ANTIGREENMAIL CHARTER AMENDMENTS AND SHAREHOLDERS' WEALTH

by

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Abstract

From time to time, firms do repurchase their shares. An open market repurchase or a general tender offer does not have the effect of transfering wealth from one group of shareholders to another. This is in contrast to a privately negotiated premium repurchase from a single block holder where the remaining shareholders are excluded from participating in the offer. This type of targeted share repurchasing has been observed before - or in connection with - a takeover attempt and often has the effect of terminating the takeover attempt.

Such a targeted share repurchase is commonly referred to as "greenmail". The price is usually at a premium over the prevailing market price and the seller will typically agree to abstain from acquiring any more of the company's voting stock. The non-participating shareholders stand to lose from both the premium paid out of corporate assets and the loss of a potential takeover offer premium.

Recently, firms have been proposing to institute antigreenmail charter amendments that would prevent management from engaging in greenmail. Such a proposal may or may not be in the best interest of shareholders. This paper attempts to measure the economic significance of an antigreenmail proposal.

The methodology chosen is that of an event-time study. The magnitude of abnormal returns is used to gauge its significance in relation to the day that the market learns

of the antigreenmail charter amendment. The "stockholder interest hypothesis" predicts that the proposal is undertaken with the interest of shareholders in mind and thus stock prices should react positively to the announcement.

However, the results obtained do not support that hypothesis. Stockholders seem to suffer a statistically significant decline in the value of their shares around the day when news of such proposals reach the market. This result is also inconsistent with previous empirical evidence on targeted repurchases and standstill agreements.

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1. INTRODUCTION AND SUMMARY

Unimpeded competitive forces in the market for corporate control and the market for managerial labour services help ensure that incumbent management does not deviate extensively from their presumed mandate of maximizing shareholders' wealth. In the absence of such market enforcement, management has considerably more latitude in raising perquisite consumption and possibly deviating further from value maximizing behaviour. One of the more effective ways of disciplining management is the threat of displacement through the shareholders' vote.

The stockholder vote can operate in several ways. A stockholder detecting inefficiency might solicit the votes of other stockholders in an attempt to replace management. Yet another way is for an investor to buy enough shares in the company and seize control of the firm.

Faced with the threat of being replaced, target management sometimes responds with defensive tactics that are intended to make the firm less attractive or more difficult to acquire. This could be motivated in part by the potential personal cost to the managers themselves if a takeover threat is successful or they could be motivated by shareholder interest.

These defensive tactics may be looked at as two separate categories; those that do not require shareholders' approval and those that do. The so called reverse bear hug, scorched earth, show stopper, and poison pills are a few

examples of defenses that can be resorted to in response to a takeover attempt. These do not require prior consultation with the shareholders[1].

Firms can also amend their charters to contain antitakeover laws. These must be approved by shareholders before becoming effective. For example, a classified board of directors and supermajority provisions are two defense manoeuvres that can make a complete takeover more time consuming, costly and difficult[2].

Strategies that make an acquisition more difficult and costly could therefore discourage a potential acquirer from taking over the firm. Thus, regardless of the need for shareholders' approval, the dominant effect is to convey the message that incumbent management is unwilling to concede control of the firm at the proffered price [3].

Before initiating a takeover bid, the potential acquirer usually owns a small percentage of the target firm already. This situation presents yet another defensive tactic that management can call upon to fend off the suitor. Target management can repurchase the shares held by the bidder. In order to entice the bidder into accepting target management's offer, the price in the repurchase is usually greater than the prevailing market price. In exchange for the premium price, the bidder will typically agree to

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[1] See Gilson R (82) and Malatesta P (85).
[2] See Linn and McConnell (83) for a discussion of the types of antitakeover defenses.
[3] The issue of whether management is doing this in the interest of stockholders will be deferred to a later section.

abstain from any future attempts at taking over the firm within some stipulated time period. The willingness of the bidder to accept management's offer and to enter into a standstill agreement provides target management with a defence.

This repurchase has been dubbed greenmail. The payment of greenmail essentially terminates a takeover threat. It may be called a block repurchase from a single shareholder in conjunction with a standstill agreement as in the study by Bradley and Wakeman (83). Nevertheless, the effect is identical. Managerial opposition that excludes competition, such as greenmail and standstill agreements, is likely to be harmful to shareholders.

To the extent that the target firm succeeds in greenmailing a potential acquirer, it also inevitably prevents target shareholders from receiving a premium for their shares by eliminating the tender offer. In addition, greenmail also has the effect of insulating target management from a major mechanism by which they may be unwillingly displaced.

Thus, failure to resist a takeover attempt may cost managers their jobs and successfully thwarting a takeover can be costly to target shareholders, especially when a substantial premium has been offered.

Paradoxically, management sometimes may propose that the discretionary use of greenmail be made illegal under the corporate charter. An antigreenmail charter amendment

prohibits management from paying greenmail without first having the majority of shareholders' approval. This action by management does not seem to be self-serving and may be consistent with an appropriately modified stockholder interest hypothesis.

Briefly, the stockholder interest hypothesis predicts that the dominant effect of an antigreenmail charter amendment is to benefit shareholders. The objective of this paper is to test that hypothesis.

Between September 1984 and September 1985, 48 companies in the United States were identified as having proposed antigreenmail charter amendments. With the exception of Informatics General Corporation, all the firms passed the amendments[4]. Some of these firms also proposed other amendments in the same proxy statement. For the final sample of 31 firms, an event study methodology is used to analyze the abnormal returns. From this initial sample, we then excluded those firms that proposed antitakeover amendments in the same proxy statement.

The abnormal returns are defined as the actual realized return less the firm's expected return as implied by any one of the four methods chosen for deriving a firm's expected return. The results are not particularly sensitive to the choice of methods. On average, the 31 firms experienced wealth decreases over the period 30 days before through 30 days after the proxy statement containing the amendments

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[4] A list of the companies is in Appendix 1.

were mailed to the shareholders.

When using the market model[5] , the statistically significant losses occurred over the period 10 days before through the day after the mailing date (12 day period) and the period a day before through the day after the mailing date (3 day period). The average stockholder lost between 2.3% and 2.5% over the 12 day interval[6]. Over the 3 day period, the market model using an equal weighted market index and the market adjusted model produced statistically significant losses of 1% and 1.1%. The other two models also produced negative abnormal returns but they were not statistically significant.

The sample was then reduced to firms that did not propose other antitakeover amendments with the antigreenmail proposal. The procedure of determining abnormal returns was replicated for the sample of 10 firms that met this more restrictive criteria. Statistically significant losses were found for 2 day, 3 day and 12 day event periods.

The market model produced negative returns of 2% (t=-2.55), 3.3% (t=-3.57) and 3.7% (t=-2.05) for the 2 day, 3 day and 12 day event periods. The market adjusted model also had statistically significant losses of 1.8% for the 2 day period and 3% for the 3 day period. The 12 day period loss of 3.1% is however not significantly different from zero.

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[5] Two sets of calculations were made with the market model. One uses an equal weighted market index and the other uses a value weighted market index.
[6] The returns are not annualized.

For longer event periods, the statistics for both sample sizes yielded similar results. Shareholders incurred negative returns but they were not statistically significant.

As an alternative, instead of analyzing the abnormal returns around the date that the proxy was mailed, the analysis was focused around the date that the Wall Street Journal first noted the antigreenmail proposal, which was typically later than the proxy mailing date. The results were all statistically insignificant.

Market participants seem to receive news of the antigreenmail proposal when the firm sends out the proxy statement rather than when it is later reported in the financial press. The results indicate that the market reacted unfavourably to firms proposing antigreenmail amendments and do not support the hypothesis that such proposals are in the shareholders best interests.

This is inconsistent with the available evidence on targeted repurchases and standstill agreements which indicate that these actions are detrimental to the welfare of the non-participating shareholders.

An adequate explanation for why stockholders would vote in favour of a charter amendment is unavailable. In sum, the evidence presented in this paper represents an empirical anomaly and it presents an important topic for future research.

2. <u>LITERATURE REVIEW</u>

2.1 <u>COSTLY CONTRACTING, AGENCY PROBLEM AND CORPORATE CONTROL</u>

As owners, shareholders appoint a board of directors who
have the responsibility of formulating a set of objectives
for the firm. The board of directors, in turn appoints a
management team who will devise appropriate strategies in
order to meet those objectives. The presumed mandate of
management is the maximization of its shareholders' wealth.
Shareholders seldom have a direct say in how corporate
resources are spent. Most managers are merely acting in the
capacity of agents for the shareholders[7].

Management may thus deviate from value maximizing
actions without being severely affected. Recognizing this
problem, shareholders may impose restrictions on management
by way of a legal contract. When contracting is costless,
managers and stockholders will be able to resolve all
differences and ensure that management adheres to a policy
of wealth maximization.

However, contracting is not costless. There are the
legal fees when drawing up a contract and there are also
costs involved in verifying that the contract is not
breached. In addition, there is the difficulty of policing
management constantly. Hence, the possibility of a
management-stockholder conflict of interest remains[8].

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[7] Some managers may also be shareholders and most are
involved in some form of stock option plan.
[8] See Jensen and Meckling (1976), "Theory of the firm:
Managerial behaviour, agency costs and owner structure."

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As long as management is in control of corporate assets, it has an incentive to raise its perquisite consumption especially if its behaviour is not constrained by a restrictive contract. 4ut control over corporate resources may be transferred in a successful takeover when the successful bidder installs a new management team. Thus a potential welfare cost facing target management is the loss of employment. Therefore an important constraint which prevents management from deviating excessively from value maximization is the threat of being taken over.

In the context of corporate control, the managerial entrenchment hypothesis states that management opportunistically takes measures that reduce the threat of takeovers[9]. This presents management with the opportunity to raise perquisite consumption at shareholders' expense without being harshly disciplined.

The remainder of this section will review studies that generally address the questions,

i) Are takeovers economically beneficial to target shareholders ?

ii) Are certain unilateral decisions made by management detrimental to the non-participating shareholder ?

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[8] (cont'd) Journal of Financial Economics Vol. 3.
[9] Williamson O (1975), "Markets and hierachies: Analysis and antitrust implications" The Free Press, New York.

2.2 <u>STUDIES INTO TAKEOVERS</u>

There is no attempt here to discuss the motivating factor(s)
behind an acquirer's decision to take over another firm[10].
Of course not all takeover attempts are successful. Some are
withdrawn by the bidders while others may be repelled by
target management.

There are basically 2 ways to taking over a firm[11]. In
a merger, the bidder approaches target management with a
negotiable proposal. This is usually termed a friendly
takeover. When an acquirer appeals directly to the target
shareholders in a tender offer, thereby bypassing
management, it is usually considered a hostile bidder. The
wealth effect on shareholders in mergers and tender offers
will be discussed separately.

2.2.1 <u>MERGERS</u>

For successful mergers, the gain[12] to target
shareholders over the 2 day period of the announcement of a
merger offer and the day before, is statistically
significant. Dodd (80) and Asquith (83) found that target
shareholders gained 13.4% and 6.2% respectively over the 2
day period. Eckbo (83) examined the effects over a 3 day
period (the announcement of a merger offer, the day before
and the day after). He also concluded that target

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[10] See Eckbo (83) for a discussion of the sources of
takeover gains.
[11] The other way is through a proxy contest. This will not
be discussed.
[12] Any gain or return referred to means the realized return
minus the expected return.

shareholders gained from the merger activity.

