors and the propensity to hostile takeovers that supports the 1<sup>st</sup> hypothesis. The second hypothesis also was confirmed, and the results were unexpected – the increase of the female directors' share in the board also increased the probability of hostile takeovers. Some support of this result can be found in (Atkinson, Baird, Frye, 2003), who reported that female directors have the same or even higher risk appetites than their male colleagues. But this conclusion needs an additional investigation. The third hypothesis of our study was rejected – no significant relationship between the share of multiple-engaged directors and the probability of hostile takeovers was revealed.

### **References:**

- Adams R., Hermalin B., Weisbach M. 2010. The role of boards of directors in corporate governance: a conceptual framework and survey, *Journal of Economic Literature*, 48(1): 59–108.
- Atkinson S., Baird S., Frye M. 2003. Do female mutual fund managers manage differently? *Journal of Financial Research*, 26(1): 1–18.
- Berezinets I., Ilina Yu. 2016, Busyness of directors and financial performance. *St. Petersburg University Herald. Series 8. Management*, 1: 3-30.
- Cotter J.F., Shivdasani A., Zenner M. 1997. Do independent directors enhance target shareholder wealth during tender offers? *Journal of Financial Economics*, 43(2): 195-218.
- Duliak Yu. 2012. The evolution of the board of directors role in Russian companies. *Journal of Corporate Finance Research*, 6(1): 24–32.
- Levi M., Li K., Zhang F. 2014. Director gender and mergers and acquisitions. *Journal of Corporate Finance*, 28(C): 185-200.
- Liu Y., Wei Z., Xie F. 2014. Do women directors improve firm performance in China? *Journal of Corporate Finance*, 28 (C): 169-184.
- Maricheva N.N., Rogova E.M. 2016. Market reaction at the announcements on hostile takeovers: Russian and European markets, *Journal of Corporate Finance Research*, 10(4): 27–50.
- Peng M., Buck T., Filatotchev I. 2003. Do outside directors and new managers help improve firm performance? An exploratory study in Russian privatization. *Journal of World Business*, 38(4): 348–360.
- Rani N., Yadav S.S., Jain P.K. 2014. Impact of domestic and cross-border acquisitions on acquirer shareholders wealth: empirical evidence from Indian corporate. *International Journal of Business and Management*, 9 (3): 88-110.