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Governance of Corporate Takeovers: Time for Say-on-Takeovers?

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Abstract

In this article, we study the potential for digital, online information and electronic voting to improve shareholder surplus by facilitating a new governance structure, *owner-governance*, which shifts control of the takeover decision from the board to shareholders. We compare analytical models of owner-governance to the current practice of delegated-governance in the context of increasing availability of online information which increases public informedness. Our analysis shows that shareholders of the target firm and the acquirer both prefer owner-governance to delegated-governance when informedness is sufficiently high. Interestingly, we find a region where owner-governance offers a higher probability of takeover but delegated-governance offers higher shareholder surplus. Under delegated-governance, the board endogenously sets an entrenchment level that is always greater than the entrenchment level preferred by the shareholders and increasing informedness reduces the probability of a takeover. Our results suggest that owner-governance should be considered because of increasing informedness.

Keywords: Governance, takeovers, corporate control, corporate governance, boards, entrenchment, anti-takeover provisions, electronic voting, e-voting, shareholder welfare, IT, information technology, information, informedness