For longer event periods, one month announcement effect and the cumulative effect from offer announcement through the successful outcome, the results are unanimous and similar to the 2 and 3 day returns. The highest return was documented by Dodd at 33.9% from the announcement offer to the final successful outcome.

For merger attempts that were eventually unsuccessful, the 2 day positive return is statistically significant and indistinguishable from those of successful mergers. For the event period of about 20 days before the announcement offer through the day of the first public announcement, the positive returns are also statistically positive. These returns are almost identical to the returns found for target firms that were successfully merged. However, the total return from the offer announcement through the outcome is inconclusive. Dodd found a positive return of 3.68% but it is not statistically significant.

2.2.2 TENDER OFFERS

Targets of successful tender offers gained an average of 29.1% (across 6 studies). Varying the event period measured does not change the results fundamentally. Jarrell and Bradley (80) found that the targets of successful tender offers enjoyed an increase of 34% in the value of their shares between the period 40 days before through 20 days after the offer announcement. This is similar to evidence

reported by Eckbo and Langohr (86) based on takeover bids in France.

For unsuccessful tender offers, the gains from the offer announcement did not dissipate. Despite the failed attempt, target shareholders still retained the gains from before. Bradley, Desai and Kim (83) found that for target firms that do not receive a subsequent offer within approximately 2 years, the average shareholder will lose the gain that was brought about by the announcement effect of a tender offer. The target shareholders of unsuccessful tender offers realize further gains if a subsequent offer is received.

2.2.3 REMARKS

The evidence suggests that target shareholders earn positive abnormal returns on the announcement of an offer. Only in situations where the merger attempt fails and the target is not taken over during the subsequent 2 years would a target shareholder lose the gains from the announcement period.

Overwhelmingly, the evidence supports the notion that takeovers, be it by mergers or tender offers, are economically beneficial to target shareholders. The target firms in successful takeovers experienced a statistically significant abnormal price change of +20% in mergers and +30% in tender offers. Target shareholders incurred a slight loss in unsuccessful mergers and tender offers. The

substantial discrepancy seems to indicate that the benefits of takeovers are only realized when control of the target is turned over to the bidder. This may imply that stockholders of potential target firms are harmed when target managers oppose takeover bids or take actions that eliminate or reduce competition for control.

2.3 TARGETED REPURCHASES AND STANDSTILL AGREEMENTS

In a privately negotiated or targeted repurchase, the firm purchases a block of its common shares at a price that is usually above the prevailing market price. Bradley and Wakeman(83) and Dann and DeAngelo (83) reached similar conclusions in that the stockholders of the repurchasing firm experienced negative returns when the repurchase was made.

When a standstill agreement was reached in association with the repurchase, Dann and DeAngelo found that the firms in their sample experienced a statistically significant average return of -4.52% over the day before and the day of the announcement of the agreement. Even when the standstill agreement was unaccompanied by a repurchase, the shareholders of the firms that agreed to the standstill agreement lost a statistically significant average of 4%. Bradley and Wakeman reported a statistically significant loss of 2.85% for shareholders of the repurchasing firm. The loss was incurred over the day before through the day after the announcement of the repurchase.

More importantly, they divided their sample into those repurchases that were associated with takeover cancellations and those that were not. For targeted repurchases where no acquisition attempt was involved, they found a slightly positive but insignificant abnormal return of .6% to shareholders of the repurchasing firm over the period from the day prior through 30 days after the announcement of a repurchase.

In contrast, where takeover cancellations were involved, targeted repurchases are on average associated with an abnormal negative return of 5.5% for the repurchasing firm's remaining shareholders. This figure is statistically significant measured over the period a day before through a day after the announcement of the repurchase. An even larger loss was found when the event period was extended to include up to 18 days after the announcement of the repurchase. Bradley and Wakeman further reported that the loss was greater than the average premium involved in a repurchase. It seems that the remaining shareholders had to incur the expense of the premium paid and a little more.

2.3.1 CORPORATE RAIDING AND NON-PARTICIPATING SHAREHOLDERS

A recent study by Mikkelson and Ruback (1985) examined the cumulative effect on non-participating shareholders of an initial substantial (defined as greater than 5%) investment in the firm to its termination in either a

takeover, targeted repurchase, takeover by a third party or sale of the shares[13]. For our purposes, only the subset of firms who engage in greenmail (targeted repurchase) will be discussed.

Generally, they found that the share price of the target firm increased on initial disclosure of the investment position. Consistent with the findings of Bradley and Wakeman and Dann and DeAngelo, they also found that when the shares were repurchased by incumbent management, share prices reacted negatively. However, the negative price effects of the targeted repurchase is more than compensated for by the positive price reaction to the initial investment. The total valuation effect is a statistically significant positive abnormal return to the remaining shareholders of the firm.

It should be noted that Mikkelson and Ruback also found that firms that frequently acquire only an initial non-controlling stake in another firm usually terminated the investment by selling the shares back to management. The total return to the target shareholders from the activities of these investors, commonly characterized as corporate raiders, is significantly positive at 1.69%[14].

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[13] Studies by Bradley and Wakeman and Dann and DeAngelo examined only the impact of targeted share repurchases and did not consider the impact of the initial investment.
[14] The total return is equal to the positive 2 day return around the announcement of the initial investment minus the negative 2 day return experienced around the time when the repurchase was announced, in addition to any reactions to intermediate events.

Basically, similar results were obtained by Holderness
and Sheehan (1985) when they examined the activities of 6
investors who are frequently referred to as raiders. They
found statistically significant total positive returns of
3.2% (t=1.8) to the non-participating shareholders when the
initial investment ended with a repurchase. Their
methodology for measuring total return is identical to that
of Mikkelson and Ruback.

2.3.2 REMARKS

The evidence cited above from studies by Bradley and
Wakeman and Dann and DeAngelo suggest that shareholders are
not harmed by targeted block purchases unless such actions
are associated with takeover cancellations. Targeted
repurchases tend to be more costly to non-participating
shareholders if they are used to prevent a takeover attempt.

The often substantial premium paid in block repurchases
could be construed as some form of bribe to the selling firm
to cease takeover activities. If this is true, managerial
actions that reduce or eliminate the threat of takeovers may
be consistent with the managerial entrenchment hypothesis.
Explicit actions that eliminate potential acquirers are
costly to non-participating shareholders in terms of the
premium paid to the selling firm; the opportunity lost in
gaining from a potential takeover premium and possibly more
managerial shirking and deviation from value maximizing

behaviour.

The results of Mikkelson and Ruback and Holderness and
Sheehan lend support to the suspicion that the initial block
investment could be a signal of a future takeover attempt.
This is noted by Dann and DeAngelo, "... a large block
stockholder has a comparative advantage relative to small
stockholders in either initiating a takeover attempt or in
transferring this ability to a third party. Moreover, a
large block holder has a greater incentive to incur the
costs of a takeover attempt since he stands to capture a
greater share of any resulting improvements in managerial
efficiency".

3. CORPORATE CONTROL AND GREENMAIL

3.1 THE CASE FOR GREENMAIL

A block repurchase - or greenmail - could possibly be a value increasing action even if a premium is involved. If the repurchases are accompanied by standstill agreements, these contracts are essentially limiting large block shareholder's direct influence over the firm's resources. The more obvious cost saving is the redundancy of press releases and detailed statements to shareholders advising against the consolidation. In the event that a takeover bid actually materializes, the target stockholders could be expected to bear additional costs such as the legal and investment banking fees, financial press releases and proxy solicitation forms.

Other less obvious costs include management's time spent in directly fending off an acquisition attempt - time that could otherwise be more profitably used. Combined with the out-of-pocket cost, opposing a takeover may prove to be an expensive proposition.

These cost savings could in principle outweigh the premium paid and any further inefficiency that may be induced by a reduced takeover threat. Therefore, target shareholders may stand to benefit from agreements that limit or reduce the threat of takeovers.

3.1.1 THE EVIDENCE

Despite of the arguments in favour of greenmail, there is strong evidence to suggest the contrary. Successful takeovers increase the wealth of target shareholders and the elimination of a potential bidder may be harmful to non-participating shareholders especially if it also terminates a takeover attempt. Therefore, targeted block repurchases, standstill agreements and any action on management's part that is intended to reduce or eliminate competition for control is likely to be harmful to shareholders' wealth.

4. ANTIGREENMAIL CHARTER AMENDMENTS

Before an antigreenmail proposal becomes law, shareholders' approval must be sought. The amendment prohibits management from repurchasing its shares from a block holder without first having its shareholders' approval. This does not imply that management cannot pay greenmail but simply that permission must be granted by its shareholders first.

When proposing such an amendment, the firm usually claims that, "the board of directors is unaware of any takeover bid for the company now pending or threatened". In recommending that the proposal be adopted, a typical argument would be, "the unfairness of this tactic is often accentuated by the fact that the seller has not been a shareholder of long standing but has merely accumulated the shares in recent purchase with no intent of remaining an investor in the company".[15]

This implies that greenmail is some sort of extortion money paid to the seller so that he would withdraw his threat of taking over the company. Paying extortion money is clearly not in keeping with value maximizing behaviour. "The board of directors believes that appropriate action should be taken now to protect the company from what it deems to be a potential abuse of the interest of shareholders as a whole".[16]

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[15] Singer Company.
[16] Warnaco Inc.

Interestingly, management will also often point out the disadvantage of the proposal. A typical and rather dubious statement from Sterling Drug's proxy statement is,

> "Adoption of the proposed article ..... could tend to reduce trading activity and potential temporary rises in the market price of the company's stock which might otherwise be occasioned by accumulation of a large single block of stock. Thus some present stockholders desiring to sell in the market at that time may be deprived of opportunities to sell their stock at temporarily higher market prices."

However, the typical firm is quick to add that, ".... the board believes that even handed treatment of stockholders is of sufficient importance and benefit to all shareholders to more than offset these possible disadvantages".[17]

4.1 STOCKHOLDER INTEREST HYPOTHESIS

The purpose of this paper is to test for the economic significance of an antigreenmail charter amendment. Appropriately modified, the stockholder interest hypothesis could be used to meet our needs and act as the test hypothesis.

The evidence documented by Bradley and Wakeman indicate that eliminating a potential bidder and consequently having a takeover bid withdrawn is harmful to target shareholders. Since most takeovers are associated with a premium offer, greenmailing a potential acquirer to withdraw inflicts a clear cost to non-participating shareholders. Moreover, it may also provide incumbent management with the opportunity

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[17] International Minerals and Chemical.

to raise its perquisite consumption as control of the
corporation is more firmly vested in itself.

From a self-serving management's point of view, the
premium is well justified if it precludes further
competition for control from the selling shareholder.
Therefore, targeted repurchase and standstill agreement or
simply greenmail, could be interpreted as a "bribe [to] the
selling firm into giving up interest in the firm and by
implication cease monitoring the firm's activities".[18] It
could effectively eliminate a threat to their control of the
firm.

An antigreenmail charter amendment would then expose
incumbent management to the scrutiny of potential acquirers.
As discretionary use of greenmail would be illegal,
management will be less able to selectively eliminate
threats to their control over the firm. Instead, management
would be encouraged to maximize the value of the firm so
that a takeover will be more costly and less desirable.

Shareholders might benefit in several ways from such an
amendment. In a typical takeover bid, shareholders will have
access to a premium price offered for their shares.
Greenmail cannot be used, without their permission, to bribe
the potential acquirer into withdrawing his challenge. The
amendment puts the decision for the use of corporate
assets in the hands of those most affected by it.

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[18] Bradley and Wakeman (83) p 327.

Incumbent management will not and cannot be forced into paying extortion money. This should discourage raiders whose sole purpose is to force target management into paying greenmail through threats of disruptions to the firm's operations.

Management, having voluntarily tied its own hands by rendering illegal the use of an effective takeover defense, are more vulnerable to the competitive forces in the market for corporate control. Consequently, this may alleviate a certain degree of management-stockholder conflict of interest. Management may align its interest more closely with that of their shareholders and pursue more diligently a policy that maximizes its shareholders' wealth.

Hence, an antigreenmail charter amendment may be beneficial to shareholders. A firm proposing such an amendment is predicted to experience an increase in its market value when the news reaches investors.

5. DATA SOURCES AND METHODOLOGY

5.1 THE DATA

Initially, 48 firms were noted by the periodical *Mergers and Acquisitons* as having proposed antigreenmail charter amendments. 23 had, in addition to the antigreenmail proposals, other proposals such as electing new directors, staggering or classifying the current board of directors, compensation packages, authorizing new stock, allowing cumulative voting and requiring a supermajority vote in certain instances of takeovers.

The *Info Globe* service was used to obtain a copy of each proxy statement. Of the 48 firms, *Info Globe* could only furnish the proxy statements for 40 of the firms. Within these 40 firms, 3 of them were not available on the Centre for Research in Securities Prices (*CRSP*) tape. This further reduced the sample to 37. Of the remaining firms, 5 of the "proxy statements" were merely reminders to their shareholders of the proxy that was sent earlier. Thus the day that the actual proxy was sent could not be established. Finally, Continental Information System did not have data prior to February 1985 on the (*CRSP*) tape and thus its parameters could not be estimated. The count for the final sample is 31.

These proxy statements were mailed to the shareholders but there is no assurance that the financial press would have made a note of reporting it. Nor is there any certainty

that such publications are timely.

For an event-time study to be reasonably valid, it is necessary to identify the day that news of the charter amendments were first made available to market participants. Before a proposed amendment is put forward for shareholders' approval, it has to be ratified by the board of directors. Again, there is no certainty that press releases were made at the board meeting.

Upon the board of directors' approval, the proposed amendments are placed before the shareholders. This is usually done through a proxy statement describing the amendments. By this time some "insiders" may already have knowledge of the proposals. Outside stockholders will at the latest learn of the proposed amendments when they receive the proxy statements.

At the same time that the proxy is sent to shareholders, a copy is sent to the Securities Exchange Commission to be officially filed.

The date on the proxy statement is usually before the date that the *SEC* officially files the proxy. As such, it provides the basis for recognizing the date of the proxy statement as being the first day the public has access to the new information contained within the proxy statement.

To double check, the *Wall Street Journal Index* was scanned for a possible earlier mention of the proposed amendment. The *WSJI* did confirm that the majority of the firms in the sample had made such proposals. The first

mention in the *WSJI* either acknowledges that the board of directors had put forth the antigreenmail proposal or that the shareholders had approved of the antigreenmail charter amendment. However, all of these dates were subsequent to the dates of the corresponding proxy statements. See Table 1 for a frequency distribution of proxy statement mail dates.

5.2 THE METHODOLOGY

An event study methodology identical to that of Fama, Fisher, Jensen and Roll's (1969) will be used. The statistical procedure entails the estimation of the impact of antigreenmail charter amendments on firms' common stock prices.

Assuming that the market model correctly specifies the stochastic return generating process, the return to security i is given as,

$$R_{it} = (\hat{\alpha}_i + \hat{\beta}_i R_{mt}) + \epsilon_{it}$$

The term in the parenthesis is the normal return to security i as implied by the market model[19]. α is the return unrelated to the systematic risk of the security. β measures the security's sensitivity to the market. ϵ is a normally distributed error term for security i where the statistical properties of independence and equal variance are assumed to

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[19] Since daily returns are very close to being continuously compounded, log returns are not used.

Table 1

Frequency distribution of proxy statements mailed by month and summary of other proposals that may be contained within the same statement. Only the firms in the final sample are tabled.

1984				1985									
Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	TOT
1	1			2	2	12	4	2	1	2		4	31

Corporation	Fair Price Clause	Supermajority Provisions	Classified Board	Cumulative Voting
Acme+				
Aluminum Co			*	
American Pres.+				
Apache	*			
Bank Bldg Equip+				
Bell+				
Burlington				*
Cheesebrough+				
Dover Corp				*
Dresser Ind	*			
Eastern G and F	*		*	
Fleetwood Ent+				
Gould Inc				*
Harris Corp			*	*
Interco			*	
Int'l Min Chem+				
Int'l Multifood			*	*
Kerr McGee	*			
Lubrizol	*		*	
MSI	*			
Martin Marietta		*	*	
Merck	*		*	
NBI			*	
NCR+				
Perkin Elmer+				
Singer	*	*	*	
Sterling	*		*	
Sun+				
Thomas Betts	*			
Univar	*		*	
Warnaco		*		

+ Indicate firms that did not propose antitakeover amendments in the same proxy statement.

be satisfied. Hat denotes an estimated figure.

The model predicts a contemporaneous linear relationship between the realized market return and the realized security return[20].

Abnormal returns for security i at time t is measured as,

$$AR_{it} = R_{it} - (\hat{a}_i + \hat{\beta}_i R_{mt})$$

The first term on the right hand side is the actual realized return on security i and the remainder is the estimated normal return derived from the market model.

The average abnormal return is obtained by summing across all firms at time t,

$$AAR_t = \Sigma_{i=1}^{N} AR_{it} / N$$

where N is the number of firms in the sample. This cross sectional mean will be used to measure the securities' reactions to the first publicly available news of an antigreenmail charter amendment[21]. The advantage of using an average to measure the impact is that it randomizes the

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[20] The single factor market model is not significantly inferior to more complicated multi-factor models. See Brown and Warner (1980).
[21] The event dates seem to be clustered. This may present a problem in contemporaneous correlation of returns. This problem will be touched on later in the paper.

influence of other contemporaneous firm specific or market wide factors that are unrelated to the antigreenmail charter amendment[22].

For each firm, the first publicly available news of a proposed antigreenmail charter amendment will be designated as event time 0. For purposes of analysis, chronological time is transformed to event time. The day prior to the first available news is designated as day -1. The first day after the news is designated as day +1. And so on.

The market model parameters, a and β , will be estimated from a time series regression using security i's return including dividends and an equal weighted market return including dividends. These data were taken from the *CRSP* tape. Daily returns between June 1983 and June 1984 were used for estimating the parameters of 30 firms in the sample. The parameters for American President Company were estimated from data covering the period from September 1983 to September 1984 as prior to that the *CRSP* tape did not contain any data[23]. No data closer than 8 months to the first publicly available news date were used for estimation purposes.

The cumulative average abnormal return is simply the sum of the average abnormal return at time t over the event period, which is,

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[22] It was pointed out that antigreenmail charter amendments are sometimes accompanied by other amendments in the same proxy that is being sent to shareholders. The market's reaction may be contaminated in this sense. To some extent, averaging across firms may alleviate extraneous impacts.
[23] See Appendix 1A for the regression parameters.

$$CAAR = \Sigma_{t=j}^{k} AAR_t$$

where j is the first day of the cumulative series and k is the last day of the series.

The sample variance of the average abnormal returns[24] is given as,

$$s_{aar}^2 = \Sigma_{t=8/83}^{6/84}(AAR_t - \overline{\overline{AAR}})^2 / M-1$$

M is the number of days in the estimation period and AAR with the bar is equivalent to the grand mean.

Under the null hypothesis of zero daily abnormal return, the t statistic to test for significance is,

$$t = AAR_t / s_{aar}$$

For the cumulative series, the test statistic is,

$$t = CAAR / s_{caar} \quad \text{where } s_{caar} = s_{aar} \sqrt{X},$$

---

[24] The variance is calculated using basically the same set of data that was used for estimating the parameters. Therefore it excludes event day 0 and at least 8 months before that day. The time frame is from August 1983 to June 1984.

where X is the number of days in the cumulative series. The impact of an antigreenmail charter amendment is expected to be felt around the day the proxy statement was dated. Statistics for 2 day event period (0,+1) and 3 day event period (-1 to +1) will be presented. The compounded 2 day return (day 0,+1) is,

$$AAR_{0,1} = (1 + AAR_0)(1 + AAR_1) - 1$$

and its standard deviation is,

$$s = s_{aar} \sqrt{2}$$

The t statistic is therefore the ratio of the 2 day compound return over the 2 day standard deviation. The 3 day compound return is similarly derived.

6. EMPIRICAL RESULTS

The procedure for determining the significance of an antigreenmail charter amendment first entails estimating that part of the return which is in excess of what is expected around the time that the amendment was proposed. This excess return, or abnormal return, may be derived from several alternative methods. The results of 4 different ways of determining abnormal returns will be shown.

6.1 VARYING DEFINITIONS OF ABNORMAL RETURNS

The previous section defined the estimation of a firm's a and β as the regression of a firm's returns on a market index's returns. These are in turn used to derive a firm's expected return and subsequently abnormal returns.

Other methods of estimating abnormal returns do not require first estimating a firm's parameters. The 4 chosen methods are,

Method 1: The parameters are estimated with an equal weighted market index and the abnormal returns are calculated as defined in the previous section.

Method 2: Instead of using an equal weighted market index, a value weighted index is used.

Method 3: The market model is not required in this method. The expected return on a firm's security is simply assumed to be the equal weighted market index's return. The abnormal returns are thus defined as the realized return minus the return on the market index.

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Method 4: The expected return is an average of the firm's
daily return during the period from June 1983 to June
1984[25]. Abnormal returns are calculated as the realized
return minus the average return.

Generally the first 2 methods may be known as the
market model, method 3 is the market adjusted model and
method 4 is the mean adjusted model.

6.1.1 METHOD 1 RESULTS

Average abnormal returns and cumulative average
abnormal returns to stockholders of firms that proposed
antigreenmail charter amendments are presented in Table 2[26].
The most prominent pattern is the steadily increasing
negative cumulative average abnormal returns from event day
-10 to +2. The compounded average abnormal return over the
first day the news was available and the day after was
-.74%. The t statisitic is -1.47. This is insignificant at
the 10% level. The 3 day compound return is -1% with a t
statistic of -1.68. This is statistically significant at the
10% level.

Stockholders in these firms seem to realize wealth
decreases (weakly significantly) during the period
immediately preceeding the proxy statement date. The
cumulative average abnormal return to shareholders over the
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[25] With the exception of American President. This is
identical to the period used for estimating the parameters.
[26] The lag 1 to 5 autocorrelation coefficients for the AAR's
(-30 to +30) of all the methods were within 2 standard
errors with the exception of the lag 4 autocorrelation
coefficient in Table 5.

Table 2

Average abnormal returns and cumulative average abnormal returns for event period 10 days before to 10 days after the first publicly available news of an antigreenmail proposal. The returns and parameters were estimated with the use of an equal weighted market index.

Event Day	AAR	t	CAAR	t
-10	-.0032	-0.89	-.0032	-0.89
-9	-.0011	-0.32	-.0043	-0.86
-8	-.0007	-0.19	-.0050	-0.81
-7	-.0043	-1.20	-.0093	-1.31
-6	.0015	0.43	-.0078	-0.98
-5	-.0006	-0.16	-.0083	-0.95
-4	-.0012	-0.34	-.0096	-1.02
-3	-.0044	-1.25	-.0140	-1.40
-2	.0017	0.46	-.0123	-1.15
-1	-.0031	-0.86	-.0154	-1.37
0	-.0036	-1.10	-.0190	-1.61
1	-.0038	-1.07	-.0228	-1.85*
2	.0013	0.36	-.0215	-1.67*
3	.0040	1.12	-.0175	-1.31
4	.0014	0.40	-.0160	-1.16
5	.0016	0.46	-.0144	-1.01
6	-.0010	-0.29	-.0154	-1.05
7	-.0024	-0.67	-.0177	-1.14
8	.0022	0.62	-.0155	-1.00
9	-.0026	-0.72	-.0181	-1.14
10	-.0020	-0.57	-.0201	-1.23

* Significant at the 10% level.
** Significant at the 5% level.

Figure 1 : Plot of CAAR from Table 2.
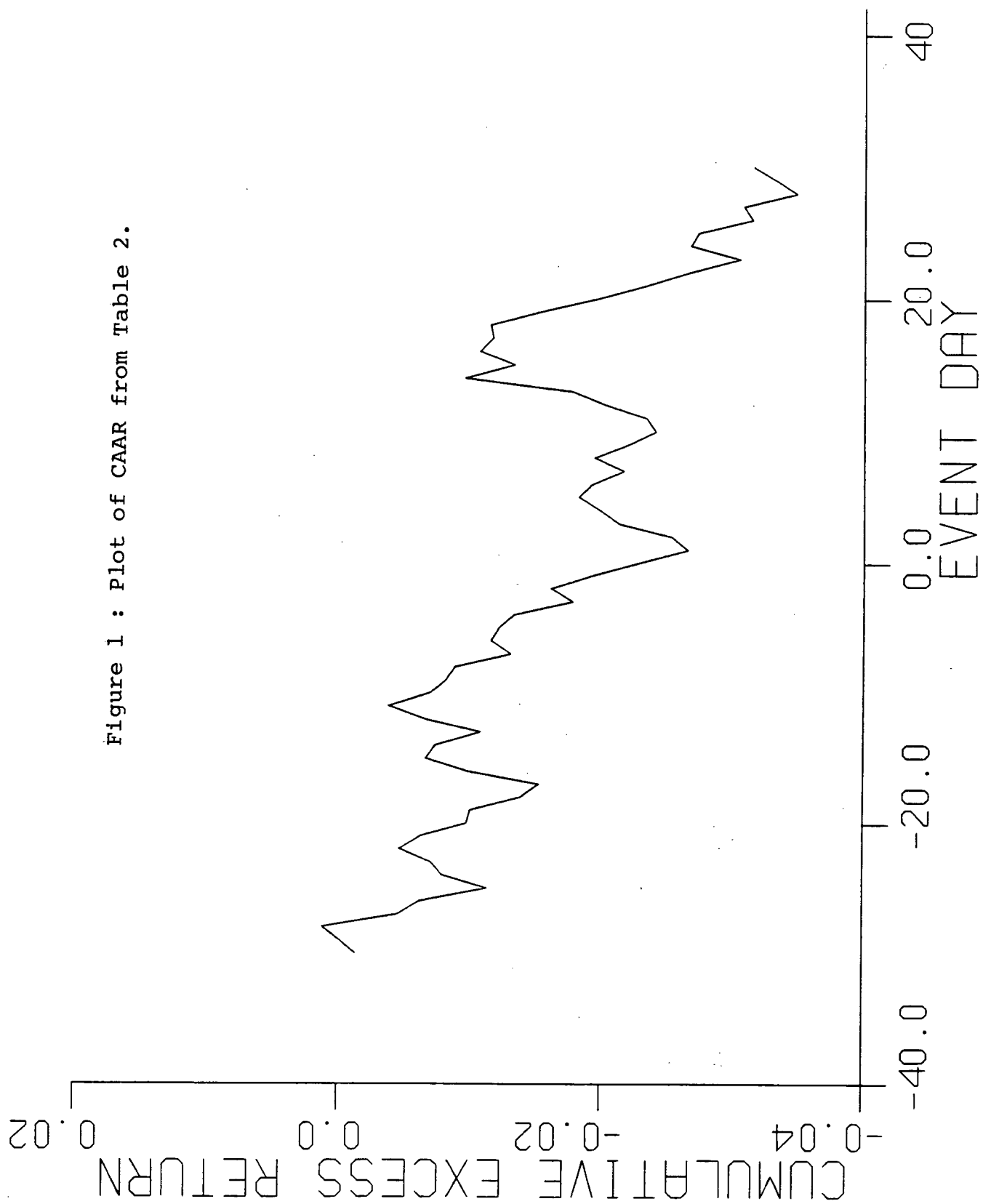
event period -10 to +1 is -2.28% with a t-statistic of
-1.85. This is statistically significant at the 10% level.
The cumulative return is insignificant after event day +2.
Longer event periods of -1 to +5, -1 to +10, -10 to +10 and
-30 to +30 did not yield any significant findings. A plot of
the CAAR is in Figure 1.

6.1.2 METHOD 2 RESULTS

Varying the market index from an equally weighted index
to a value weighted index produced almost identical results.
The entire procedure for estimating the parameters and
calculating abnormal returns was repeated before deriving
the relevant statistics. Appendix 2 contains the average
abnormal returns and cumulative average abnormal returns.
The compound return over event day 0 to +1 is a
statistically insignificant -.7%. Unlike the results when
using an equal weighted market index, the 3 day compound
return of -.87% is insignificantly different from zero.

For longer event periods, the results are almost
identical as before. The average stockholder experienced a
wealth decline of about 4% between the event period -30 to
+30. A plot of the cumulative returns is in Appendix 3. The
cumulative average abnormal return over event days -10 to +1
is similarly statistically significant at the 10% level but
only marginally significant at the 5% level. The return was
-2.48% compared with the return of -2.28% when an equal
weighted index is used. The t statistic is -1.96.

6.1.3 METHOD 3 RESULTS

It can reasonably be concluded that the choice of market indices had a minimal effect on the results. However, the results may be sensitive to model specifications. The average abnormal returns and the cumulative average abnormal returns for this method is found in Appendix 4.

The previous 2 methods found statistically insignificant negative results for abnormal returns over the 2 and 3 day periods. This method also failed to show any significant negative results. The 3 day compound return of -1.1% is only marginally significant at the 10% test level.

As the event period measured became longer, the abnormal losses increased. So far, this is the general pattern. The losses are not statistically significant though. The CAAR is plotted in Appendix 5.

6.1.4 METHOD 4 RESULTS

This method did not produce any significant results. In fact, the losses found for the various holding periods were the smallest. The average abnormal returns and the corresponding cumulative returns are in Appendix 6. The CAAR plot is in Appendix 7.

The negative abnormal returns over event day (0,+1) is 0.36% (t=-0.33). The largest loss occurred over event days -10 to +1. This loss was -1.91% (t=-0.73) compared with the -2.3% and -2.5% loss under methods 1 and 2.

6.2 <u>SUMMARY OF THE RESULTS</u>

The results when using the market model for estimating

expected returns were not conspicuously different from the

other results. Table 3 shows the comparative statistics.

Both methods that used the market model produced

statistically significant results for event period -10

through +1. Methods 1 and 3 had identical losses over the

period -1 to +1 of 1.1%. These were only marginally

significant at the 10% test level.

At this stage, it is difficult to make any reasonable

inferences. The disparity between the results of the

different methods could be attributed to several factors.

Firstly, the market model could be misspecified. In

which case, methods 3 and 4 would provide a better

indication of the impact of the proposal. Secondly, the

clustering of event day 0 could result in contemporaneous

correlation of excess returns. In other words,

cross-sectional independence of excess returns may not hold

true.

As with the case of monthly data, Brown and Warner

found that the "OLS market model and using standard

parametric tests are well specified under a variety of

conditions". Addressing the second problem, the authors

concluded that clustering does not significantly alter the

results on model specification. More precisely, the authors

noted that the market adjusted model and the market model

typically pass the test for correct specification. The mean

Table 3

Abnormal returns for various length of event periods surrounding the first publicly available news of an anti-greenmail proposal. Comparative statistics for 4 different ways of measuring abnormal returns are shown. t statistics are within the parentheses.

Event day	Method 1	Method 2	Method 3	Method 4
0,+1	-.0074 (-1.47)	-.007 (-1.33)	-.0081 (-1.50)	-.0036 (-0.33)
-1 to +1	-.010* (-1.68)	-.0087 (-1.37)	-.0111* (-1.68)	-.0047 (-0.35)
-1 to +5	-.0021 (-0.08)	-.0006 (-0.02)	-.0031 (-0.15)	.0065 (0.12)
-1 to +10	-.0078 (-0.18)	-.0071 (-0.16)	-.0003 (-0.01)	.0052 (0.06)
-10 to +1	-.0228* (-1.85)	-.0248** (-1.96)	-.0204 (-1.57)	-.0191 (-0.73)
-10 to +10	-.0201 (-1.23)	-.0140 (-0.83)	-.0196 (-1.14)	-.0092 (-0.25)
-30 to +30	-.0315 (-1.13)	-.0403 (-1.41)	-.0320 (-1.09)	+.0144 (0.24)
S.D.	0.0036	0.0037	0.0038	0.0078

* Significant at the 10% level.
** Significant at the 5% level.

adjusted model performed poorly though.

They tested the null hypothesis that the cumulative mean excess return over the interval (-5,+5) is equal to 0. With clustering, the market adjusted return (method 3) and the market model had rejection rates of 4% and 3.2% respectively when there were actually no abnormal returns. This is within the usual significance test level. The mean adjusted model had a rejection rate of 13.6%. Clearly their results indicate that the market adjusted model and the market model would yield more accurate results when event day 0 may be chronologically close together.

6.3 MULTIPLE AMENDMENT PROPOSALS

As alluded to earlier, some firms proposed other amendments in the same proxy statement. Table 1 indicated that 10 firms out of the sample did not propose amendments such as fair price provisions, staggered boards and supermajority provisions - all of which may be generally classified as antitakeover amendments.

To isolate the impact of an antigreenmail charter amendment as much as possible, the entire procedure of testing for significance of excess returns was replicated for the 10 firms. Given the small sample size, the issue of non-normality in the cross-sectional excess returns must be acknowledged.

6.3.1 <u>RESULTS FOR THE REDUCED SAMPLE</u>

To minimize the effects that the clustering of event day 0 may produce, abnormal returns are calculated as the realized return less the expected return as implied by the market model using as equal weighted index (method 1). Comparative statistics will be provided by the results when using the equal weighted market index as the expected return (method 3).

Tables 4 and 5 show the average abnormal returns and the cumulative returns for the 2 methods. Plots of the respective CAARs is in Figures 2 and 3. Both CAAR exhibits the same pattern from -10 to +1 as the previous findings. The cumulative average abnormal return from 10 days before through the day after the proxy was mailed were -3.7% (t=-2.05) and -3.1% (t=-1.63) for the market model and the market adjusted model. Only the market model's excess return is significantly different from 0.

The returns for longer holding periods are also negative. This is not unlike the results for the full sample of 31 firms. The loss over holding periods of 21 days (-10 to +10) and 61 days (-30 to +30) averaged about 3.5% and 3.2% respectively for the 2 methods under consideration. However, these losses are not statistically significant.

The most striking finding with the reduced sample is the statistically significant loss over shorter event periods. Whereas the previous results did not produce any significant figures, the 10 firms averaged a 2 day compound

Table 4

Average abnormal returns and cumulative average abnormal
returns for the 10 firms that did not propose antitakeover
measures in the same proxy statement. Abnormal returns are
calculated as the realized return minus the return implied
by the market model using an equal weighted market index.

Event day	AAR	t	CAAR	t
-10	-.0025	-0.46	-.0025	-0.46
-9	.0022	0.04	-.0003	-0.04
-8	-.0082	-1.52	-.0085	-0.92
-7	-.0024	-0.45	-.0109	-1.02
-6	.0088	1.63	-.0021	-0.17
-5	-.0027	-0.51	-.0048	-0.36
-4	.0006	0.27	-.0042	-0.30
-3	.0015	0.27	-.0027	-0.18
-2	-.0016	-0.30	-.0033	-0.21
-1	-.0142	-2.64**	-.0175	-1.03
0	-.0037	-0.68	-.0212	-1.20
1	-.0158	-2.94**	-.0370	-2.05*
2	.0075	1.40	-.0295	-1.55
3	.0049	0.91	-.0246	-1.23
4	.0005	0.09	-.0241	-1.21
5	-.0017	-0.32	-.0258	-1.21
6	.0001	0.03	-.0257	-1.17
7	-.0004	-0.07	-.0261	-1.15
8	-.0032	-0.59	-.0293	-1.27
9	-.0069	-1.28	-.0362	-1.51
10	-.0008	-0.15	-.0370	-1.54

* Significant at the 10% level.
** Significant at the 5% level.

Figure 2 : Plot of CAAR from Table 4.

CUMULATIVE EXCESS RETURN vs EVENT DAY
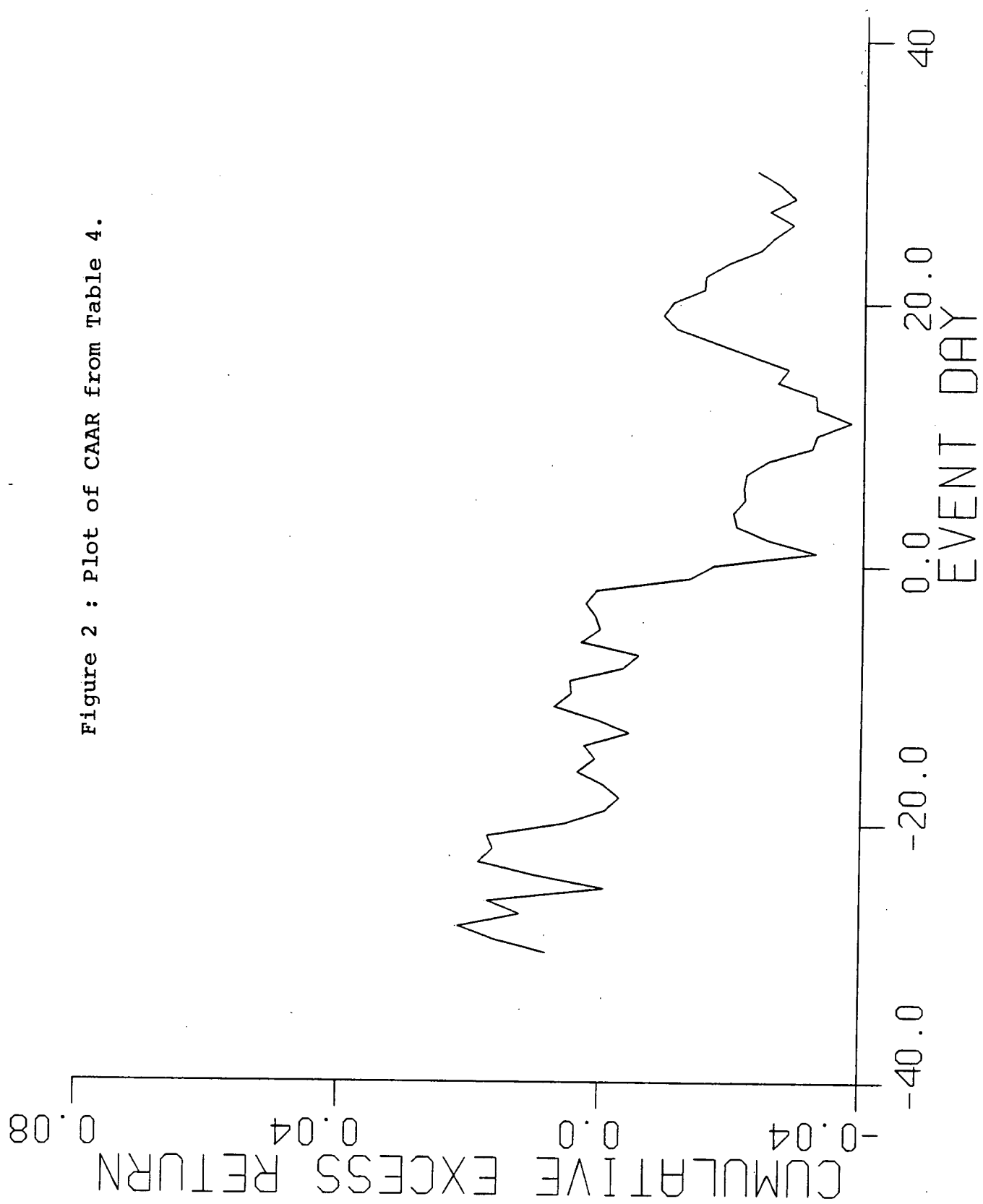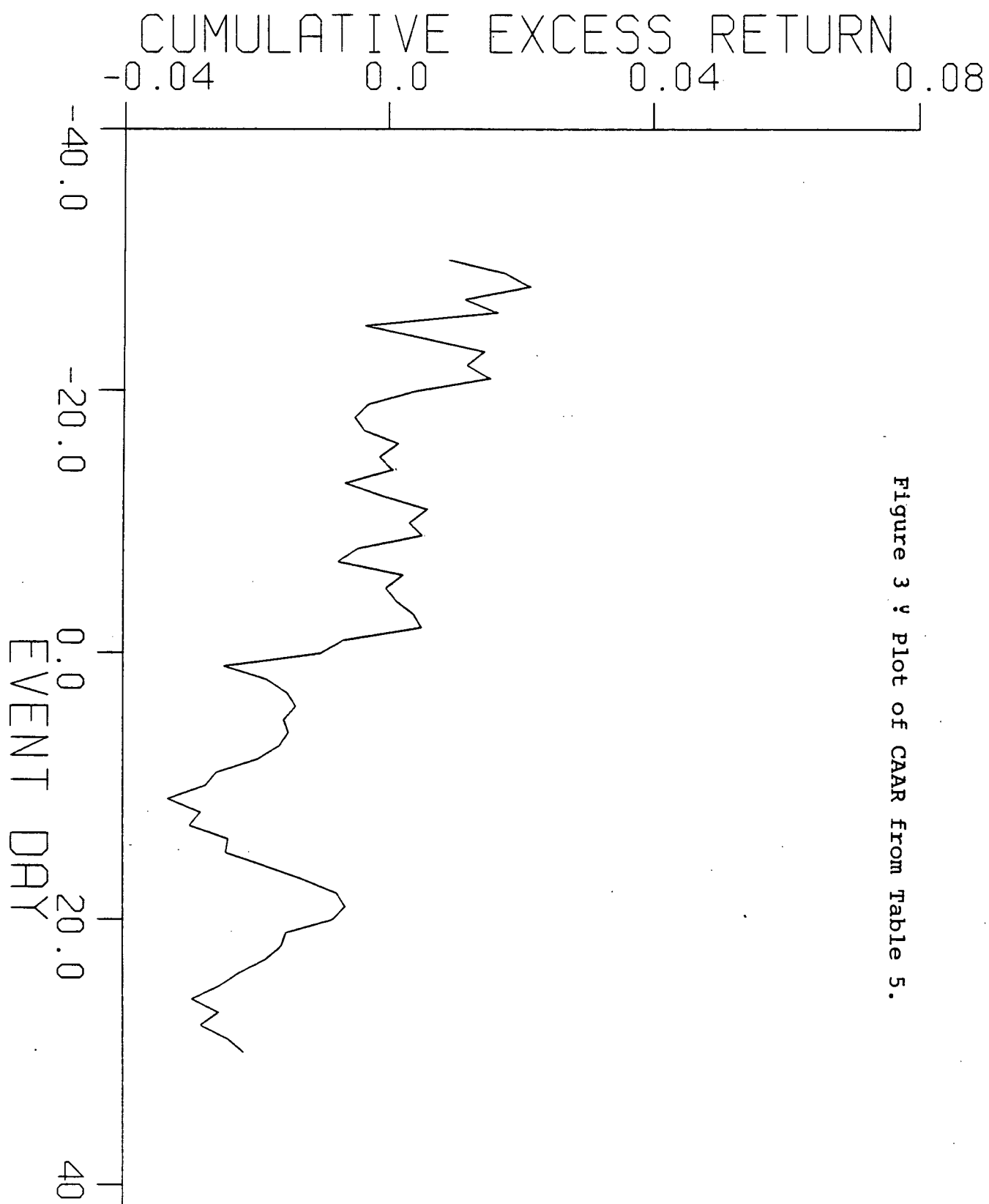
Figure 3 : Plot of CAAR from Table 5.

return of -2% (t=-2.57) for the market model and -1.8%
(t=-2.35) for the market adjusted model. These statistically
significant losses are slightly over 1% higher than the
results for the full sample[27]. In addition, the 3 day
compound returns are also statistically significant at the
5% level at -3.3% (t=-3.57) and -3% (t=-3.04). The previous
results were only significant at the 10% significance test
level. Table 6 contains a summary of the results of the
tests for the 10 firms.

6.4 INTERPRETATION OF RESULTS

The stockholder interest hypothesis predicts that an
antigreenmail charter amendment is in the stockholders'
interest. Therefore the market is expected to react
positively to news of an antigreenmail proposal. The
empirical results do not seem to support that hypothesis. On
average, the market reacted negatively to the news.

The results are generally consistent across either
tests involving 31 firms or 10 firms. Shareholders seem to
have incurred a loss in the value of their holding. For the
twelve day period leading up to the day after the proxy was
mailed, the various methods averaged 55 observations (75%)
of negative excess returns out of the total number of
observations. The mean cumulative average abnormal return
for -10 to +1 is -2.5%. The market may have been
anticipating the contents and distribution of proxy
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[27] This could possibly be due to the smaller sample. Results
should be interpreted with caution.

Table 6

Comparative statistics for the sample of 10 firms under the market

Event day	Method 1	Method 3
0,+1	-.019** (-2.55)	-.018** (-2.35)
-1 to +1	-.033** (-3.57)	-.029** (-3.04)
-1 to +5	-.0225 (-0.59)	-.0206 (-0.54)
-1 to +10	-.0337 (-0.74)	-.0324 (-0.49)
-10 to +1	-.037* (-2.05)	-.0308 (-1.63)
-10 to +10	-.0370 (-1.54)	-.0335 (-1.34)
-30 to +30	-.0233 (-0.56)	-.022 (-0.51)
Standard Deviation	0.0054	0.0055

* Significant at the 10% level.
** Significant at the 5% level.

statements. It cannot be ascertained whether the market was anticipating the antigreenmail proposal, the antitakeover proposals or a combination of both. Perhaps the very act of proposing amendments to the firm's charter is interpreted as bad news.

The negative excess returns for the 31 firms around event day 0 and +1 may not give any indication of the impact of an antigreenmail proposal alone. The mean return across the 4 methods in Table 3 is only -0.66%.

Results from restricting the sample to firms that did not have antitakeover amendments proposed in the same proxy statement showed the mean 2 day compounded return (for the 2 methods) for the 10 firms to be -1.9%. This is a loss of nearly one and a half percent greater than that averaged by the fuller sample.

Given this evidence, we may infer that charter amendments are usually not favourably received and when the market receives confirmation in the form of a proxy statement, there is a further adverse effect on stock prices. Focusing on the reduced sample, an antigreenmail proposal does not seem to be made with the interest of the shareholders in mind and is therefore inconsistent with the stockholder interest hypothesis.

For the event period +2 through +10, there were 25 instances of negative excess returns. This represented 46% of the total number of excess returns across the various methods reported for that period. This randomness suggests

that the market had reacted completely to the news by the
day after the proxy was mailed or it has reacted partially
and is waiting for more signals in the form of the
shareholders' final approval. This is addressed in a later
part.

6.4.1 THE CONFOUNDING EFFECTS

The available evidence on the impact of antitakeover
charter amendments on stock prices are mixed. DeAngelo and
Rice (83) found such amendments to have a negative effect on
stock prices although it is statistically insignificant.
Linn and McConnell (83) also examined the effects of
antitakeover charter amendments on shareholders' wealth. In
contrast, their overall finding indicates a slightly
positive return for the average firm proposing these
amendments. The significance of their results varied
depending on the event period measured.

In this paper, firms that proposed both an
antigreenmail amendment and antitakeover amendments were
isolated. The statistical results for the 21 firms are in
Table 7. The results are ambiguous. For some event periods,
the returns could be negative or positive depending on the
method chosen. In addition, none of the returns are
significantly different from zero.

The lack of a dominant effect in Table 7 leaves us with
no definite conclusions about the combined effects of
antitakeover and antigreenmail amendments on the average

Table 7

Comparative statistics for 21 firms that proposed both antigreenmail and antitakeover amendments.

	Method 1	Method 3
0, +1	-.0023 (-0.39)	-.0043 (-0.71)
-1 to +1	-.0058 (-0.81)	-.0012 (-0.16)
-1 to +5	.0057 (0.52)	.0055 (0.50)
-1 to +10	.0005 (0.04)	-.0008 (-0.05)
-10 to +10	-.0059 (-0.31)	-.0169 (-0.86)
-30 to +30	-.0389 (-1.22)	-.0489 (-1.48)

firm. Thus, this paper finds neither support nor evidence to refute previous empirical studies on antitakeover charter amendments.

6.5 CHANGING EVENT DAY 0

Of the 31 firms, reports by the *WSJI* that antigreenmail charter amendments had been proposed or already approved by shareholders were made only for 28 firms. Using the date that the *WSJI* reported the news as the first publicly available news date did not produce any significant results.

The entire procedure was replicated for the first 28 firms and then for the sample of firms that was identified previously as the "reduced sample". This time, the reduced sample had only 7 firms. Table 8 contains a summary of the statistical tests.

The abnormal returns are statistically insignificant regardless of the method of measurement or the event period. It is reasonable to conclude that whatever effects the proposal may have, they are probably impounded in the stock prices. This could possibly explain why no significant results were found when event day 0 was redefined as the first announcement date noted in the *WSJI* and that the cumulative returns were insignificant after event day +2 in the initial tests.

Table 8

Designating the first news date in the Wall Street Journal
Index as event day 0. Results for the full sample and for
the reduced sample. t statistics are within the parentheses.

Method	31 firms			7 firms	
Event day	1	2	3	1	3
0,+1	.0087*	.0077	.0075	.0043	.0015
	(1.72)	(1.48)	(1.41)	(0.57)	(0.20)
-1 to +1	.0070	.0052	.0051	.0027	.0009
	(1.14)	(0.81)	(0.79)	(0.30)	(0.10)
-10 to +1	.0156	.0040	.0062	.016	.0098
	(0.98)	(0.33)	(0.50)	(0.94)	(0.54)
-10 to +10				.02	.008
				(0.83)	(0.34)
-30 to +30				.031	.0334
				(0.74)	(0.78)

* Significant at the 10% level.
** Significant at the 5% level.

6.6 <u>VOTING FOR ANTIGREENMAIL AMENDMENTS</u>

The results in this paper suggest that an antigreenmail amendment is a proposition that reduces shareholders' wealth. Yet, an overwhelming majority of the firms did receive their shareholders' approval on adopting an antigreenmail charter.

DeAngelo and Rice offered several plausible explanations. One is simply that stockholders are irrational. As noted by the authors themselves, this assumption is inconsistent with the statistical tests which assumes that investors behave rationally and the market is at least semi-strong efficient.

The second explanation suggests that stockholders recognize the negative impact that an antigreenmail amendment has but still vote for its passage in order to maintain a working relationship with management. The long term benefits of maintaining a "friendly" relationship with management is deemed to outweigh the negative effects of the antigreenmail proposal.

The third explanation assumes that a relatively small number of informed investors realize the undesirable implications of an antigreenmail proposal and vote in accordance with maximizing their wealth. However, there are numerous other uninformed investors who are assumed to have been voting in favour of previous proposals put forth by management. This particular group of shareholders are further assumed to vote in a manner consistent with past

behaviour.

DeAngelo and Rice hypothesizes that the cost for the few informed investors to stage a proxy fight is prohibitive and is restricted to cases where the detrimental effects is assessed to be more than the expected cost of soliciting the votes of the uninformed investors.

The interesting question is why would management even propose an antigreenmail amendment. Would firms that have a previous control question be more likely to recommend an antigreenmail charter ? Are tightly held firms or widely held firms more inclined to propose such an amendment ?

6.6.1 FIRM CHARACTERISTICS

Of the 31 firms in the sample only Martin Marietta had any kind of control question over the 3 years before the antigreenmail proposal[28]. The takeover bid by Bendix was protracted and complicated by the entrance of two other firms. Martin Marietta countered by making a bid for Bendix. Then United Technologies made a bid for Bendix. Eventually Allied Corporation captured Bendix and the battle for Martin Marietta ended.

Aside from that one case, we can reasonably conclude that previous attempted takeovers do not seem to have a significant influence over a firm's decision to propose an antigreenmail amendment. Perhaps it is the absence of takeover attempts or the presence of takeovers amongst firms

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[28] The WSJI was scanned for any mention of a takeover bid between 1982 and 1985.

within the same industry that prompted management to propose an antigreenmail charter. This is addressed in the next part.

A firm's ownership structure similarly failed to uncover any dominant pattern for the sample firms. Seventeen of the firms in the full sample are widely held to the extent that no one stockholder had more than 5% of the outstanding voting stock[29].

Only 3 companies had individuals owning more than 5% but less than 10% of the firm's voting stock. Whereas 11 of the firms have between 5% and 19% of their voting stock in the hands of either other corporations, their own officers and directors or the firm's profit sharing plan.

Thus, neither the firm's previous takeover history nor its ownership structure has provided any clear indication of a firm's likeliness to propose an antigreenmail charter. Tabulating the firms' Standard Industrial Classification codes also failed to reveal any predominent pattern. The only significant concentrations were,

- Chemical and Allied production, 6 firms.

- Machinery except electrical, 4 firms.

- Electrical and electronics machinery, equipment and supplies, 6 firms.

Thus it seems that the decision by management to propose an antigreenmail amendment is independent of the firm's ownership structure and prior takeover history.

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[29] Standard Corporation Description, July 1986.

6.6.2 TAKEOVERS WITHIN INDUSTRIES

The frequency of takeovers within a specific industry was examined to determined if there is a plausible link between the number of takeovers and the number of firms proposing antigreenmail charters.

Table 9 classifies the sample firms into the first 2 digits of the SIC code. The sample correlation coefficient of 0.6 between the number of sample firms within a given SIC code and the mean number of industry takeovers should be interpreted with caution. The mean number of industry takeovers should be evaluated relative to the number of firms within that industry. That ratio is shown in the last column of Table 9.

The sample correlation coefficient between the number of firms that proposed antigreenmail charters and the ratio is -0.02. We may reasonably conclude that takeover activities within the industry do not seem to be a factor in a firm's decision to propose an antigreenmail charter.

Table 9

Categorization of the sample firms into the first two
digits of the SIC code together with the frequency of
takeovers experienced within the category over the last
three years. Takeovers involve US firms and in amounts
exceeding $1m only.

SIC code	Sample firms	Actual Number of industry takeovers			Mean	Ratio = Mean : Total number of firms within SIC code
		'82	'83	'84		
10	1	10	3	3	5.3	0.005
12	1	3	4	5	4	0.019
13	1	76	78	90	81.3	0.043
15	1	23	23	46	30.7	0.017
20	1	68	54	44	55.3	0.017
22	1	25	14	16	18.3	0.011
23	1	17	24	26	22.3	0.011
28	6	59	58	89	68.7	0.018
29	2	4	6	5	5	0.009
31	1	3	6	6	5	0.008
33	1	31	36	33	33.3	0.012
35	4	124	140	142	135.3	0.015
36	6	95	115	135	115	0.021
37	2	39	23	50	37.3	0.017
38	1	69	99	86	84.7	0.029
67	1	118	125	145	129.3	0.038
	31	1960	2125	2558		

Correlation matrix of sample firms, mean number of
industry takeovers and the ratio of the mean to the total
number of firms in the SIC code.

	SAMPLE	MEAN	RATIO
SAMPLE	1.0000		
MEAN	0.6446	1.0000	
RATIO	-0.0211	0.1556	1.0000

7. CONCLUSIONS

The data in this paper represent firms that have proposed antigreenmail charter amendments. When these proposals actually become law, it will legally prohibit management from engaging in greenmail without shareholder approval. An attempt to identify certain firm characteristics that are common to the sample firms failed to reveal any telling patterns. Neither a firm's ownership structure, its previous control problems nor the predominance of takeovers within a firm's industry seems to predispose a firm to propose such an amendment. Yet, antigreenmail amendments are proposed by management and passed by stockholders. The question of why stockholders vote in favour of the proposal is still unclear.

The stockholder interest hypothesis predicts that such proposals are beneficial to shareholders. The loss of an effective tactic for fending off takeover threats means that management is more vulnerable to being replaced. This in turn would encourage management to pursue more closely a policy of value maximization and to keep its perquisite consumption within a reasonable amount. Also, since target management is less able to eliminate a takeover bid, target shareholders will stand to gain from the premium that is often associated with takeovers.

The statistical analyses indicate that such proposals are on average associated with stock price declines. The impact of the antigreenmail proposal on shareholders' wealth

over the day that the market receives the news and the day after is a statistically significant average of -1.9% for the sample of firms that did not propose antitakeover amendments in the same proxy statement. The original sample of 31 firms also produced negative returns over the same period but the average of -0.66% is not statistically significant.

This evidence is inconsistent with the stockholder interest hypothesis. Stockholders do not seem to benefit from management proposing an antigreenmail charter amendment. Nor do the managers as the proposal to voluntarily restrict themselves hardly seems to be self-serving.

The negative reactions cannot be explained by the hypothesis presented in this paper. The results are also inconsistent with that of Bradley and Wakeman, Dann and DeAngelo and Mikkelson and Ruback. These authors found evidence to suggest that targeted repurchases and standstill agreements are measures taken by target management to further entrench themselves and therefore, one would expect measures to eliminate these actions to benefit shareholders. However, we found that the evidence is neither consistent with the stockholder interest hypothesis nor with the evidence of Bradley and Wakeman. In other words, the negative returns documented in this paper are an anomaly which presents an interesting and challenging topic for future research.

APPENDIX 1

Firms identified by *Mergers and Acquisitions* as having proposed antigreenmail charter amendments. The period covered is from September 1984 to September 1985. The final sample is in the left column. The dates are that of the proxy statement.

Acme Electric Corp (85/9/16)   Ameriwest Financial Corp
Aluminum Co America (85/3/27)   Atlantic Richfield
American President Co (85/4/1)   Bausch and Lomb
Apache Corp (85/4/10)   Borden
Bank Bldg and Equip (85/1/14)   Continental Information
Bell Industries (85/9/18)   Cross and Trecker
Burlington Indus (85/1/7)   Fay Drug
Cheesebrough Ponds (85/3/26)   Fortune Financial
Dover Corp (85/3/18)   Goodrich B F
Dresser Indus (85/2/15)   Heck's Inc
Eastern Gas and Fuel (85/3/18)   Informatics General
Fleetwood Ent (85/7/18)   KDI Corp
Gould Inc (85/3/23)   Mobil Corp
Harris Corp (85/9/24)   Quixote Corp
Interco Inc (85/5/17)   Ralston Purina
Int'l Min and Chem (84/9/6)   Sanders Assoc
Int'l Multifoods Corp (85/5/10)
Kerr McGee (85/4/15)
Lubrizol (85/3/18)
MSI Data Corp (85/7/17)
Martin Marietta (85/3/21)
Merck and Co (85/3/20)
NBI Inc (85/9/20)
NCR Corp (85/2/22)
Perkin Elmer (84/10/22)
Singer (85/3/28)
Sterling Drug (85/3/14)
Sun Co (85/4/4)
Thomas and Betts (85/3/18)
Univar Corp (85/6/28)
Warnaco (85/3/26)

APPENDIX 1A

Results of the regressions for establishing a firm's parameters. (t statistics are in the parentheses.)

| FIRM	ALPHA		BETA		R-SQUARED
ACE	0.0000	(−0.786)	0.3658	(1.858)	0.0135
AA	0.0000	(0.274)	1.6623	(9.98)	0.2828
APS	0.0001	(1.406)	1.8722	(9.10)	0.2427
APA	0.0000	(0.427)	1.2317	(5.81)	0.1142
BB	−0.0000	(−0.716)	0.6340	(2.73)	0.0247
BI	−0.0001	(−1.420)	0.6097	(4.405)	0.0676
BUR	−0.0000	(−0.408)	1.1336	(5.641)	0.1082
CBM	−0.0000	(−0.362)	0.4499	(3.761)	0.0492
DOV	0.0000	(0.266)	1.0342	(5.58)	0.1061
DI	0.0000	(0.619)	1.3378	(7.299)	0.1707
EFU	0.0000	(0.681)	0.9451	(4.649)	0.0751
FLE	−0.0001	(−0.871)	2.650	(11.50)	0.3248
GLD	−0.0000	(−0.809)	1.8405	(9.517)	0.2607
HRS	−0.0001	(−1.197)	1.2885	(7.663)	0.1852
ISS	−0.0000	(−0.666)	0.7463	(6.742)	0.1490
IGL	−0.0000	(−0.609)	0.5482	(3.429)	0.0406
IMC	−0.0000	(−0.468)	0.9574	(5.871)	0.1164
KDI	0.0001	(1.123)	0.9635	(3.672)	0.0469
LZ	0.0000	(0.281)	0.9938	(4.926)	0.0839
MSI	−0.0001	(−0.960)	1.4525	(6.512)	0.1402
ML	0.0000	(0.164)	1.3853	(8.803)	0.2315
MRK	0.0000	(0.702)	0.9861	(8.506)	0.2193
NBI	−0.0001	(−0.658)	1.9951	(6.606)	0.1437
NCR	−0.0000	(−0.068)	1.1714	(8.100)	0.2028
PKN	−0.0000	(−0.114)	2.0938	(8.207)	0.2071
SMF	−0.0000	(−0.171)	1.4144	(6.429)	0.1370
STY	0.0000	(0.402)	0.8080	(6.515)	0.1403
SUN	0.0001	(1.134)	1.3489	(6.412)	0.1364
TNB	0.0000	(0.316)	0.8525	(6.744)	0.1490
UVX	0.0000	(0.656)	0.8201	(4.371)	0.0666
WRC	0.0000	(0.323)	1.3612	(5.989)	0.1207

APPENDIX 2

Average abnormal returns and cumulative abnormal returns for event period 10 days before to 10 days after the first publicly available news date of an antigreenmail proposal. The parameters and returns were calculated using a value weighted market index. The abnormal returns were calculated as the realized return minus the market model return using a value weighted market index.

Event Day	AAR	t	CAAR	t
-10	-.0035	-0.94	-.0035	-0.94
-9	-.0008	-0.22	-.0043	-0.81
-8	-.0015	-0.41	-.0058	-0.89
-7	-.0047	-1.26	-.0105	-1.39
-6	.0016	0.43	-.0089	-1.06
-5	-.0009	-0.24	-.0098	-1.07
-4	-.0008	-0.22	-.0106	-1.06
-3	-.0044	-1.18	-.0150	-1.42
-2	.0025	0.65	-.0125	-1.11
-1	-.0018	-0.49	-.0133	-1.12
0	-.0037	-0.99	-.0170	-1.42
1	-.0033	-0.90	-.0204	-1.57
2	.0011	0.29	-.0193	-1.43
3	.0032	0.86	-.0161	-1.14
4	.0017	0.44	-.0144	-0.99
5	.0013	0.35	-.0131	-0.87
6	-.0006	-0.16	-.0137	-0.88
7	-.0030	-0.80	-.0167	-1.04
8	.0019	0.51	-.0148	-0.90
9	-.0025	-0.67	-.0173	-1.08
10	-.0023	-0.62	-.0196	-1.14

* Significant at 10% level.
** Significant at 5% level.

CUMULATIVE EXCESS RETURN

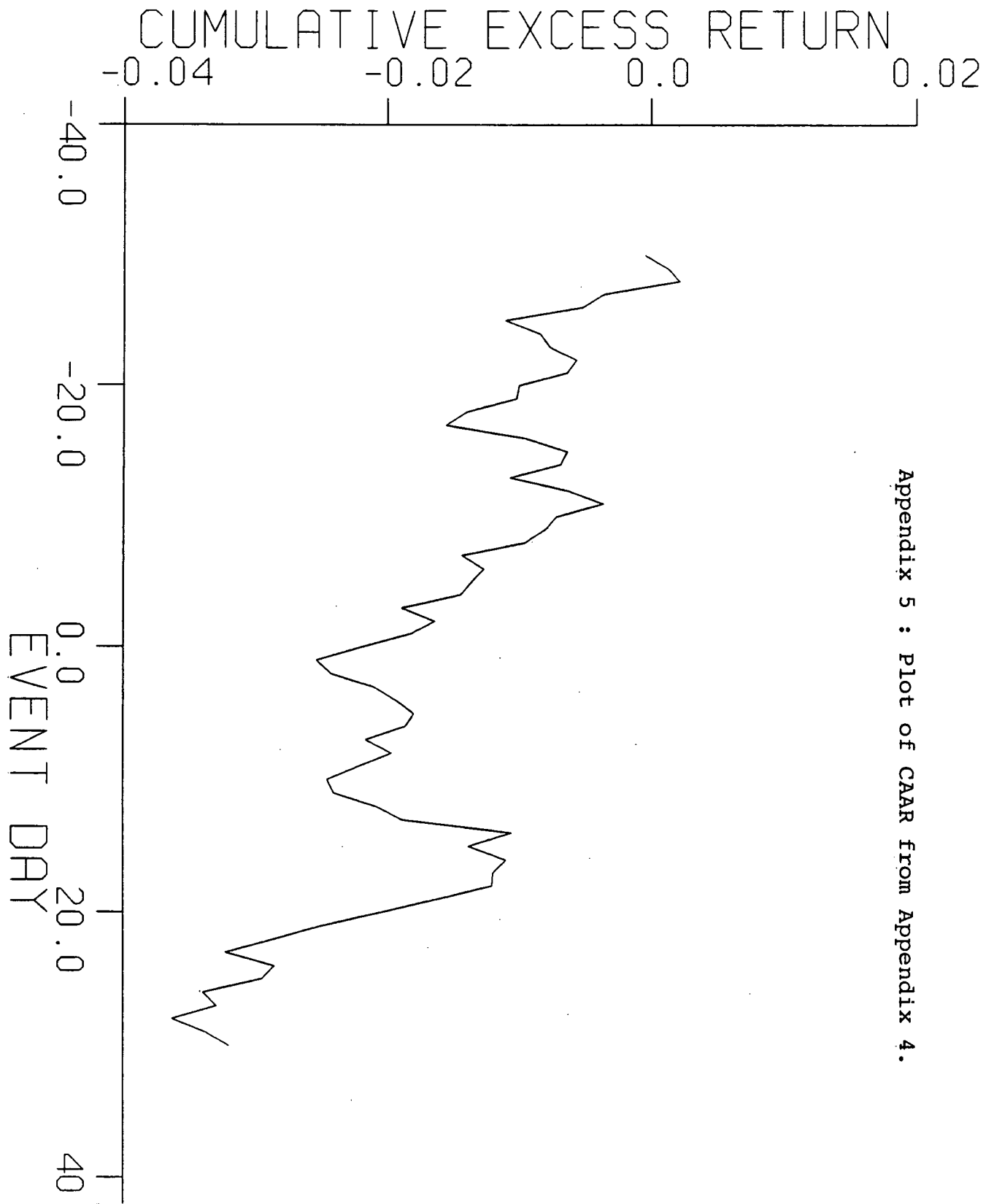Appendix 3 : Plot of CAAR from Appendix 2.
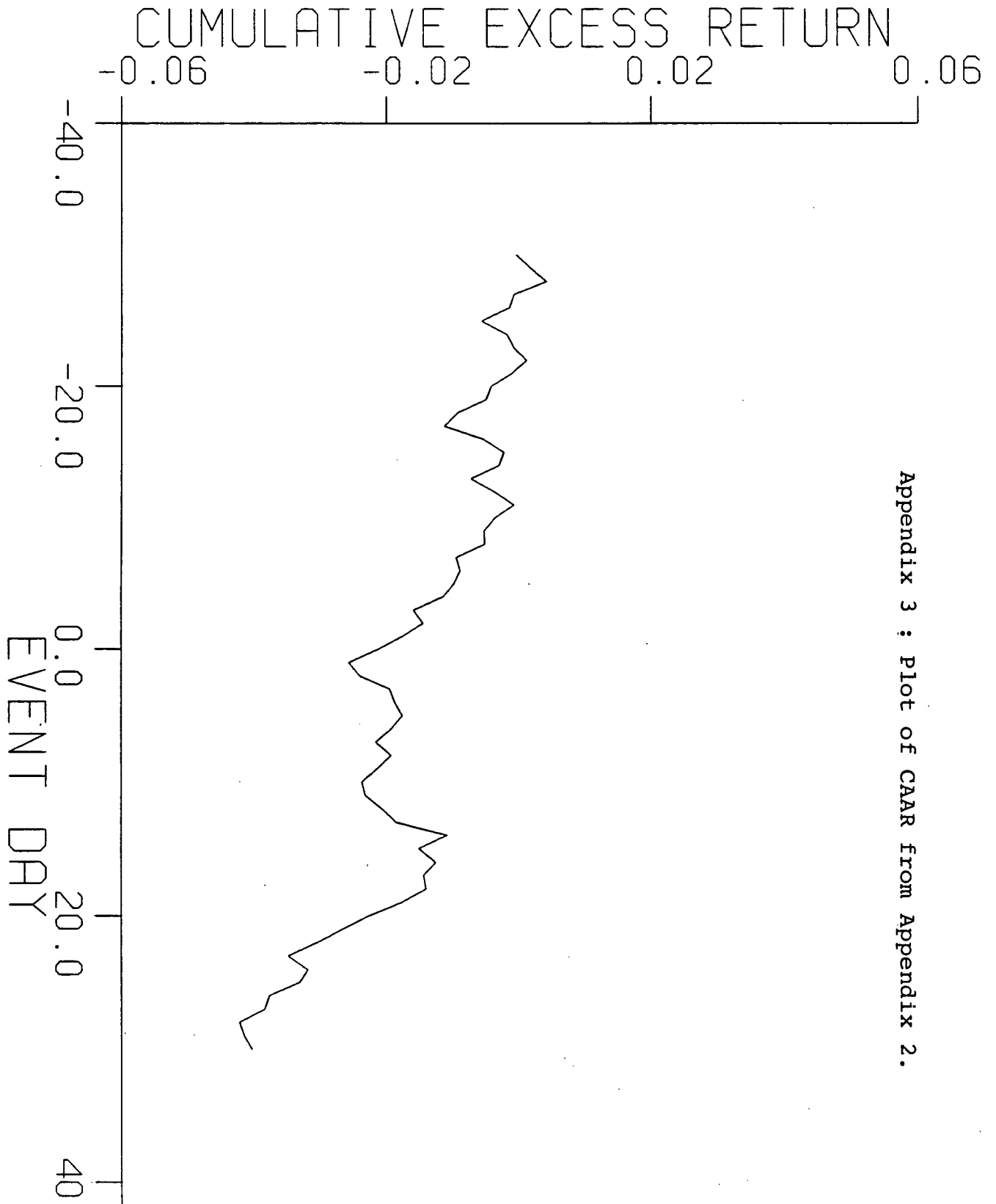
APPENDIX 4

Average abnormal returns and cumulative abnormal returns for
event period 10 days before to 10 days after the first
publicly available news date of an antigreenmail proposal.
The abnormal returns are calculated as the actual realized
returns minus the return on a equal weighted market index.

Event Day	AAR	t	CAAR	t
-10	-.0029	-0.78	-.0029	-0.78
-9	-.0016	-0.43	-.0045	-0.90
-8	.0000	0.00	-.0045	-0.71
-7	-.0042	-1.16	-.0087	-1.19
-6	.0006	0.16	-.0081	-1.00
-5	-.0009	-0.26	-.0090	-1.01
-4	-.0016	-0.46	-.0106	-1.10
-3	-.0044	-1.21	-.0150	-1.46
-2	.0013	0.37	-.0137	-1.25
-1	-.0030	-0.82	-.0167	-1.44
0	-.0037	-1.02	-.0204	-1.68*
1	-.0044	-1.20	-.0248	-1.96**
2	.0016	0.45	-.0232	-1.76*
3	.0045	1.23	-.0187	-1.37*
4	.0008	0.21	-.0179	-1.26
5	.0011	0.31	-.0168	-1.15
6	-.0016	-0.45	-.0184	-1.23
7	-.0024	-0.65	-.0208	-1.34
8	.0024	0.64	-.0184	-1.15
9	-.0021	-0.59	-.0163	-1.00
10	-.0023	-0.62	-.0140	-0.83

* Significant at the 10% level.
** Significant at the 5% level.

CUMULATIVE EXCESS RETURN

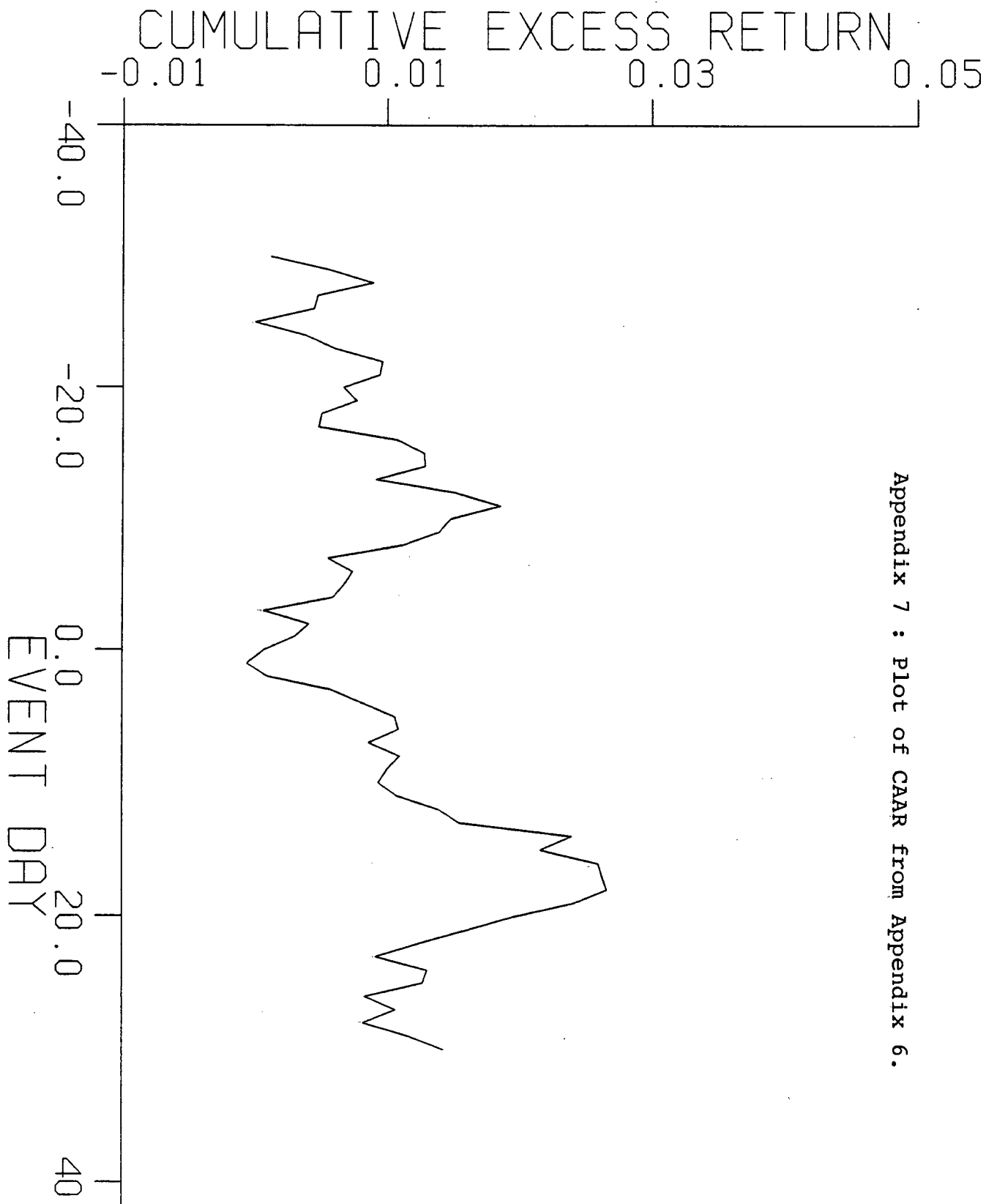Appendix 5 : Plot of CAAR from Appendix 4.

APPENDIX 6

Average abnormal returns and cumulative average abnormal returns for event period 10 days before to 10 days after the first publicly available news of an antigreenmail proposal. The abnormal returns were calculated as the realized return minus an average return.

Event day	AAR	t	CAAR	t
-10	-.0038	-0.49	-.0038	-0.49
-9	-.0008	-0.11	-.0046	-0.46
-8	-.0027	-0.35	-.0073	-0.56
-7	-.0057	-0.74	-.0130	-0.66
-6	.0018	0.24	-.0112	-0.66
-5	-.0006	-0.08	-.0118	-0.62
-4	-.0008	-0.11	-.0126	-0.61
-3	-.0052	-0.67	-.0178	-0.81
-2	.0034	0.44	-.0144	-0.62
-1	-.0011	-0.14	-.0155	-0.63
0	-.0023	-0.29	-.0178	-0.71
1	-.0013	-0.17	-.0191	-0.73
2	.0016	0.20	-.0175	-0.63
3	.0048	0.62	-.0127	-0.44
4	.0024	0.31	-.0103	-0.34
5	.0024	0.31	-.0079	-0.25
6	.0003	0.04	-.0076	-0.23
7	-.0023	-0.30	-.0099	-0.30
8	.0023	0.30	-.0076	-0.24
9	-.0010	-0.12	-.0086	-0.24
10	-.0006	-0.08	-.0092	-0.25

* Significant at the 10 % level.
** Significant at the 5% level.

Appendix 7 : Plot of CAAR from Appendix 6.

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